



## OPEN BANKING SYSTEM- BOON OR BANE

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### ABSTRACT

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*The world of Finance has changed. Latest innovations, made banks shifting from traditional banking system to smart banking system. The old banking system go to the bank have been replace by modern mechanisms that enabled the account holders to carry out the transactions from anywhere. Open banking system is already implemented in country like USA etc. implemented successfully. In India banking sector gradually opening to Open banking System. India Bank population covered over 80% of the Indian population. Majority of the population still reach out the branches for their account related works. Hence It required time and effort to bank branches to clear the doubts about the open banking facility and to educated the customers to utilize the benefit of Open banking System in India, otherwise it will be a bane to the banking industry.*

**KEY WORDS:** Finance, Innovaion, Banking, Population

### INTRODUCTION

In October 2015, the European Parliament adopted a revised Payment Services Directive, known as PSD2. The new rules included aims to promote the development and use of innovative online and mobile payments through open banking.

Support for the concept is not unanimous. Mick McAteer of the UK's Financial Inclusion Centre, thinks that only the tech-savvy will benefit. He says that open banking is "a daft idea", which will lead to more financial exclusion for those on low incomes. He says it is naïve of regulators to expect consumers to own their data and be able to get better deals from banks, and points out the danger of consumers being exploited, either by businesses offering new types of expensive payday loans, or misuse of data and personal information that people have revealed in places such as social media.

Every conversation a bank has with its (potential) customer is a business moment for it to create a memorable customer experience. Open banking converts such business moments into customer experiences by leveraging open APIs, the intelligent conduit that allows for the seamless flow of data using open-source technologies. Envision the world's future – from a 'smart' bank to a 'smarter' bank. From paperless banking to 'bankerless' banking. In short, Open banking is the disruptive democracy of banking where you elect which party manages your finances by giving you full governance over your data.

### WHAT IS OPEN BANKING?

"Generally speaking, it is a mechanism in which customer banking information is shared to applications or APIs. In this way, an ecosystem is created that is conducive to generating business, solving needs, suggesting services and much more."

Open Banking is built upon data related to credit cards, statements, and account types and everything relating to the customer's finances. Once gathered, this information is synchronized with the various emerging applications and starts an exchange process that facilitates and enhances the experience of customers.

Open banking is a financial services term as part of financial technology that refers to:

1. The use of open APIs that enable third-party developers to build applications and services around the financial institution.
2. Greater financial transparency options for account holders ranging from open data to private data.
3. The use of open source technology to achieve the above.

**OPEN BANKING OBJECTIVES:** The goals of Open Banking are:

- ✓ Offering greater financial transparency, due to users' mistrust of banking entities.
- ✓ Growth opportunities for financial providers
- ✓ Offering Innovative Services that provide value to consumers

## UNDERSTANDING OPEN BANKING

Open banking allows consumers, financial institutions, and third-party service providers to use the network of accounts and data across institutions. Customers must agree to share their data by checking a box next to the 'terms of service' screen on the app. APIs of third-party providers can get the access to the customer data.

Instead of centralisation, the concept of open banking makes large, established banks to be more competitive with small and new banks. Large banks will have to put effort to adopt new technologies to provide better customer service at lower costs.

## OPEN BANKING INITIATIVES IN INDIA

Globally, open banking regulatory frameworks are structured to enable third party access to customer-permissioned data, requiring licencing or authorisation of third parties, and implementing data privacy and disclosure and consent requirements. Some frameworks may also contain provisions related to whether third parties can share and/or resell data onward to "fourth parties", use the data for purposes beyond the customer's original consent and to whether banks or third parties could be remunerated for sharing data. Open banking frameworks may also contain expectations or requirements on data storage and security.

India has kickstarted its approach to Open Banking by enabling an intermediary which will be responsible for the customers' consent management. These intermediaries are licensed as Non-Banking Financial Companies. In September 2016, RBI announced creation of a new licensed entity called Account Aggregator (AA) and allowed them to consolidate financial information of a customer held with different financial entities, spread across financial sector regulators. In India, AA acts as an intermediary between Financial Information Provider (FIP) such as bank, banking company, non-banking financial company, asset Management Company, depository, depository participant, insurance company, insurance repository, pension fund etc., and Financial Information User (FIU) which are entities registered with and regulated by any financial sector regulator. The flow of information takes place through appropriate Application Programming Interfaces (APIs).

The transfer of such information is based on an explicit consent of the customer and with appropriate agreements/ authorisations between the AA, the customer, and the financial information providers. Data cannot be stored by the aggregator or used by it for any other purpose. Explicit and robust data security and customer grievance redressal mechanisms have been prescribed and the Account Aggregators are not permitted to undertake any other activity, primarily to protect the customers' interest.

## ADVANTAGES OF OPEN BANKING

With Open Banking come some advantages of online banking that benefit customers and bank owners. Some of those include:

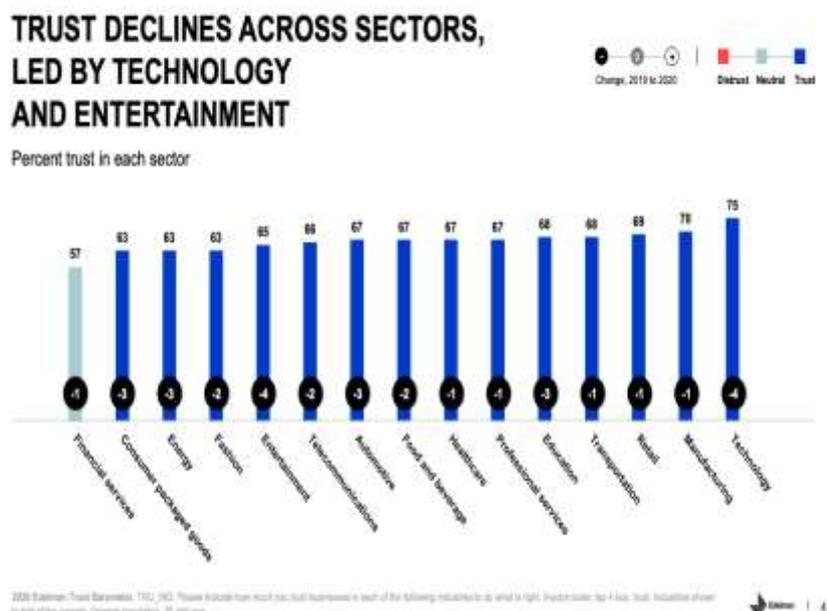
- ✓ **Helping customers in their operations:** obtaining answers and services tailored to each person's needs becomes easier with Open Banking. This is because, due to the vast array of APIs that already exist and the new ones that emerge, everything is simpler. All you need is access to technology. Time spent is reduced and operations are automated.
- ✓ **Centralization of services:** with Open Banking, banks once again have full control over the various services their customers need: advice, loans, transfers, and financing. Thus, everything is done with greater visibility and under a single administration.

- ✓ **Increase in the financial market:** with the arrival of more clients in Open Banking, the diversification of APIs and services will be greater. In this way, there will be numerous offers adapted to the needs of everyone.

### DISADVANTAGES OF OPEN BANKING

Some of the drawbacks of Open Banking are:

- ✓ **Low customer credibility:** until now there has been an apathy or lack of credibility on the part of customers towards Open Banking. It is partly due to the fear of sharing their data, as well as to their lack of knowledge of how it works.
- ✓ **The Fintech:** the growth of those companies that have replaced many of the services traditionally controlled by banks is a major drawback for major banks. The Fintech market is growing. Their services are diverse and more and more there are a large number of them in all countries. They are simple, fast and low cost for customers.
- ✓ **It removes the interpersonal relationship with the customer:** because everything is handled digitally, the face-to-face encounters between the customer and the bank are getting fewer and fewer. This can lead to a breakdown in the psychological relationship and brand loyalty between customer and provider.



(Above: Financial services is the least trusted industry sector, according to the Edelman Trust Barometer 2020.)

### CONCLUSION

Many of the foreign countries are already opened up to the Open banking system. India is slowly open to opening banking system in India. But still many customer of the bank are prefer to tradition banking system. Due to fear to loss money, security risk, lack of knowledge of the operation of open banking. Indian banking system even though gradually establishing themselves to new technology era, not achieved a fast growth in open banking. Though Open Banking is a great alternative to the current financial system. It offers many advantages, but it also has some disadvantages, being the security risks of sharing data the most important drawback. So banks needs to give more attention towards improving and popularize the open banking system, by reducing the risk involved in it, and enable the customers to operate with open banking system without any fear and difficulties.

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