

THE GAME IS CHANGING

# Facilitating the Future of Open Finance





# Foreword

**Travis Spencer,  
CEO Curity**

The world of finance, particularly banking, has changed dramatically over the past few years. The consumer relationship with a bank looks very different from when mobile banking was first introduced. Financial businesses now have the opportunity to create new products and services using technology that delivers a better experience for their customers. Customers have never had so many choices or been offered such personalized and relevant services; this is key to retainment and establishing greater brand loyalty. It is a very competitive world, and thus it is crucial to get the service experience right. New challenger banks are bringing innovative ideas and approaches to a very risk-averse and traditional industry. The game is changing.

While these tactics have changed the industry for the better, new technologies also introduce new risks and concerns. At Curity, we often work with businesses to better understand the landscape

of Open Finance and the adoption of Open Banking, what is holding this back, and what is driving it forward.

This report offers guidance to financial institutions who are innovating and creating new products and services in the financial sector. We have provided useful insights on some of the key opportunities, technology decisions, investment needs, and potential concerns.

The concepts of Open Finance, Open Banking, and consumer choice are here to stay, and adoption will continue to accelerate. Businesses now have a perfect opportunity to understand and mitigate risk and correctly invest in critical areas; this will ensure that they are competitive and stay ahead of the game.

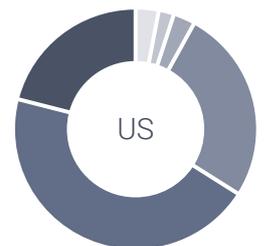
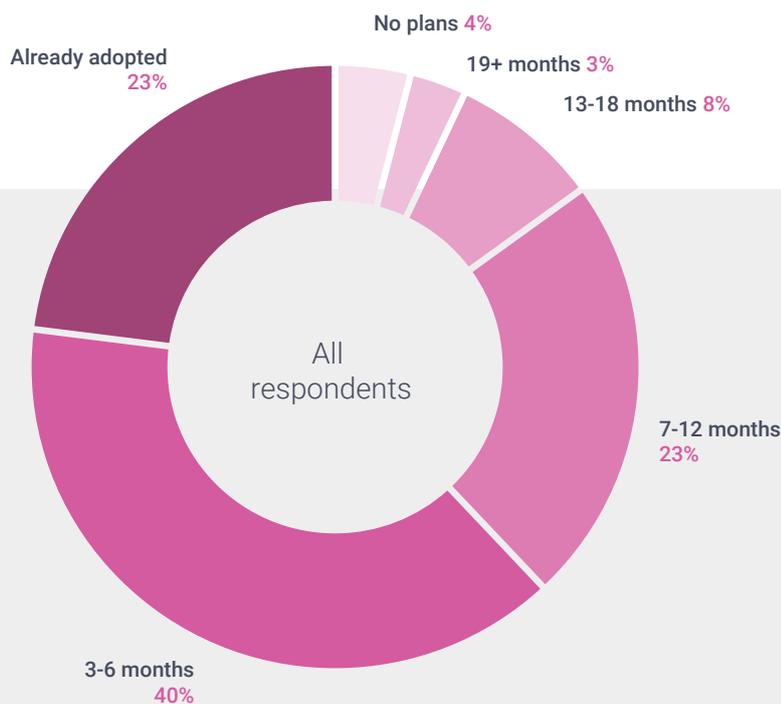
The financial industry has been massively altered over the past decade. From online banking to hyper-personalized apps, it is arguably one of the most disrupted industries on a global scale and shows no signs of calming down. Open Banking and the future of Open Finance have further encouraged the adoption of technology to enhance business offerings on a broader scale.

Through Open Banking initiatives, third-party FinTechs can gain access to relevant consumer data, direct from banks and non-bank financial institutions, through [Application Programming Interfaces \(APIs\)](#). **Open Banking gives consumers access to more enhanced services across many different institutions and third-party service providers, resulting in hyper-personalization and a better user experience.** While Open Banking has the potential to revolutionize the

financial industry, the idea of data sharing can be a concern for many financial institutions, particularly due to the introduction of several data protection regulations.

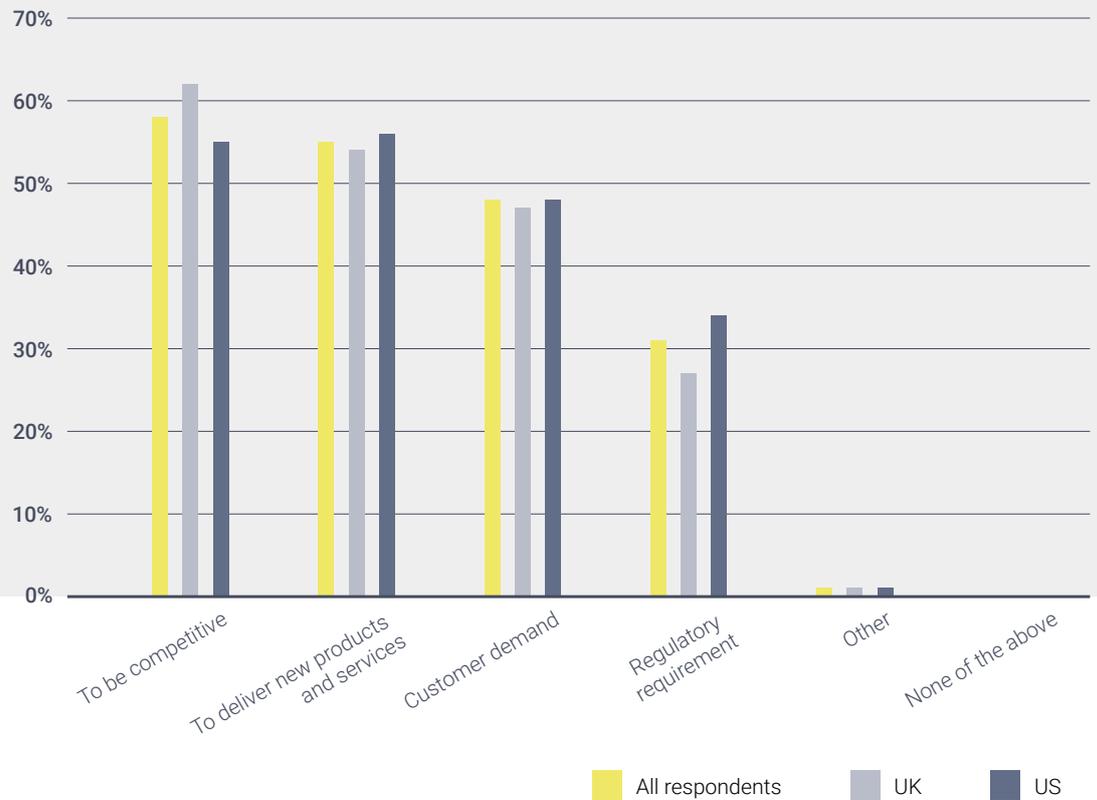
Curity surveyed 200 global financial institutions in partnership with research consultancy Priestley to better understand the landscape of Open Finance and the adoption rates of Open Banking. We spoke with those managing Open Banking programs about deployment timelines, experiences with Open Banking, as well as their motivations and concerns.

**Our data paints a picture of the future of Open Finance in key countries.** We can see that while 71% of global financial institutions plan to adopt Open Banking in the next 18 months, the same amount have security concerns about doing so.



**When do you expect to start taking action to adopt Open Banking within your organization?**

## Thinking about your organization, what are the biggest motivations for embracing Open Banking?



Our data also sheds light on the reasons for adopting Open Banking. The top three motivations for adoption are:

1. Competitiveness (58%),
2. Delivering new products and services (55%),
3. Customer demand (48%).

**This report looks at both US and UK landscapes, which paint fairly different pictures.** The UK is marginally ahead of the US when it comes to adoption rates (24% vs. 21%). The lead taken in the UK can be attributed, at least in part, to the regulation-driven approach that the country has taken. PSD2, published in 2015, is designed to improve customer protection for transactions and support the banking-as-a-service API platform in the UK. This regulation has been a driving force for the adoption of Open Banking in the UK, providing the infrastructure and security necessary to encourage innovation. The US, however, is led by market performance. While the US

Consumer Financial Protection Bureau (CFPB) is fulfilling the Open Banking regulatory needs in America, there is a gap with respect to the regulation available in the US compared to what is already available in the UK. Despite this, the adoption rate of Open Banking in the US over the next 7 to 12 months is expected to be greater than the adoption rate of the UK (26% in the US vs. 19% in the UK). While the general security requirements of Open Banking are the same in both countries, the driving forces behind fulfilling them differ.

It is clear that Open Banking is here to make a mark on the financial industry. **This report aims to map out how financial institutions can contribute to the facilitation of Open Finance, thanks to the adoption of Open Banking, and investment from executive leaders in the appropriate areas.**

## Security and the Future of Open Finance

The future of Open Finance poses many opportunities for global financial institutions. However, as with most new technology trends, adoption does not come without concerns. Although Open Banking is a regulatory requirement in the UK, financial institutions still have valid concerns regarding adoption and the security issues they can potentially face.

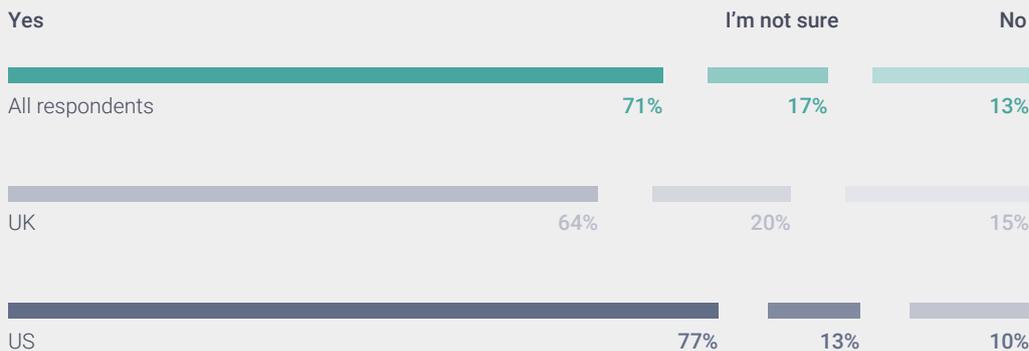
Nearly half of all large institutions in the finance industry globally have already adopted Open Banking (43%) due to three main drivers:

- Being competitive (58%),
- Delivering new products and services (55%),
- Meeting customer demands (48%).

These key motivators are driving the future of Open Finance on a global scale for financial institutions of different sizes. Not surprisingly, smaller enterprises are lagging behind their larger counterparts. Only about a quarter (23%) of enterprises with fewer than 5,000 employees have adopted Open Banking; this number in the UK is marginally ahead of the US. With the expected

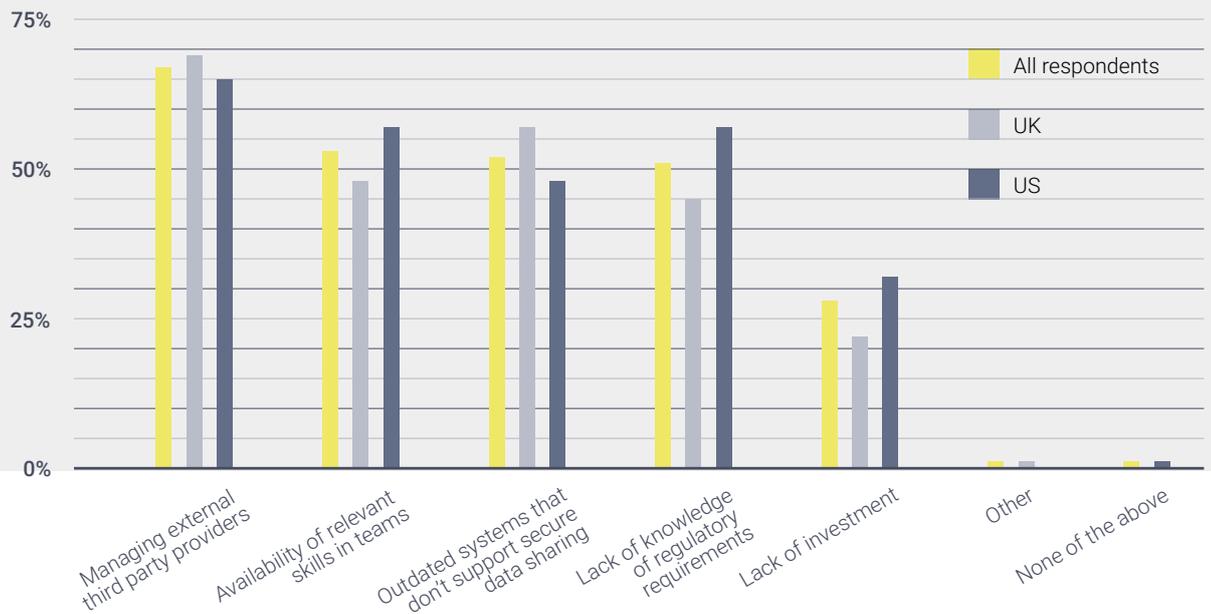
growth rates mentioned above, however, the small business adoption in the US is expected to overtake that of the UK in the next 12 months.

As touched upon, there are some hesitations to adopt Open Banking globally. When it comes to the obstacles that enterprises foresee, globally speaking, organizations are concerned with compliance and security risk (61%), skills and knowledge shortage (51%), and changing business priorities (45%). Over two-thirds of financial institutions (71%) are concerned with security-related issues; this rises to 77% in the US for organizations of all sizes and 77% globally for larger businesses. Generally, the greatest security concern among all financial institutions comes from the use of outdated systems that don't support the modern requirement to securely share data (62%). This means businesses cannot safely introduce new applications and services without significant investment, thus, impeding their adoption of Open Banking.



Do you currently see any security concerns associated with Open Banking?

**Thinking about the security challenges relating to data sharing and Open Banking, which of the following are the biggest challenges?**



**Independent of Open Finance, retaining user data privacy is essential for all organizations. When bringing in new customers, data protection is one of the most essential requirements to consider** due to the strict data protection laws that apply. There is a growing list of disparate data protection mandates around the world, including:

- GDPR in Europe,
- CCPA in California,
- APP in Australia, and
- LGPD in Brazil.

These regulations are in place to ensure that financial institutions are held accountable for their use of personal data. Coupling the Open Banking regulations with data protection requirements can set the bar of adoption very high. It is, however, lowered by the usage of standard security protocols.

Open Banking requirements in various regimes (like Europe, Australia, and Brazil) mandate the adoption of financial-grade security protocols. These are, or at least include, OAuth and OpenID Connect. Many perceive these as complex. However, they are not, especially when considering the magnitude of the problem they are being used to solve: open, safe access to the financial well-being of billions. While Open Finance is an important step to opening up the financial

industry to new opportunities, it cannot be done at the cost of individuals' economic livelihood. Certain safety measures are inevitable; open standards, like OpenID Connect, provide a robust security framework for delivering this without undue hassle.

**Organizations need to address the challenges they are facing (e.g., managing external third-party providers, updating legacy systems, and hiring the right people).** Not overcoming these challenges can be catastrophic if they result in data breaches. These can have long-term impacts on financial institutions in the form of high fines and loss of consumer trust.

While nearly three-quarters of organizations surveyed globally (70%) plan to adopt Open Banking in the next 18 months, they must pay attention to the regulatory requirements to preserve their business integrity and customer relationships. To effectively manage the process, institutions need to implement financial security standards designed by professionals. This should give adopters peace of mind about their handling of customer data. This will also provide organizations with the tools to manage the Open Banking adoption and implementation, thus improving their offering to customers and addressing a key business concern.

## Investing in Open Finance

Nearly all organizations (96% globally; 100% in the US) believe consumer adoption is crucial to the future of Open Banking. Without consumer adoption and understanding, it is clear that Open Banking would be a business-only technology. This would defeat the entire purpose of Open Banking, so consumer adoption cannot be overstated. Given these survey results, this fact is clearly not lost on financial institutions either, which bodes well for the long-term success of Open Banking.

**96% of people agree that 'Consumer acceptance of modern authentication methods is key to the future of Open Banking'**

To ensure consumer buy-in, organizations must address the issue of consumer hesitancy due to security and data protection concerns. Financial institutions have the opportunity to demonstrate their responsibility to offer an improved customer experience; this can be done by removing barriers to adoption and deploying safe solutions that provide consumers peace of mind. As we move towards modern authentication methods (e.g., biometrics, and passwordless technology), this reassures users that they can trust Open Banking deployments with their critical financial and

personal data even if it's being shared with third parties. Organizations must communicate with customers in simple and concise ways about data privacy; they need to do so without relying on jargon or overly complicated terms. This will ensure that customers understand and, thus, feel confident in the way their data is handled and stored within the Open Banking ecosystem.

Consumer adoption, however, must be supported by advancing business developments. This is where business investment comes into play as a crucial facilitator of Open Banking (and Open Finance more broadly). Deploying modern authentication methods is key to consumer adoption for over half of organizations (56%). **According to global respondents, these are the most critical factors to ensure widespread consumer adoption of Open Banking:**

- Investing in security tools and infrastructure,
- Ensuring industry bodies are in place for regulations management and support, and
- Investment and adoption by leading organizations.

68% of large organizations also view customer education as very important.

As regulations tighten and technology advances, organizations will invest more to improve the Open Banking customer experience and buy-in. More than four-fifths (83%) of all organizations surveyed plan to invest more in Open Banking

this year than they have in the last 12 months; this increases for organizations in the US and for smaller companies (89%). **Currently, in Europe, there is a surge in third-party providers available to support migration toward Open Banking; these also offer services beyond standard payments practices into the broader scope of financial services.** This will only continue to be a market ripe for disruption and investment.

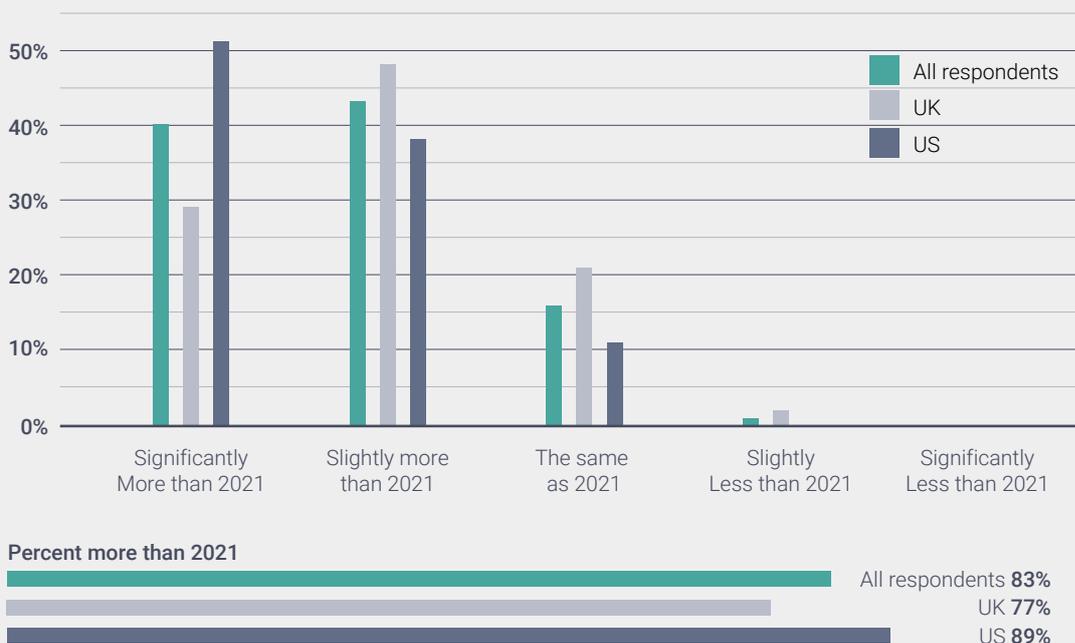
**The pandemic has accelerated the adoption of Open Banking, and, therefore, the potential for investments to be made.** As consumers swiftly moved more of their lives online as lockdowns ensued, their interest in FinTech apps and infrastructure also increased. As a result, two-fifths (40%) of organizations plan to invest significantly more in 2022; in the US, that increases to over half of organizations (51%). This investment spans three key areas:

1. New technology solutions,
2. More training for staff, and
3. Hiring specifically skilled people (e.g., Open Banking deployment specialists).

The latter, new staff, can support existing teams with security challenges; they can also facilitate

complex transitions to new technology that supports the future of Open Finance. As such, this key area of investment cannot be understated. In today's labor market, such workers will come at a premium, and organizations should be prepared to pay high demands with the realization that the investment will be worth it in time.

**It is clear that the future of Open Finance and Open Banking relies on consumer adoption and business investment.** These two driving forces require business attention, as evident from our conversations with organizations surveyed. Financial institutions have an appetite to provide a good customer experience, which can be achieved by taking the measures laid out in this report. Investment in team improvements, new technologies, and the support to implement them will be the key to spurring consumer adoption. These will in turn further the facilitation of Open Finance. Organizations must also ensure consumers have peace of mind about data handling and data storage. If they do, Open Banking products and services will be rewarded with trust and success.



**Is your business planning to invest more or less in Open Banking technology in 2022 compared to 2021?**

## Top-Down Buy-in Is Crucial to Open Finance

Consumer adoption and technology investment are essential to Open Finance's future. However, there is another vital key: Executive leadership. **Executives know that technology buying decisions will improve competitiveness and the bottom line; this is generally true, especially for Open Banking initiatives.**

Four out of five (84%) of those surveyed believe that third-party data sharing and informed user consent are the most important elements of Open Banking. This shows that these concepts and their associated challenges are well understood. This rises higher for financial institutions in the US (94%), and on a global scale for large organizations (91%). This sentiment strengthens further in small companies, with two out of five respondents (41%) strongly agreeing that data sharing and consent are well understood. Due to this, Open Banking seems to have the top-down support necessary to fulfill industry potential. Executive leaders must ensure that their business decisions can be supported by evidence and data and direct investment into the appropriate areas.

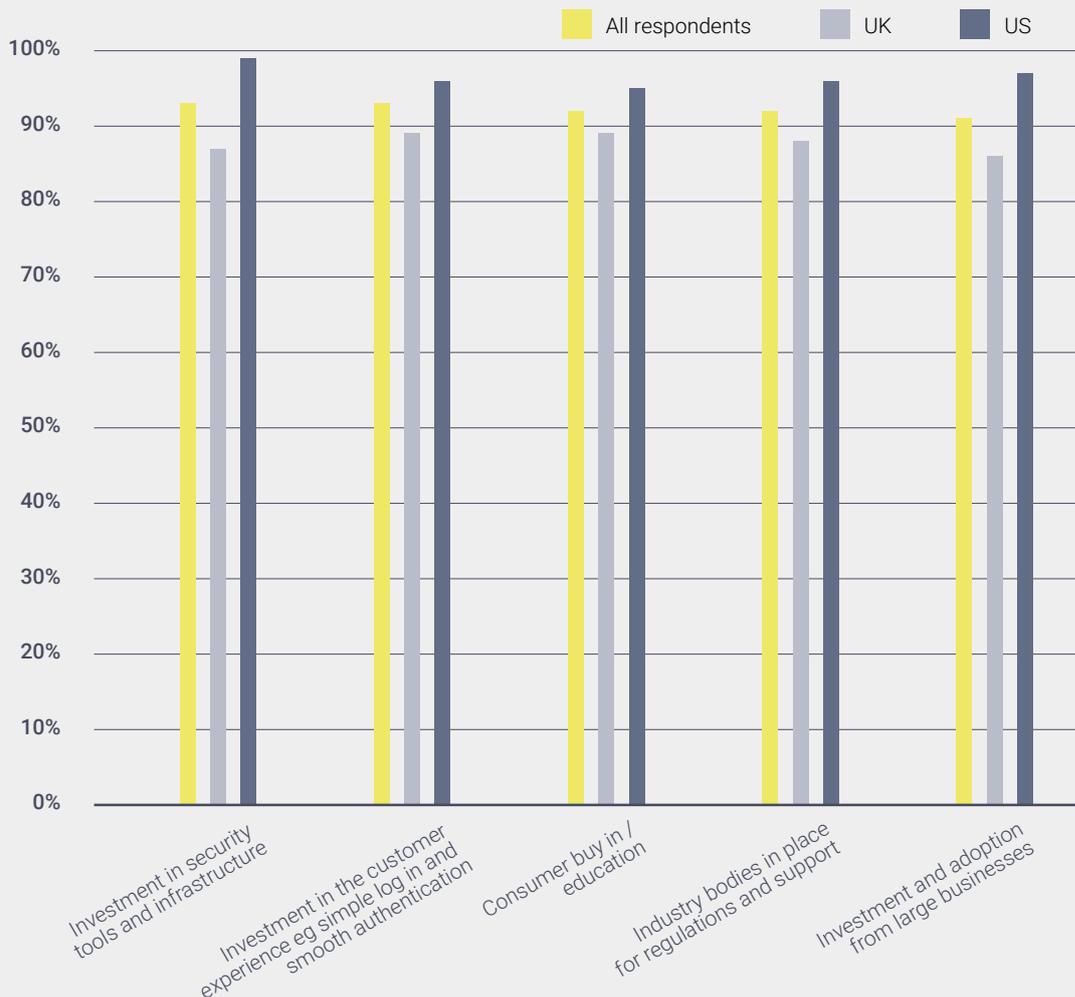
**84% of people agree that 'Concepts and challenges of third party data sharing and informed consent from users are well understood by senior management'**

Open Banking serves as an opportunity for the whole organization because it enables the development of products and services that create the best customer experience possible. **When investing in technology that supports a hyper-personalized experience, business leaders can establish new products and services that help their organization stand out. Investments in such offerings demonstrate a future-facing attitude towards innovation.**

Financial institutions have a big challenge ahead of them in 2022 and beyond. Investment in the appropriate technologies and team is crucial to the further success of Open Banking. Nearly three-quarters of those surveyed (68%) see investment in consumer adoption and team knowledge as essential in facilitating Open Finance. As Open Finance continues to accelerate, executives can seize the opportunity to embrace innovations and demonstrate their commitment to customer experience.

Leaders also have an opportunity to pave the way for smaller organizations by establishing

industry bodies that hold executives accountable by enforcing regulations and monitoring the behaviour of leaders. This will make inaction consequential. Of the UK-based financial institutions surveyed, one in two (48%) believe an industry body is needed to help facilitate the future of Open Finance. **By establishing industry bodies that ensure standards are met, organizations can offer customers peace of mind.** With 4.5 million users of Open Banking in the UK alone, it is clear that Open Banking is a mainstay, and leaders have the chance to take advantage of this moment by embracing this new paradigm.



How important are the following areas of investment in ensuring Open Banking is widely adopted?

# Conclusion

Open Banking is not new to the global finance sector. While regulations in the UK have been in place for years, the rest of the world is now following suit. Our conversations with financial institutions clearly show that many initiatives across a broad spectrum are needed for Open Banking and Open Finance to succeed on a global scale.

**From establishing industry bodies to upskilling employees, there are clear steps to take to develop Open Banking and Open Finance offerings.**

As this is associated with business growth and new customer offerings, the time for organizations to adopt is now. Even if the market signals may say otherwise, fortune favors the bold. Larger enterprises lead the way with Open Banking, as nearly half of those surveyed (43%) are already adopting the technology. Their actions have created the market that now includes robust products that are affordable and suited for new, smaller entrants. This also grants stability to those who were previously reluctant to adapt and move forward into this open ecosystem.

Many financial institutions are actively looking to adopt Open Banking; however, our research has identified some hesitation across the business landscape. Legacy banks will continue to benefit from customer relationships that have stood the test of time. **Not every business will be so lucky, however. To be at the forefront of change, organizations need to adjust their plans and work with leading technology partners.** There is also

a clear benefit of technology and regulation that is driving adoption across Europe. Around the globe, we have seen a trend of larger tech companies wanting to adopt “financial-grade” solutions that will protect their own services. This is the case in verticals beyond finance. As more global organizations look for best practices and find Open Banking as a pattern to follow, Open Finance will give way to Open Government, Open Manufacturing, and open everything. In such a world, security, accountability, and privacy must be inherent.

As 70% of financial institutions prepare to adopt Open Banking in the next 18 months, it is important for executives to pay attention to the areas they are investing in. Without significant investment in new, specialized staff and training for current team members, organizations risk falling behind their counterparts. The main motivations for adopting Open Banking for the majority of financial institutions are to be competitive (58%) and to deliver new products and services. **By deploying the necessary solutions and investing in new technology and appropriate training, organizations can harness the potential of Open Banking through a supported business structure that is grounded in technology.**

**The future of Open Finance is clear for financial institutions of all sizes if they are willing to embrace it!**

# About Curity

---

## Protect Identities. Secure Digital Services.

The Curity Identity Server brings identity and API security together, allowing scalable and secure user access to apps and websites. In addition, it enables consistent authentication experiences for customers, employees, and partners.

- Protect your users
- Secure apps and websites
- Manage API access

curity.io

