

THE OPEN BANKING AGENDA - 2021

An Infosys point of view
Aug 2021



Prologue

Open banking is disrupting banking operating model in a revolutionary way. Some of the key changes observed include

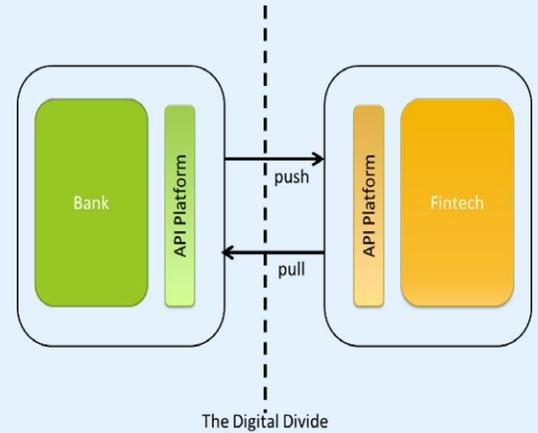
- Commoditization
- Technology as the key enabler
- Regulatory push
- Continuous flux of change in the way banking services are offered and consumed

Current practices by banks

- Predominantly reactive - collaborating or acquiring fintech to retain the market position in a knee jerk fashion.

Change required

- Review at foundational level – layers of operating model.
- Leverage of three layers of functional architecture (Systems of engagement, Systems of differentiation and systems of record) for review
- Bring in outside-in perspective and structured
- Increase the frequency of strategy reviews /reduce the gap



This is a position paper, to help aid the banks in reviewing their operating model and potentially add data points into enterprise strategy for at least next 3 years if not longer. Our tool kits could aid in providing a structure to this assessment process

Open Banking Market Trends

More than 700 Mil API calls per month were recorded in UK by Dec 2020.

Key drivers:

- PSD2
- Open banking directive

Non-banking businesses offering banking solutions commoditizing the banking. Ex: payments in uber app or buy-now-pay-later by amazon

APIs:



Market places



Traditional banking frontend is being challenged by marketplaces and challenger neo banks/digital only banks, resulting in synergies and unconventional partnerships

Embedded Finance

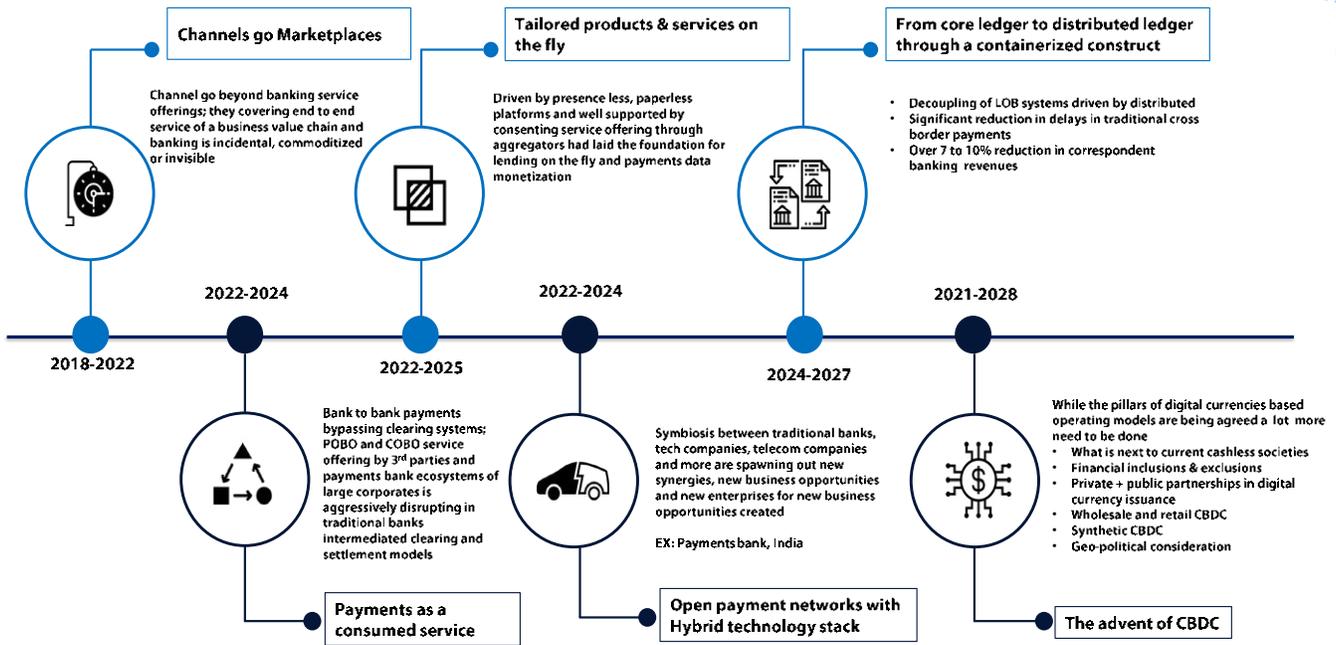


Banking/ payments as a service



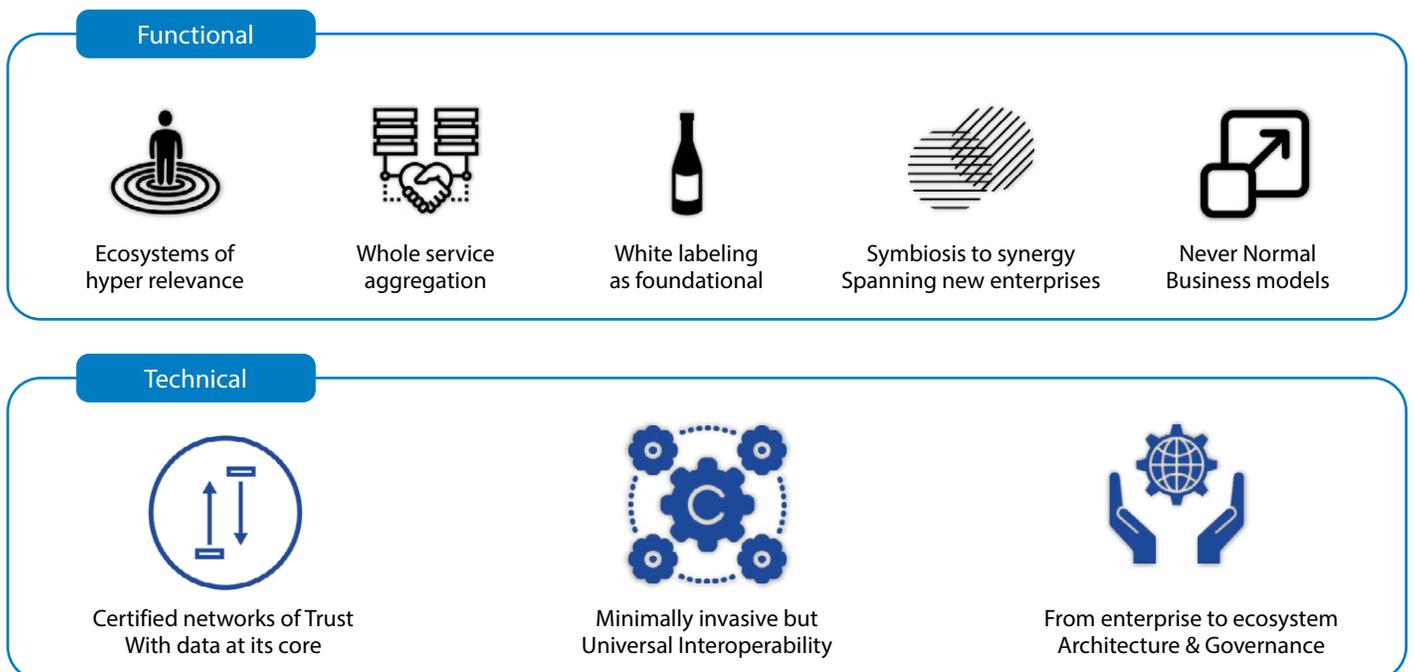
Enabling the enablers through support ecosystem and bank to bank payments is disrupting the traditional models of clearing & settlement and more

Emerging banking operating models and changing business architectures



Trend 1 - Channels Go Marketplaces

Channels go beyond banking service offerings; they cover end to end service of a typical business value chain and banking is incidental, commoditized or invisible



Trend 2 - Payments As A Service Key Tenets

Bank to bank payments bypassing clearing systems; POBO and COBO service offering by 3rd parties and payments bank ecosystems of large corporates is aggressively disrupting in traditional banks intermediated clearing and settlement models

Unified solution that can facilitate "Pay with/ by anything"

Omni channel experiences across the payment instruments

POBO & COBO extension

Bank 2 Bank Payment rails

An e-commerce solution like design at heart

CHOICE TO ADD/REMOVE TERMINALS ON THE FLY



Counter-top POS



Hand-held



Un-attended



QR Codes



Pay by link



Mobile-phone

CHOICE TO ADD/REMOVE TERMINALS ON THE FLY



Swipe



Dip



Tap-n-pay



Pay wave



Scan-n-pay



Request-n-receive



Pay by link



Pay-by-car



Pay-by-alias

CHOICE TO ADD/REMOVE TERMINALS ON THE FLY



Open APIs



Cloud enabled



On-premise



Offline service



Real Time accounting



Real time reconciliation



Real Time dashboards



Omni-channel solution

Trend 3 - Open payment networks & the advent of new umbrella entities

Foundational Capabilities



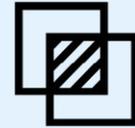
Foundationally provide clearing and settlement for specific schemes or business segments like retail payments



Extend innovative and cost-effective payment methods to the customer or customer's customer segment



Bring in it's own innovate operating models that can provide closed. Open, exclusive and/or inclusive for service types to subscribers

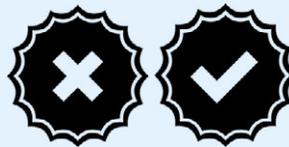


Overlay services for C2B, B2C, G2C and C2G segments that can provide infrastructure for seamless integration new business on top of payment backbone

Value added services



Liquidity for clearing and settlement as a service for incumbent



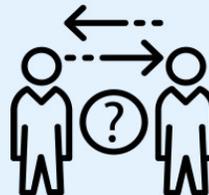
Screening for AML, Fraud and sanctions as a service from the central infrastructure



Message translation and transformation adaptors and plugins for ISO 20022 and beyond



Reporting as a service for the FI and end customer



Dispute management with auto-adjudication, and auto-arbitration solutions as a service

Trend 4 - CBDC Distributed Ledger Based Cross Border Payments

There are various motivation factors observed in different geographies of world which can be construed as a common thread however one factor seems to be emerging as universal winner and here are some



Less cash or near cash less societies of Europe lead by Sweden and Denmark are giving food for thought to respective central banks to experiment with CBDC variants specific to market demands



Threats from crypto currencies to sovereign fiats as perceived by The US and China essentially with lot of entrepreneurs investing token assets to evade transparency and remain anonymous from government authorities



Financial inclusion, reduced tax evasion, money laundering for terrorist activities funding are the key motivators for fast growing economies like India



Steady state increase in GDP, stabilization of business cycles, sensitivity towards cost of producing and safe keeping of Fiat currency in the backdrop of reduced physical cash usage over electronic payments are the key thinking factors of Bank of England



Geo-political dominance through preferred currencies of international trade is gaining momentum in the backdrop of fairly advanced movement of China's Digital Yuan



Issuance & Storage

CBDC injection or withdrawal from economic activities could be quick and fast but who will own the issuance? Government, Central bank on sovereign debt or private parties with pledged collaterals is still being empirically tested. Impact of it on interest rates is really impacting the balance sheets of the banks

a central bank is issuing currency without private parties)

- Reduces the counter party risk
- No need of posted collateral against that
- Costs associated with physical currency printing, shipping and storing can be taken to Zero lower bound /nominal interest rate

- Reduces the current friction between currency issuance, clearing houses, banks



Real contribution to GDP

Central banks in the Europe where the motivation for CBDC has gone the 2nd and 3rd level, are thinking to use this as a secondary policy instrument. Bank of England is thinking of issuance of CBDC with a specific ratio of GDP and at lower interest rate. However, Denmark and Sweden are looking at CBDC to create new commercial credit instruments



Reduced costs of Transaction services

A CBDC system would potentially allow final settlement directly between payee and payer across central bank's balance sheet. (If



Operating time of the CBDC payment system

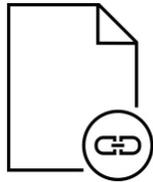
The central infrastructure would be with expanded functionality set which includes 24x7

- Clearing and settlement that seamlessly weaved into currency issuance, accounting on central or distributed ledgers or balance sheets

Trend 5 - ISO 2022 Messaging Standards



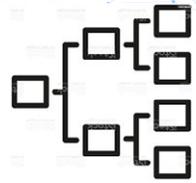
Layered message model provides the flexibility to accommodate more and innovate



Capability to link and embed documents



Data in more quantity & granularity allows for data-driven decisions and understanding customer preferences



Extended data set covering structured address, structured remittance information and invoice information



With structured data, **screening & AML processes can be fine tuned** to reduce the false positives, exceptions, and improve the STP rates



LEI as a global identifier uniquely identifies legal entities and enhances STP, fraud detection and AML process streamlining



Harmonization of payment formats across domestic and cross-border schemes helps better interoperability amidst various CSMs



New parties - **Ultimate Debtor, Ultimate Creditor and Instructing Party** enhance traceability and data identification



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