

Be prepared for a banking revolution

The arrival of open banking will create new opportunities for fintechs and forward-thinking banks to offer innovative services. **Chris Price** reports from the Huawei Eco Connect conference in Berlin on this brave new world

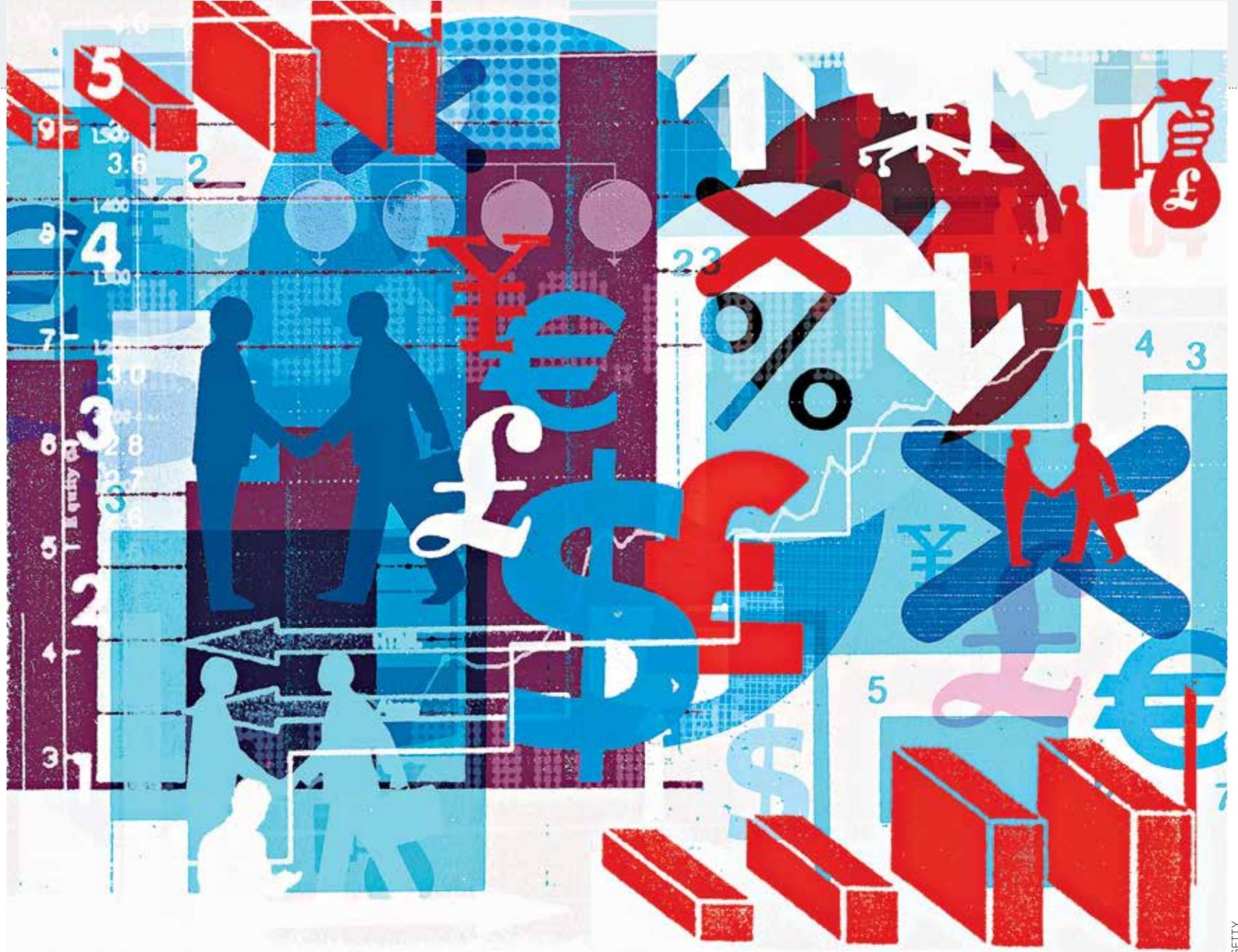
Telecommunications were opened up when third parties were allowed access to BT's telephone network in 2005. Now the banking sector is on the verge of a similar revolution. On 13 January 2018, Europe's Second Payment Services Directive (PSD2) will come into force, allowing third-party access to banking data through three APIs (application programming interfaces). These include PIS (payment initiation service) for initiating money transfers, AIS (account information services) for accessing data on customers' accounts and PIIS (payment instrument issuer service), an accounts balance check. Currently third parties such as

fintechs (financial technology companies) are able only to provide banking services using "screen scraping", whereby account information is accessed by a third party using the customer's credentials illegally.

But with the introduction of the new open banking interface under PSD2, fintechs will eventually have to use one of the APIs. This is much more secure than screen scraping and will require a licence from the Financial Conduct Authority. "They will be able to access the data with your consent and that will change the world of banking," says Michael Salmony of the payment services provider equensWorldline. "What we're going to get is an app store on top of banks."

ONE-STOP SHOPS

Inevitably, some "apps" will be aggregation services giving customers an overview of their various accounts in one place. HSBC is already trialling a portal giving customers a window into all their



bank accounts. Other banks and fintechs plan to follow suit with aggregation services. It's also likely there will be optimisation services that will use the latest Artificial Intelligence (AI) technology and big data to maximise returns from, say, a portfolio of shares, by predicting price changes.

PREDICTING THE FUTURE

We will also see many unexpected, new developments in open banking. "It won't just be boring old online banking," says Mr Salmony. "One fintech plans to offer horoscopes. They just want your date of birth which they can get from your customer details held by the bank."

Social media companies, including Facebook and WhatsApp, are expected to enter the fray. For example, across Asia nearly one billion users are registered to use

China's social media giant WeChat for making payments online and offline in restaurants and bars.

"Money isn't used by millennials in China, they just use their smartphone or smartwatch," says Jeff Jiang, senior vice-president, western Europe, of Huawei, a Chinese tech firm that supplies infrastructure for digital banking, including cloud computing and big data analysis.

Speaking at Huawei's recent Eco Connect Conference in Berlin, Mr Jiang told delegates that about 80pc of transactions in China were made by mobile phone or smartwatch, with retinal scanning also being trialled by Chinese banks.

Inevitably, opening up banking data to third parties will lead to cyber-security concerns. But Mr Salmony says there is much less risk than under screen scraping. "Although we will be giving more

people access, this will be done in a much tighter way with APIs and two-factor authentication."

EMBRACING CHANGE

While customers will get a range of innovative services from new providers, for established banks these are uncertain times. "I am worried about the effects of PSD2," Fernando Garcia-Quismondo, one of Santander's group technology directors, told the conference. "There is the risk banks will not be doing banking any more; that they just become a platform."

Amin Lalani, CIO, financial services sector, Huawei, says banks must embrace the future. "Whereas companies like Facebook introduce around 4,000 changes a day to their platform, banks probably make 400 a year," he says. "They have to change

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the way they work as well as their entire organisational culture."

But many believe PSD2 will create opportunities for banks. "Banks shouldn't be afraid; they could end up being the winners of this," says Mr Salmony. "Smart banks are going to be like fintechs, analysing their customers' various accounts and offering better deals, while the banks that don't get it will sit cowering in a corner with all the others attacking them and reading their data."

Find out more at huawei.com/uk



SMART THINKING
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