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Open models: Transforming the future of payments

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In recent years, the payments market has been going through a period of major transformation, first with the creation of the SEPA (Single Europe Payments Area) and then the entry into force of the PSD2 Directive, now under review.

This has opened up new scenarios in the offering of increasingly innovative services and fostered the development of new paradigms, such as open banking.

Open banking has paved the way, giving rise to an open ecosystem that enables the exchange of data and information among its member providers.

Thanks to the expansion of the financial dataset available, which is no longer only related to payments, we are witnessing the evolution of open banking towards open finance, a model in which authorised third-party providers have access to information provided by banks, subject to prior customers' consent.

For example, when it comes to savings contracts, mortgages, pensions, insurance, loans, investments, equities and beyond, this new methodology allows Third-Party Providers (TPPs) to create customised and user-friendly financial products and services that align with consumer demands and preferences.

Moreover, open finance serves as merely the subsequent phase in the progression towards a completely open ecosystem.

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Regulatory landscape and new frameworks

Regulators are also pushing in this direction. The European Commission has expanded the changes introduced by the PSD2 by launching new initiatives with the goal of enhancing services and business models based on data sharing, starting from the payments sector.

More specifically, the EU aims to improve customer experience and increase financial inclusion and transparency whilst strengthening interoperability and security.

Following a series of public consultations and impact studies, on 28 June 2023, the Commission published its proposal for a regulatory package to replace the PSD2 framework, comprising a new Payment Services Directive (PSD3) and a Regulation (PSR).

The main objectives include reducing market fragmentation by strengthening and implementing rules in the member states; increasing the protection of Payment Service Users (PSUs) from the [risk](#) of fraud, and improving competitiveness in the payments landscape by reducing barriers for payment service providers and their competitive disadvantage to traditional banks.

The PSR also highlights a separate legislative proposal called the Regulation on Instant Payments. This proposal was released by the Commission in October 2022.

It mandates that Payment Service Providers (PSPs) must offer services for Instant Payments. This is in addition to the non-instant [payment](#) options that are already available to PSUs.

Given the mandatory nature of the Sepa Credit Transfers (SCT), this means that SCT Instant will also become mandatory for PSPs in the SEPA area.

This draft also defines that all instant credit transfers will need to be accompanied by a Confirmation of Payee (CoP) service offered by the payer's PSPs to their users, both for domestic and [cross-border payments](#) in euro.

Finally, the Financial Data Access Regulation (FIDA) aims to encourage the provision of more innovative financial products and services so as to stimulate competition in this sector.

These regulatory proposals will be negotiated by the European institutions, and the timeline for their implementation is still distant, but the path seems to be set.

It is clear that the new measures will strengthen competition in an increasingly "open" market. Therefore, to remain competitive, players will have to increase their focus on innovation

Hand in hand with standardisation

Additionally, the spread of open banking and open finance has also occurred simultaneously with the proliferation of open API standards globally.

Standardisation activities are aimed at defining a common set of rules to facilitate the integration between market players, competition between incumbents and newcomers, and the application of security standards.

Thus, API standardisation has a significant impact on how an "open" regime is received by the market, as well as its overall success.

These standards have found application in market infrastructures aiming at facilitating integration between market operators.

Due to the progress made by these initiatives, financial institutions (FIs) now have access to a set of guidelines that outline how to use and implement APIs in a way that meets current regulations.

In this scenario, taking into account the ongoing legal framework, the overall market is already responding to new regulatory requirements to undertake or embrace new business opportunities.

However, it is desirable to create single, centralised solutions, that aim to enhance interoperability and reachability at least across Europe, considering that the market is already moving with proprietary solutions.

This is the case, for instance, of the COP services, already implemented on the market by several platforms.

Drawing on its experience in Italy, CBI, a public limited consortium company and benefit corporation comprised by nearly all the Italian financial institutions, has been developing innovative services in digital payments, open banking, and open finance.

Within this ecosystem, CBI has already introduced the "Name Check" Service to the market. This service enables real-time, online verification to ensure that an IBAN Code correctly matches the account holder's full name.

The service allows peer-to-peer connection enabling real-time verification of updated data. The solution is based on a centralised and advanced algorithm and [API](#) interfaces which allows an easy integration of the functionalities.

The solution is available to all the PSPs interested in utilising an advanced COP solution, is highly interoperable with other domestic schemes and is easily embeddable within the PSPs' payment flows.

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Moreover, CBI is now expanding this service to the European level and beyond through the use of Swift's Payment Pre-validation service. This collaboration will enable a broader verification network and a higher level of security for financial services users.

CBI is also developing additional solutions, such as VAT code verification, digital identity management, online onboarding, and compliance measures like KYC (Know Your Customer) and AML (Anti-Money Laundering). These are offered through platforms like CBI GO and the IBAN Check solution

The latter allows verifying the correct correspondence between Tax Code/VAT Number and IBAN Code, and to date, has registered more than 15 million IBAN verifications. These verifications have supported banks and PSPs in anti-fraud activities, with an average growth rate of 110% between January and August 2023.

Moving forward, it is important to have clear implementation guidelines that can guarantee interoperability between the different market solutions.

Moreover, considering the new market scenario in which [digitalisation](#) plays a fundamental role, incumbents must create new ways of collaborating and partnering in an increasingly open market to create innovative products that improve user experience beyond mandatory services.

A collaborative approach leads to multiple benefits: it improves investment efficiency, reduces costs by leveraging existing sector investments, and minimises fragmentation, which in turn saves time and lowers operational expenses.

It also enhances interoperability and ensures more consistent and secure outcomes across verifications. Additionally, collaboration opens the door for new business opportunities by allowing companies to build on shared experiences and connections.

[Application Programming Interface \(API\)](#) [cross border payments](#) [digitalisation](#) [open models](#)

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CBI Managing Director, Vice President of the United Nations Centre for Trade Facilitation and Electronic Business and the Italian Representative at ISO Technical Committee 68 Financial Services and ISO20022 RMG. She also holds positions of an Independent Board Member of companies. For over twenty years she has been the author of numerous articles and papers also in the international press, key note speaker, recognized opinion leader in the field of digitization of financial services, Electronic Payments and Open Banking. In 2021, she was included by Forbes Italy among the "100 influential Italian women of 2021", nominated among the "Inspiring Fifty Italy" as a "role model" in STEM subjects, awarded Women in Finance - 2020/2021 Italy Awards in the category "Woman in FinTech of the Year" by the British Embassy in Italy, Freshfields Bruckhaus Deringer, Lener & Partners and Borsa Italiana, through the vote of an exceptional jury from the Italian institutional, financial and business world, as well as awarded by Le Fonti TV as "Managing Director of the Year - Banking".

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