

The Future is Open Banking

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Open Banking is the most consequential technology innovation in financial services in the last 30 years, enabling financial institutions to create new revenue opportunities and reach new markets. Today's consumers and businesses are demanding seamless management of their financial experiences and expect the benefits of personalized digital services. If community financial institutions are to remain relevant and sound in the future, they will need to offer better user experiences and diversify their revenue streams.

Open banking is the next generation set of technologies that enables the kind of change the future demands.

What is Open Banking?

Open banking is a business strategy for the future. As the financial industry transforms into a platform economy, open banking opens doors for community financial institutions to create new ways of acquiring and expanding relationships with their customers and members. Additionally, it creates an opportunity to reach new customers and members outside geographic boundaries.

There are several ways to define open banking, but many seem to miss the mark by defining it in strictly technological terms. Open banking is a business strategy that centers around better anticipating and meeting the needs of consumers and businesses.

Since open banking is all about the users of banking services, it should be defined as such – *A set of technologies that give consumers the experiences and the tools they need to enhance their financial lives.*

One way open banking moves the financial services industry forward is by enabling community *financial institutions* to reach new consumers by expanding their delivery channel network via fintech partnerships. This is called embedded finance.

Additionally, open banking allows financial institutions to expand their services to their existing customers and members who are increasingly more discerning and want more from their financial institution. This is called embedded fintech.

Why Do Your Customers and Members Need Open Banking?

- **Integrated→Embedded:** Gone are the days of a complex integrated network of connections between systems that look and feel entirely different. With open banking, new capabilities become embedded into the existing financial services experience. No matter what the consumer does in that experience, it feels and acts the same way, so it's seamless.
- **Commoditized→Personalized:** Move away from a world of commoditized products that are identical across institutions and consumers - and create distinction. With open banking, consumers experience personalization and tailored products that are based on their individual needs.
- **Closed Systems→Open Systems:** Interoperability is inordinately difficult, if not impossible, in closed systems. Integration, new product innovation, and product launches become vastly easier and faster with open banking.
- **Reporting→Analytics:** With open banking, financial institutions can access and analyze data in real-time. Data can be pushed out to the consumer or a decision-maker inside the financial institution on a need-it-now basis. Open banking gives consumers the faster service they want.
- **Monologue→Conversation:** With open banking, communications between financial institutions and their consumers shift from monologues to two-way conversations, helping build relationships and loyalty. The consumer can make a balance transfer in their mobile banking app, and the financial institution can respond with personalized, customized messages, such as advising that their tax refund has been received and offering a video chat to discuss savings goals.

- **Transactional→Emotional:** Open banking changes transactional banking to emotional banking. There is a lot of financial anxiety among consumers today, particularly in the Gen Z segment around their own financial future. Being able to offer guidance that's tailored and customized allows you to form bonds and deepen relationships.

For decades, community financial institutions have used innovation models centered around products, i.e., deposits, loans, and payments. It's time to innovate around both products and the consumer experience faster than ever before. Everything that's available in a branch, over the phone, or online must also be available on the mobile device of choice. Open banking is foundational to mobile innovation.

A recent [Finastra survey](#) showed most U.S. financial institutions consider open banking essential, with 56 percent saying it's a must-have. That's up from 45 percent in 2021. It was also reported that 100 percent of those who have already integrated open banking say there has been a significant impact on their organization.

Benefits of open banking to consumers:

- Single financial experience
- Personalization
- Budgeting and saving in a fun and meaningful way
- Faster verification
- Seamless engagement
- Secure transactions
- Controlled accesses
- Ability to opt-in, receive intelligent alerts, and get advice
- Everything mobile first

Core System Readiness

Whether or not you change your core system will depend on the core you have and what you want to accomplish. In embedded finance, the fintech partners own the experience. Can your core support interoperability with the fintech? In embedded fintech, the financial institution owns the experience. Can your core and digital channel solutions support interoperability with the fintech?

A readiness assessment is essential, and you will have to dig deep and drill into whether these systems will be fintech-ready going forward. Evaluate both your core and your digital banking systems.

Next Steps

1. To get on the path to open banking and become competitive in the fintech era, elevate open banking internally; the initial discussion belongs at the management and board level. The goal is to embrace this evolution for future growth and to be able to compete with larger financial institutions.
2. Partner with financially sound fintech talent who can think out of the box and articulate value to your customers and members. Evaluate all of your technology vendors, too. Just because they were a great match before doesn't mean they will be as you move forward with your open banking strategy. Make sure your technology partners have bench strength.
3. Retire any technology that holds you back. That doesn't mean a complete systems replacement, but as technology evaluations shift beyond functionality to interoperability, choosing technology partners that support your new strategy will be essential.

Final Thoughts

Open banking is introducing much-needed change to the financial services industry, giving financial institutions the building blocks to craft digital experiences that match the needs and wants of today's consumers and businesses. We will see more technology innovation in the next five years than we have seen in the last 30 years, and as seasoned consultants, we are excited to be a part of this exciting change on behalf of our clients.

About the Author

Over a 25-year career, **Virginia Heyburn** has been at the forefront of advising technology companies on innovation opportunities to solve complex banking problems and to improve the customer experience. In parallel, Virginia has served as a strategic advisor to financial institutions, helping them create essential distinction through rapid adaption to industry and consumer trends, business drivers, and technology change.

To schedule a time to speak with Virginia or one of our other consultants about your financial institution's open banking strategies, please call us at (844) 415-7962 or [click here](#) to book a call online.