The Open Banking Standard

Defining the API bank model
UK authorities are leading regulatory initiatives to promote greater innovation and competition in financial services by leveraging the digital opportunity. Regulating data sharing and banking APIs is currently on the regulator’s agenda due to their potential benefits both for consumers and financial institutions. Defining a solid framework for banks to share information and products would place the UK in a strong position to lead the development of an international standard.

Context
In September 2014, HM Treasury published a report on data sharing and open data for banks, which explored potential uses of data in financial services through Application Programming Interfaces (APIs) in financial services, in a way that is consistent with data protection and privacy.

In March 2016, the British Open Banking Working Group (OBWG) released a document on The Open Banking Standard in response to a previous request made by HM Treasury in September 2015. The document defines a framework for an open banking model and addresses how data should be created, shared and used by its owners and those who can access them.

The latest European Directive on payments (PSD2), released in January 2016, requires banks to provide services that will enable their customers to receive some of their data over the Internet and easily, safely and securely share it with third parties, when it enters into force in 2018. The upcoming General Data Protection Regulation (GDPR) will enshrine the individual’s rights to data portability, consent to sharing and specific uses. Implementing the Open Banking Standard framework could significantly accelerate the implementation of new EU regulations on banking data.

Platform banking, in which external developers can use APIs to create and extend new services, has the potential to completely reconfigure the value chain and the business model of financial institutions.

The Open Banking Standard framework
The mission statement of the Open Banking Standard (OBS) is defined as ‘unlocking the potential of open banking to improve competition, efficiency and stimulate innovation in the banking sector’, and the OBS document also addresses key issues around usability, trust, security and governance of the standard.

The document provides a clear definition of the main concepts involved in the API data sharing model (figure 1):

- First of all, it defines standards and a taxonomy of data for banking transactions and clarifies the uses and ownership of data in each case. Open data, shared data and private data can be generated by banking transactions (figure 2).

- Secondly, it defines open APIs or open standards, in which the technology and the standard are open but private data can only be accessed with permission from the data owner. Requirements for scalability, data architecture and resources for developers are also defined in the document. The focus is on openness and usability for developers, using existing resources that are already standards (such as OAuth).

- The OBS also defines the security aspects of API specifications, including authentication, authorisation,

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access levels and permissions, and encryption, as well as security standards for data attribute providers and third parties.

- The governance model for the ecosystem should include the creation of an Independent Authority to ensure that standards and obligations between participants are upheld.

**Potential uses and challenges**

By improving access to APIs and data, a more diverse ecosystem of third parties will be bred. The participation of new players will lead to greater product innovation and choice for consumers. The standard is necessary to eliminate frictions and allow economies of scale and scope.

Data sharing for specific purposes during the “customer journey” allows, for example:

- The development of new services, such as comparing current accounts and personal financial management tools.
- Improved access to credit for individuals and SMEs as they can easily share historical transactional data with lenders.
- Simpler online accounting for SMEs, directly extracting the data they need for bookkeeping instead of inputting the data manually.
- Fraud detection can be facilitated by monitoring data across multiple accounts to identify patterns.

Today, the main challenges around the OBS are centred on security, the customers’ data literacy regarding adopting the proposition and addressing forthcoming legal and regulatory frameworks. Defining the framework is the first step toward mobilising the stakeholders and moving the OBS forward.

**Roadmap**

The proposed implementation plan has an ambitious timeline, as it aspires to cover the full extent of its scope in time for PSD2 to come into force. The aim is to have a Minimum Viable Product by the end of 2016 that can offer basic read access to data.
The API model is affected by a number of existing legal and regulatory requirements (such as the Data Protection Act - DPA - in the UK, GDPR in the EU, competition and intellectual property laws and the current Payment Services Directive), which should be considered in the implementation.

Conclusion
The use of APIs to share bank data using third-party software applications is mandatory in order to comply with existing and possible forthcoming regulations. The use of APIs by banks is becoming increasingly common as they help to drive speed and cost-effectiveness compared to traditional legacy systems.

Technology companies have used API strategies to create ecosystems that grow their product offering in new ways at a low cost. Developing an Open Banking Standard would allow banks to extend their traditional business, by becoming API providers, financial services platforms or both.

Regulation should ensure that the development of these business models achieves a high level of security, financial stability and consumer protection. The definition of the standard is a necessary step in the implementation of the model, and the UK Government, by commissioning this report, has taken the lead for future developments.
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This report has been produced by the Digital Regulation Unit:

Chief Economist for Digital Regulation Unit
Álvaro Martín
alvaro.martin@bbva.com

Vanessa Casadas
vanessa.casadas@bbva.com

Israel Hernanz
israel.hernanz@bbva.com

Alicia Sánchez
alicia.sanchezs@bbva.com

Javier Sebastián
jsebastian@bbva.com

Pablo Urbiola
pablo.urbiola@bbva.com

With the contribution of:
Francisco Borja Larrumbide Martínes
fborja.larrumbide@bbva.com

Lucía Pacheco
lucia.pacheco@bbva.com

BBVA Research

Group Chief Economist
Jorge Sicilia Serrano

Developed Economies Area
Rafael Domènech
r.domenech@bbva.com

Spain
Miguel Cardoso
miguel.cardoso@bbva.com

Europe
Miguel Jiménez
mjimenez@bbva.com

US
Nathaniel Karp
Nathaniel.Karp@bbva.com

Emerging Markets Area

Cross-Country Emerging Markets Analysis
Alvaro Ortiz
alvaro.ortiz@bbva.com

Asia
Le Xia
le.xia@bbva.com

Mexico
Carlos Serrano
carlos.serranoh@bbva.com

Turkey
Alvaro Ortiz
alvaro.ortiz@bbva.com

LATAM Coordination
Juan Manuel Ruiz
juan.ruiz@bbva.com

Argentina
Gloria Sorensen
gsorensen@bbva.com

Chile
Jorge Selaive
jseelaive@bbva.com

Colombia
Juana Téllez
juana.tellez@bbva.com

Peru
Hugo Perea
hperea@bbva.com

Venezuela
Julio Pineda
julioceasar.pineda@bbva.com

Financial Systems and Regulation Area
Santiago Fernández de Liz
sfernandezdelis@bbva.com

Financial Systems
Ana Rubio
aruibiog@bbva.com

Financial Inclusion
David Tuesta
david.tuesta@bbva.com

Regulation and Public Policy
María Abascal
maria.abascal@bbva.com

Digital Regulation
Álvaro Martín
alvaro.martin@bbva.com

Global Areas

Economic Scenarios
Julían Cubero
juan.cubero@bbva.com

Financial Scenarios
Sonsoles Castillo
s.castillo@bbva.com

Innovation & Processes
Oscar de las Peñas
oscar.delaspenas@bbva.com

Contact details:
Azul Street, 4
La Vela Building - 4 and 5 floor
28050 Madrid (Spain)
Tel.: +34 91 374 60 00 and +34 91 537 70 00
Fax: +34 91 374 30 25
bbvaresearch@bbva.com
www.bbvaresearch.com