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# The rise of open banking: How far will it go?

Open banking is changing financial services worldwide, and the way consumers are accessing their account data and making payments will never be the same.

Thanks to the partnerships between the payments industry and fintech companies over the past decade, technology is bringing increased simplicity and interconnectedness to consumers' financial data. Today, many consumers throughout the world can connect their bank accounts, paychecks and other funds directly to merchant sites, subscription services, money transfer apps and other financial services to create a seamless flow of personal financial management. And the possibilities are growing.

Open banking could easily evolve into a financial and shopping ecosystem where “all the things that you would need at a moment’s notice are at your fingertips and seamlessly integrated,” Chris Skinner, CEO of The Finanser Ltd., explained in a recent interview.<sup>1</sup>

## The benefits flow to the consumer

Sparked by the fintech revolution of the 2010s, open banking seeks to provide a robust payment solution that allows financial institutions to share customer account information among various

partners—with the customer’s consent. It is, in essence, “a way of giving customers more control of their financial data, more control of how they use their account and more control over which channels they use to manage their accounts,” according to The Payments Association.<sup>2</sup>

“Simply put, open banking is based on the idea that a customer’s financial data belongs to the customer,” said Leigh Garner, Head of Industry Relations at Discover® Global Network in London.

With open banking, consumers can effortlessly use a broad range of spending and payment tools in combination. Connecting various banking and payment card accounts via open banking can enable customized products, faster access to credit and financing and more control over personal finances. Many consumers are already enjoying its benefits as various financial services are being integrated—from person-to-person (P2P) payments to consumer-to-business payments and more—with their banking institutions, investment accounts and credit reporting agencies, among others.

In fact, rather than naming it “open banking,” which can suggest a lack of privacy for consumers, Skinner suggested that it would be more appropriately called “seamless banking.”

<sup>1</sup> Chris Skinner interview, May 2022. “[A Conversation on Open Banking](#).”

<sup>2</sup> The Payments Association, October 2021. “[Power to the People: How Open Banking is Transforming how we Access and Manage our Money](#).” Viewed May 2022.

In some markets, open banking is also bridging the gap between merchant and consumer as an efficient and secure form of payments acceptance. Open banking “is integrated into my life, so I don’t have to think about which bank or service I’m using,” Skinner said.

### Open banking goes global

Spurred by regulatory actions such as those in the U.K. and the European Union’s Payment Services Directive Two (PSD2), the push for open banking was aimed at increasing competition by breaking the lock of traditional financial institutions’ control over consumer data. As part of the initiative, regulations required the industry to strengthen e-commerce security, market third-party access to consumers’ financial accounts and improve customer authentication.

Today, the push for open banking is global, and consumers are responding. The U.K., as a global leader, has witnessed a 60% increase in active open banking users<sup>3</sup> as more than 5 million users in that country are already taking advantage of open banking.

In the U.S., the Financial Data Exchange (FDX) is seeking to create a standard for data sharing among financial services. Currently, it reports 32 million consumer accounts are using the FDX API to power open banking and open finance.<sup>4</sup>

In Australia, four of the country’s largest banks required data sharing, starting in July 2020.<sup>5</sup> And with over 14,000 financial institutions in the U.S., the country is expected to become the next frontier for open banking as interest grows in innovative payment experiences.<sup>6</sup>

## How open banking spans the globe

**Australia** The first phase of open banking launched in July 2020, allowing customers of the largest banks to share their data in some accounts with accredited parties. Full implementation is planned for late 2022.<sup>7</sup>

**Denmark** In Denmark, open insurance is providing consumers with the ability to link their car to their bank, their insurance provider, tow trucks and taxis in the event of an accident.

**Hong Kong** Authorities set out a four-phase approach for banks to implement open APIs in 2018, starting with information sharing on products and services, and ending with the sharing of transactional information.<sup>8</sup>

**United Kingdom** The U.K. has witnessed a 60% increase in active open banking users<sup>3</sup> and is incorporating the broader concept of open finance for various consumer industries.

**United States** Financial services companies in the U.S. are launching an array of open banking projects that connect banks, fintechs, credit bureaus, investment companies, peer-to-peer money transfer services, merchants and other enterprises via digital platforms. Through the nonprofit Financial Data Exchange (FDX), for example, the industry is seeking to create a standard for data sharing among financial services.



<sup>3</sup> Payments Journal, June 2022. “[Open Banking and the Future of Challenger Banks](#).” Viewed June 2022.

<sup>4</sup> Financial Data Exchange, June 2022. “[Financial Data Exchange \(FDX\) Reports 32 Million Consumer Accounts on FDX API to Power Open Banking and Open Finance](#).” Viewed 2nd August 2022.

<sup>5</sup> The Payments Association, October 2021. “[Power to the People: How Open Banking is Transforming how we Access and Manage our Money](#).” Viewed May 2022.

<sup>6</sup> PYMNTS.com, March 2021. “[Open Banking Report. The Ins and Outs of Open Banking’s Evolution](#).” Viewed May 2022.

<sup>7</sup> Fintechnews. “[The State of Open Banking in Australia in 2021](#).” Viewed 21st June 2022.

<sup>8</sup> Deloitte. “[Open Banking Around the World](#).” Viewed 21st June 2022.



## Open banking is the gateway to open finance

The introduction of open banking is just the beginning, Skinner and others suggest, as it is creating substantial changes throughout the global financial journey. Open banking is quickly leading to a broader concept of “open finance,” which can connect an expanded array of consumer services with virtually any industry that delivers services to consumers.

“Over the next decade, you’ll start to see open finance starting to integrate open health, and open wealth, and open travel, and open retail and more services into a complete system,” said Skinner.

Importantly, these open financial services also promise to deliver new retail and financial opportunities in underserved communities by extending the flow of financial information among a larger pool of institutions. This interconnectedness can further inform credit scoring models to bring about more meaningful insight into lending decisions and expand the availability of credit.

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Indeed, the move has the potential “to reshape financial services as we have known them, touching everything from the way large companies do business to retail, small and midsize enterprises and all aspects of personal finance and households, including mortgages and insurance.”<sup>9</sup>

Just how quickly these new capabilities reach various markets around the world, though, remains to be seen. As Leigh Garner at Discover® observed: “The technical solutions are there, but often consumer adoption takes longer than anticipated.”<sup>10</sup>

<sup>9</sup> McKinsey & Company, July 2021. “[How open financial data is reshaping financial services.](#)” Viewed 21st June 2022

<sup>10</sup> Chris Skinner interview, May 2022. “[A Conversation on Open Banking.](#)”

### About Discover® Global Network

Discover® Global Network, the global payments brand of Discover Financial Services, processes millions of cardholder transactions each day. With industry expertise, innovative technology and a closed-loop infrastructure, Discover Global Network provides effective, customized solutions that evolve as needs change. Discover Global Network has alliances with 25+ payment networks around the world, and is led by three Discover businesses: Discover Network, with millions of retail and cash access locations; PULSE® one of the leading ATM/debit networks; and Diners Club International® a global payments network with acceptance in over 200 countries and territories.

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