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From open banking to open finance



Liliana Fratini Passi
CEO, CBI SCPA

9 hours ago



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This is an excerpt from Finextra's report, 'The Future of Payments 2022: The cutting edge of digital payments'

Over recent years the global payment landscape has changed radically, with consumers increasingly turning to digital solutions. Due to the reduced use of cash, increased knowledge and confidence in digital payments, customer demands have reshaped the banking and payment industry, beyond the regulatory obligations of the PSD2 directive, requiring banks to innovate both in terms of technology and mindset, in order to remain relevant and competitive, against expanding fintech and BigTech operators.

Embracing the technological revolution

Consequently, banks have needed to review their traditional business models and embrace the technological revolution, through new partnerships with market incumbents and newcomers in the field of innovative technologies, which provide for new VAS for consumers, in what has become a data driven, transactional and networked economy.

In this scenario, open banking has both fostered digitalisation and a cultural awakening towards the benefits of new collaborative ecosystems, in which the interconnectedness of each player can gain and contribute to sustainable, circular economic growth and value creation, through enhanced services, increased frictionless and secure functionality and interoperability. It is clear that in what remains a rapidly changing market landscape, in which disruptive innovation is both increasing competition and blurring



Liliana Fratini Passi

CEO
CBI SCPA

Member since 18 Mar
Location Roma

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industry lines, open banking not only represents a 'win-win' scenario for banks and customers alike, but an inevitable first step towards open finance.

Irrespective of whether open banking has been driven by regulation or market players, and its state of maturity and approach taken, open banking represents a global phenomenon, with over 60 countries adopting open banking and open data measures, and an estimated 24 million users worldwide.

Notwithstanding these statistics that highlight the potential of open banking, the Italian market is lagging in realising the full and transformative nature of open banking, and its contribution to meeting current and future customer unmet needs.

To this end, and until recently, a short-sighted approach of open banking was adopted in Italy, focusing on regulatory compliance of the PSD2, rather than on the positive value, or the disruptive consequences of innovative technologies to the financial services industry.

The emergence and diffusion of new data sharing models

The international emergence and diffusion of new data sharing models, supported by innovations such as decentralised transaction validation technologies and biometric identification systems, all point to further disruption in Financial Services, with a distinct possibility and opportunity of open banking transitioning towards open finance. The EU digital finance strategy and UK's FCA Open Finance Consultations of 2021, all point in this direction.

While open banking in Italy is still in a nascent phase, banks and financial intermediaries that wish to retain market share, will need to rapidly strengthen collaborations with third party and technical providers, so that they are able to deliver a broader range of financial services to customers.

The agenda therefore moves from connecting application programming interfaces for the purposes of payments, to sharing different-if not all-layers of customers financial data over a shared network that which ultimately lead to greater transparency, competition, and customer choice.

Building upon the advancements in secure data sharing technology that have created digital payment ecosystems, our goal is that of layering shared functionality over a broader set of data, thus connecting products and services, which simultaneously create a new level of openness and permit a wider financial footprint.

It is thus clear that open finance is the next level of disruptive innovation in the financial industry, which banks will necessarily need to endorse to match the position of trust they currently enjoy with that of a competitive player in an increasingly transactional and digital marketplace.

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