

Treasury Essentials: Open Banking and PSD2 in 60 seconds

published on 26.02.2020

Open Banking has been enabled as part of a sweeping piece of European legislation known as the Second Payment Services Directive, or PSD2. The main objectives of PSD2 are to facilitate a more integrated European payments market, making payments safer and increasing customer protection. It is widely viewed as an important step towards a Digital Single Market in Europe.

Under PSD2, major banks are required to release application programming interfaces (APIs) enabling authorised third-party providers (known as AISPs ? Account Information Service Providers) and PISPs (Payment Initiation Service Providers) ? to access bank accounts and create new, independent financial services.

Essentially, Open Banking makes it possible to log into one website, or app, and see all of your current accounts, credit cards and savings in one place. This enables aggregation of account balances ? in both the retail and corporate spheres ? since developers of mobile and web applications are able to ?plug in? to your current account securely, if you give them permission to do so.

Banks are also able to share customer data, with your permission, through ?open APIs?. This complements PSD2 rules that require banks, building societies and other financial institutions to let customers readily and safely share their financial data, including details of transactions and spending behaviour, with other banks and regulated third-party providers. Such providers need explicit permission before they access your data through open APIs, so you don?t have to opt out ? if you don?t do anything your data won?t be shared without your consent.

There are many benefits to the scheme. Apart from making it easier to hold multiple accounts and compare or switch between financial products, Open Banking requires banks to provide exact information about every product they offer in a computer-readable format, so that interest rates, overdraft fees and so on can be processed by third-party apps and comparison websites ? making it easier for customers to investigate and compare different current accounts, credit cards and loans.

The whole process is subject to continual updates and, while the majority of open banking innovation is currently targeted at personal and small business accounts, it will ultimately be extended to cover online payment products such as credit cards and e-wallets, as well as larger corporate banking. Eventually, it should be possible to manage all your financial accounts through a single digital platform, with the possibility of being able to access personalised services such as avoiding charges or boosting savings by automatically moving money from one account to another ? even in the corporate sphere.

Is it safe? Yes, it is just as safe as online banking. APIs are tried and trusted, and account

providers are legally required to use strong customer authentication. In short, open banking is the start of a new, more competitive digital era for financial services. However, looking beyond PSD2, which has acted as a lever, a lot of new API-based value added services developed by the financial industry are on the rise in the market.

We at BNP Paribas see three main areas in which APIs could appeal to our corporate customers, and complement their existing e-banking solutions. We are working on piloting APIs with our corporate clients to enable them to:

- - initiate instant payments: our corporate customers will be able to take advantage of instant payments by embedding the payment processing in the business value chain (e.g. payment at delivery, reimbursements, etc)
- - have a real-time visibility on liquidity positions, richer payment initiation and tracking capabilities
- - go beyond and complement the classical account information reporting or payment initiation functionalities, for example for beneficiary validation.

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Application programming interfaces, or APIs, are constantly mentioned in financial circles today, but just what are they? They are certainly no passing fad and they offer treasurers new ways of working, moving on from batch processing into a real-time environment, facilitating more efficient payments and delivering working capital management benefits ? as well as the ability to seamlessly interface with different systems.

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