

BASIQ

Four new use cases for Open Banking's future

WHITE PAPER | OPEN BANKING

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Introduction

The Australian Consumer Data Right (CDR) is an exceptionally forward-thinking policy. The current implementation of the CDR across the financial services industry – or Open Banking – has facilitated a fundamental shift in the way consumers interact with their data. Open Banking has prompted significant investment at a Federal Government level, which has precipitated large transformation programs for Banks and major strategic shifts within Financial Technology companies. There are many papers on Open Banking’s current state that can provide additional context ^{1 2 3}. Rather than describe the current state of Open Banking, this paper attempts to predict the future of Open Banking in Australia, cemented in four novel use cases.

¹ <https://blog.basiq.io/current-state-of-open-banking/>

² <https://www2.deloitte.com/au/en/pages/financial-services/articles/open-banking.html>

³ <https://www.ausbanking.org.au/priorities/open-banking/>

SECTION 1

Open Banking context

Scraping the surface of Open Banking

Historically, consumers have only had the ability to interact with their data via technology known as ‘screen scraping’ or ‘digital data capture’ (DDC). DDC has significantly influenced the design of the Open Banking APIs which are currently laid out at an industry-wide level, including the management of consent, penalties for misappropriating consumer data and accelerating the innovation of financial technology companies in Australia. DDC has brought to life a number of groundbreaking Financial Technology products and services that have empowered consumer choice, signalled profitability for startups and managed the data in a safe and secure manner. ASIC greenlighting DDC⁴ was a critical component of Open Banking’s evolution and provided several lessons on how to best manage sensitive financial data.

Open Banking is here

The progressive roll-out of Open Banking has resulted in significant regulatory changes occurring in the financial sector. From a regulatory perspective, Open Banking began with the Murray (2014) and Harper (2015) reviews, the Productivity Commission inquiry into Data Availability and Use (2017), the Farrell Report (2018) on the proposed establishment of the CDR, the CDR under Treasury Laws Amendment (Consumer Data Right, 2019) and more recently the Competition and Consumer (Consumer Data Right) Rules (2020⁵). Financial institutions have been increasingly compelled to ensure their customers are empowered to share their data when and how they want, so they can identify products and services that will deliver value for them.

If consumers feel safer sharing their data without providing their login credentials, then optionality and choice are critical (even if the end-user experiences are often the same). Given the demand for optionality, companies that have DDC capabilities such as Basiq have built the rails to switch on Open Banking as soon as the APIs are ready. Basiq recently achieved status as an Accredited Data Recipient, heralding an exciting step forward for the future of financial services innovation in Australia. Or, to put it more prosaically, Basiq can now connect to all institutions using Open Banking APIs, assisting financial institutions in accelerating their Open Banking use case and delivering the value of Open Banking to their customers.

⁴ <https://www.afr.com/companies/financial-services/asic-accc-give-green-light-to-screen-scraping-20200228-p54588>

⁵ <https://www.oaic.gov.au/consumer-data-right/cdr-legislation/>

The mindset shift

It should be noted that the introduction of Open Banking is just the first step on the journey to Open Finance. The Open Finance era will be one in which consumers are both empowered and educated to trust their data to third parties, safe in the knowledge it is being shared within a well-governed and consent-driven regulatory framework. KPMG defines Open Finance as “*the term used to describe the extension of Open Banking data-sharing principles to enable third party providers to access customers' data across a broader range of financial sectors and products*”⁶. When it materialises in the coming years, Open Finance will represent the full flowering of Open Banking.

Open Banking's roll-out

A valuable tool to understand the growth and rollout of disruptive innovations is presented in Gartner's ‘hype cycle’⁷. As the name suggests, the hype cycle states that new technologies typically cycle sequentially through the following five stages: the Technology Trigger, the Peak of Inflated Expectations, the Trough of Disillusionment, the Slope of Enlightenment and, finally, the Plateau of Productivity.

We can apply the hype cycle timeline to Open Banking's Australian roll-out to understand what stage we are currently at and where we are headed, see Fig 1.0 on the following page:

⁶ <https://home.kpmg/xx/en/home/insights/2020/03/engaging-with-open-finance.html>

⁷ <https://www.gartner.com/en/research/methodologies/gartner-hype-cycle>

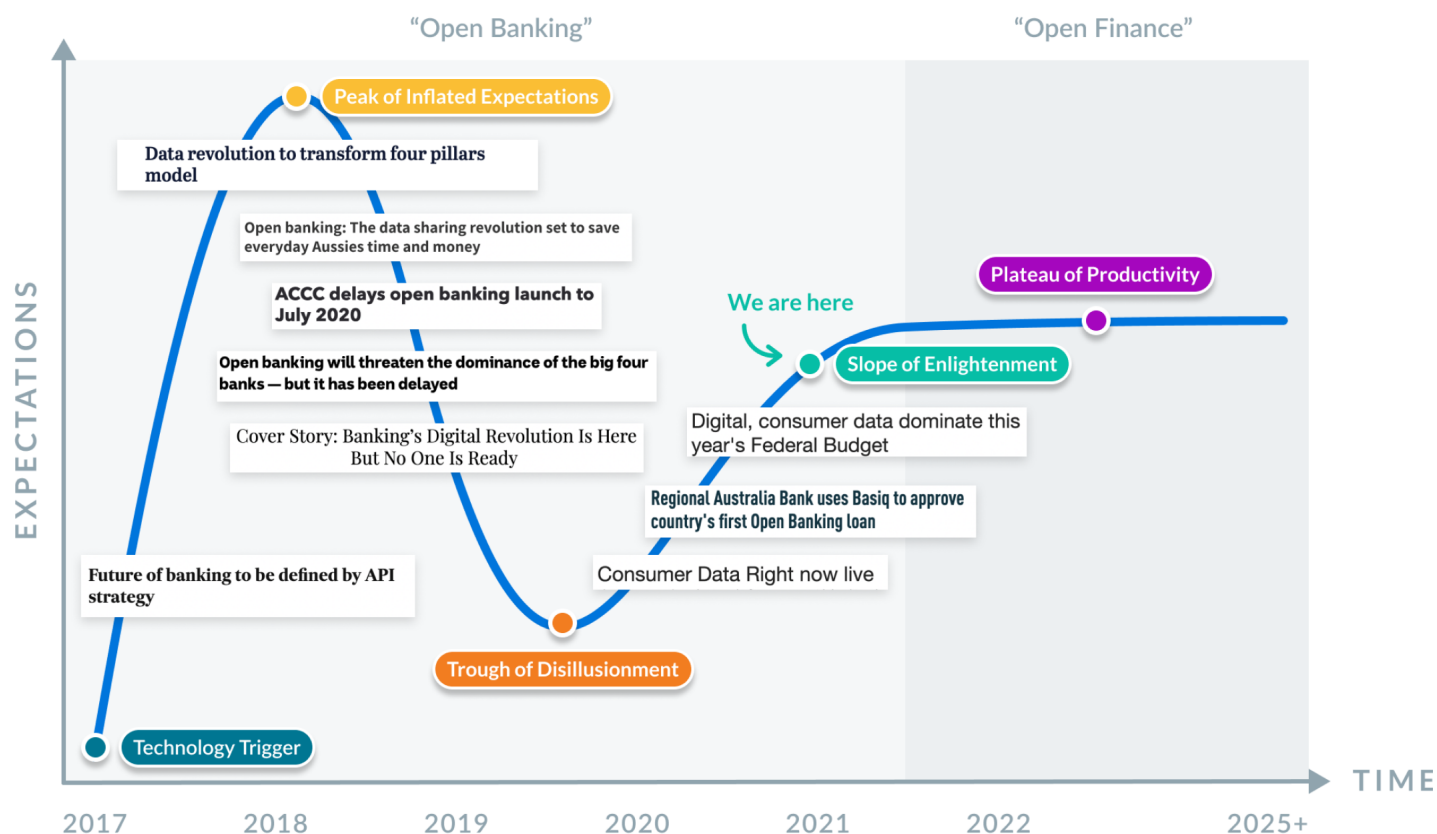


Figure 1.0 - Open Banking's Hype Cycle

References can be found in Appendix.

(a) Technology Trigger

APIs are a key component of Open Banking's 'Technology Trigger'. API-driven architecture, especially when paired with cloud computing, has driven significant technological changes for financial institutions. This is often seen in the organisational and technological implementation of 'monolith vs microservice' architecture. Or moving from one large service to a suite of smaller, individual services.

Open Banking's core proposition was achievable through DDC and API integrations. But the fundamental difference with the technology now being embraced is that the process of capturing the data is provided by a bank's Open Banking API, as opposed to capturing it from a bank's website, for example. There are also non-functional benefits, such as increased reliability to a bank's connectors, as well as the inclusion of richer data, such as payees and scheduled payments.

(b) Peak of Inflated Expectations

The advent of API-driven architecture saw the rise of potential use cases maximising the benefit of Open Banking rails. Many industry observers predicted significant changes.

Many industry observers predicted:

- The disintermediation of banks
- A complete decentralisation of the Big Four (i.e. ANZ, Commonwealth Bank, NAB and Westpac)
- Big Tech companies usurping market share from financial institutions
- Smart apps that can manage an individual's finances autonomously

Ultimately this period of excitement assisted the promise of Open Banking, yet it resulted in adopting a large number of use cases that were already possible via DDC. Examples include product and service comparison, account verification and reduced loan processing times. Nonetheless, this was a critical stage in the evolution of the Open Banking regime and influenced several strategies financial institutions still follow.

(c) Trough of Disillusionment

After the initial excitement, the finance industry confronted a range of difficulties in facilitating the liquidity of data across major institutions. One of the big selling points of Open Banking was that it was meant to increase data sharing across financial institutions outside of the Big Four. However, delays to internal implementation projects meant that the Open Banking timelines were consistently pushed back.

Consent and privacy are, and will continue to be, central to Open Banking. The consent framework outlined by the Farrell inquiry⁸ has been a big step forward in answering questions such as, “Do you own your data?” and, “What are the rules for consent?” Once it was clear customers had a right to their data, alongside the right to share it securely, Australia’s banks embarked on profound internal transformation programs to supply data via APIs in a secure manner. This resulted in significant delays in the rollout of Open Banking and saw timelines for publicly available data pushed out to June 2020, well past the expected due date.

The good news is that the processes are now in place to accelerate data-holder participation, the release of more complex data types, and consent rules – notably ‘action initiation’. The bad news is that getting CDR accredited will be even harder for fintechs than it has been for (well-resourced) banks. Basiq estimated the average fintech will need to spend around \$100,000 to get accredited. Once they are accredited, there will continue to be significant costs, in terms of both money and time, to maintain accreditation and satisfy auditing requirements.

⁸ <https://treasury.gov.au/publication/inquiry-future-directions-consumer-data-right-final-report>

Unsurprisingly, this has resulted in a low uptake of CDR accreditation amongst fintechs. Many of them are focused on building out their product suite and don't have a lot of bandwidth left to engage in an arduous and time-consuming accreditation process.

Given Open Banking will be an anticlimax if barely any fintechs are nipping at the heels of the banks, the CDR is moving toward accepting a sponsorship model with a set of different tiers of sponsorship available. Under a sponsorship arrangement, a CDR-accredited business can sponsor (i.e. take responsibility for) another company's CDR obligations. The amendment proposal relating to the sponsorship model is currently in review. If the proposal is accepted, Australian fintechs will be able to gain CDR data – at a raw or insight level – without needing to be an Accredited Data Recipient (ADR). This is similar to the New Payments Platform's (NPP) accreditation process, specifically how *'Identified Institutions'* can perform NPP payments via *'Full Participants'*. This alleviates the process overhead and significantly reduces operational overhead for smaller companies who wish to use the NPP.

(d) Slope of Enlightenment

Australia is about to experience a seismic shift in innovation.

Between July 1, 2021 and February 1, 2022 (i.e. the date that 'full data transfer for consumers' will be available), the Open Banking rubber will start to hit the road in Australia. There are a plethora of promising use cases that can utilise the consent framework and data sets now available to financial institutions. Not only are businesses beginning to conform to Open Banking rails, but regulatory bodies are hoping that Open Banking will yield economy-wide benefits. (The Federal Government committed \$111m to CDR in the recent Federal Budget⁹ in the hope of fast-tracking these benefits).

Australia is about to experience a seismic shift in innovation. This will mean consumers have a lot more options, in no small part because of the inevitable unbundling of a large number of products currently provided by the Big Four. This is undoubtedly the most exciting part of the Open Banking journey and it will involve innovations that are outlined in Section 2.

As innovative products and services are released, consumers will become far more aware of (i.e. enlightened about) the benefits of Open Banking. Once the data-sharing regime is completely rolled out, consumers will be able to better understand how and why their data is used. (This will be a welcome change from them ticking the 'I accept the terms and conditions' box while ignoring endless pages of fine print). As consumers start using new products and services, data-sharing granularity will come to be expected within a user experience. To put it another way, consumer uptake, in tandem with use cases, will be critical to the future success of Open Banking.

⁹ <https://www.cmo.com.au/article/688321/digital-data-skills-investments-year-federal-budget-get-industry-tick/>

(e) Plateau of Productivity

Open Banking will be bedded down and enter the 'Plateau of Productivity' over the next five years. Now that the infrastructure has been created, at least in the financial sector, and the regulatory framework is ready to be 'scaled up' into sectors such as energy and telecommunications, the platform for productive innovations is ready to be embraced at an economy-wide level.

Consider, for example, the rise of the New Payments Platform (NPP) and how that facilitated real-time payments (both P2P and C2B with the advent of MPS and 'PayTo'). Now, consider how NPP/MPS and the CDR will allow a consumer to, for instance, use an app to analyse their electricity payments, compare the deal they have with their current electricity provider to all the competing deals offered by other energy companies, consent to switching their electricity account to a cheaper provider and facilitate payment of future electricity bills via their PayTo mandate – all in under five minutes! This is the 'Open Finance' future that we will soon be entering.

[To support your Open Banking journey contact Basiq here](#)

SECTION 2

Novel Use Cases

Having sketched out Open Banking's future, it's important to address use cases that will be important in the period from the Slope of Enlightenment to the Productivity Plateau (i.e the coming months and years). Below, we consider four case studies that haven't received much attention but which should be of interest to any Fintech who will be impacted by Open Banking. The new use cases will emerge at the intersection of insights and action and will be made possible through the long-term holding of consents or 'ongoing consent'. Such consents enable real-time continued access to customers' finances.

USE CASE 1

Rules and event-based payment initiation

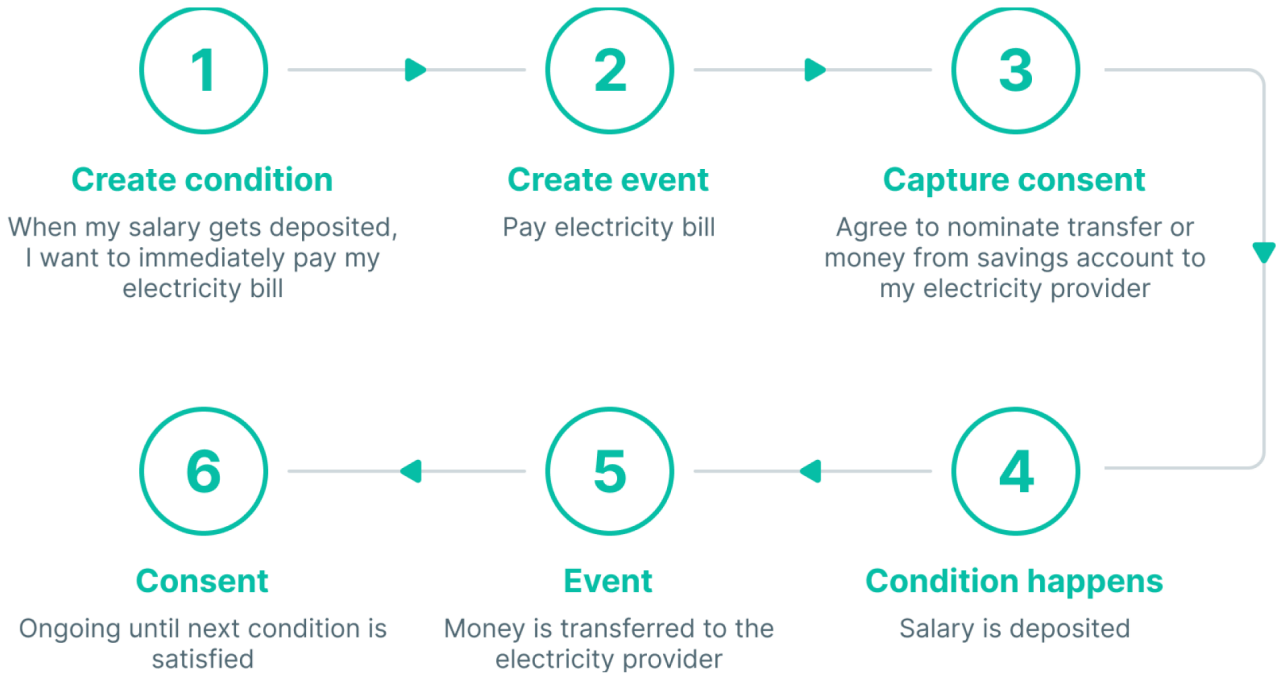
One of the most common use cases in the UK, an early adopter of Open Banking, is combining payments and data. Under PSD2 in Europe¹⁰, this is known as the interaction between Account Information Service Providers (AISPs) and Payment Initiation Service Providers (PISPs). Or, to put it more plainly, the relationship between an account aggregator (e.g. Basiq) and a payments provider (e.g. Split Payments). This allows for actions to occur based on a change in transactional data state, for example.

Australia is yet to see the full potential in marrying these two concepts. Indeed, there is a likelihood that the consent flow to authorise payment initiation should occur in conjunction with data consent¹¹ to make for a seamless user experience.

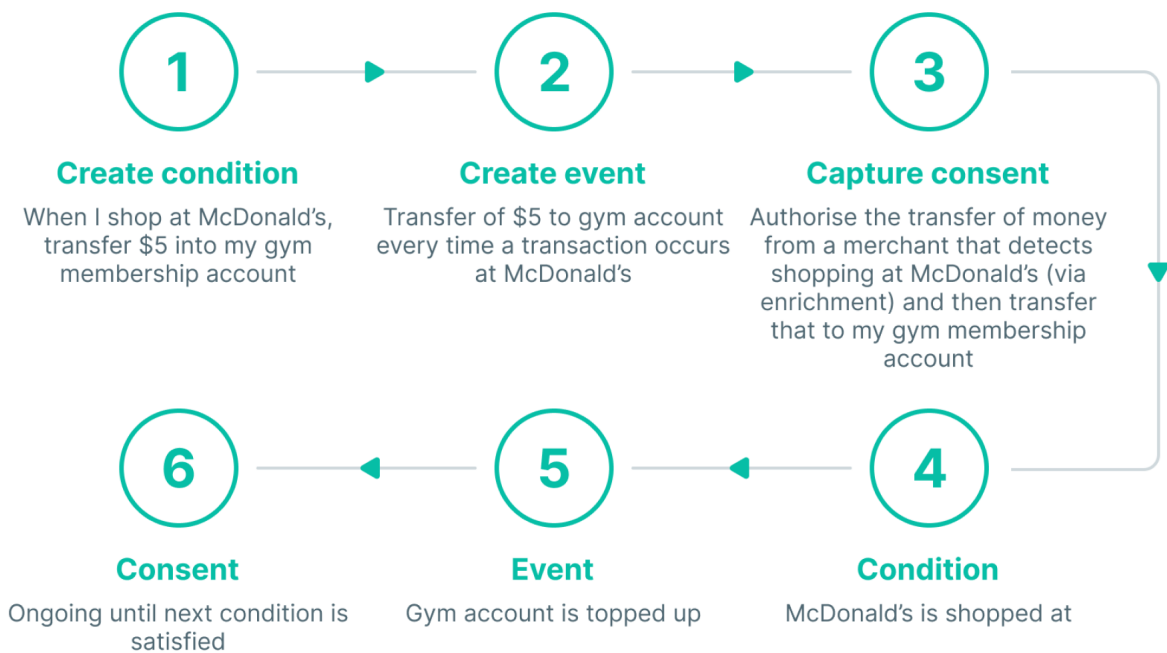
¹⁰ The principles in PSD2 still stands in the UK even post-Brexit, with complications. See: <https://www.americanbanker.com/payments/opinion/brexit-will-create-new-complications-for-psd2>

¹¹ <https://www2.deloitte.com/content/dam/Deloitte/au/Documents/financial-services/au-fsi-deloitte-open-banking-customer-data-170620.pdf>

The following use case is an example of how rules-based payments could potentially be implemented by Australian consumers:



The use case extends:



There are many use cases where payments and data can be combined. For example, you can combine payment and data to smooth bills. And Open Banking payments allows for even more sophisticated arrangements, such as automating your subscription payments (detected via transaction history and disbursed by a payment provider) without having to worry about expired card details and direct debit dishonours. Of course, taking the friction out of paying for subscriptions is just the beginning. With a consent-driven rules engine it is, for instance, straightforward to have a percentage of your salary go towards buying equities every time you get paid.

If what's occurred in the UK and US is anything to go by, there will be an increasing number of financial products and services premised on combining payments and data as Australia progresses from the Slope of Enlightenment to the Plateau of Productivity. (This will be explored in depth in an upcoming Basiq whitepaper.)

Want to set these rules for your customers?

Contact Basiq

USE CASE 2

Dynamic credit risk decisioning

Consent can be captured as a one-off to determine likelihood to service debt. However, it can also be used in an ongoing manner to determine an individual's financial position. Take the example of an unsecured lending product, such as a personal loan. A number of credit rules and risk engines require accessing a credit bureau, on top of an internal risk engine that aligns with the company's risk appetite. With transactional data, income detection can be analysed, and if there is an uptick in income due to a change in circumstances, then a company can proactively reach out to see if the customer wants to increase their repayments on a specific loan, potentially providing a new repayment schedule to service the remainder of the loan.

What data options are available in the market?

Type of data	Description	Credit Bureau data	Comprehensive Credit Reporting data	Banking data
Balance check	Overall view of account balance	✗	✗	✓
Income	Identify all sources of income	✗	✗	✓
Expenses	Understand customer spending	✗	✗	✓
Assets	Identify assets and cash reserves	✗	✓	✓
Liabilities (excl. BNPLs)	Reveal liabilities (exc. BNPL and alternative lenders)	✓	✓	✓
Missed payments (excl. BNPLs)	Regular payments missed and flags raised	✓	✓	✓
BNPL accounts	View of other BNPL accounts a customers has	✗	✗	✓
BNPL liabilities	Remaining payments owed on other BNPL accounts	✗	✗	✓
BNPL missed payments	Missed payments on other BNPL accounts	✗	✗	✓

The converse also applies. If a customer's income declines for some reason, there can be a proactive message or 'reaching out' to the customer to understand more about the change in their financial circumstances and, where appropriate, assist them with arrangements such as payment holidays. If this process can be automated, it could create a positive experience for the customer and transform their relationship with a lender. A relationship that was reactive and perhaps punitive (if the customer is financially penalised for missing payments) can be transformed into a proactive, somewhat flexible engagement where the customer's debt payments can be tied, within reason, to the income they are currently earning. (The customer may even have the option to near frictionlessly switch loan providers if a better deal becomes available.)

The scenario imagined previously is enabled by ongoing consent and completely reframes the lending experience. It could also reduce costs for lenders, especially if they ended up with fewer bad debts and less need to sell bad debt to collection agencies. Although this use case applies to consumer lending, it can easily extend into other adjacent industries, such as salary advancing and mortgage refinancing. In fact, it could even be extended into a risk-based pricing application that varied month to month depending on circumstances.

USE CASE 3

Autonomous personal finance

Transactional data analysis could be used to determine which is the best product for the twentysomething, meaning they automatically get the best value deal possible without having to invest time or money shopping around.

This use case builds upon *Use Case 1* and shows what will be possible once the Open Finance era is in full swing. Autonomous finance appeals most in the Personal Finance Management (PFM) space. In aggregating your accounts, you could run a sophisticated insights engine on top of the transactional data set to determine which subscriptions are due in the upcoming month, and automatically nominate each one to be debited from your account. Alternatively, if money comes into an account, then this can be used to 'bill smooth', or automatically paying part of a bill - or topping up a subscriptions account - to allow for an increased flow of funds once salaried pay arrives. A set of rules set on top of a salary deposit means that all bills can be paid on time, direct debits can check the account balance before pulling funds - with no manual entering of scheduled or recurring payments, reduce risk of dishonours and increased collection rates for merchants. For those who have multiple payments to various accounts - including health, subscription services, transaction accounts - this is especially appealing.

The use case evolves into switching - or having a recommendation on which product or service is best for you.

Take the example of a twentysomething Australian who has just left the family home and is searching for an energy product for the flat they've rented. Transactional data analysis could be used to determine which is the best product for the twentysomething, meaning they automatically get the best value deal possible without having to invest time or money shopping around.

The business providing this service - which is most likely to be a comparison site - can generate affiliate revenue for providing the service. It's win-win all around, except for energy companies that haven't been providing value for money. Of course, consumers have long been able to look at comparison sites and shop around for good deals, but the friction involved meant most haven't bothered. But once consumers don't have to do anything more than tick a box saying they consent to have their transaction data shared, it will be a whole new ballgame. And it's entirely possible that data not currently covered by the CDR, such as vehicle registration payments, could be aggregated in future.

It may not be too long until anybody renewing their vehicle registration via MyGov can consent to receiving a list of the best-value car insurance products on the market. And once businesses have ready access to lots of data on any potential new customer, they will be able to provide personalised offers and a much hyper-personalised experience to that customer.

Ultimately autonomous finance seeks to remove the cognitive friction out of everyday financial decisions.

USE CASE 4

Sustainability scoring for Fintechs

This not only allows for consumers to shop responsibly but also incentivises businesses to reduce their carbon emissions and offset their environmental impact.

Consumers are increasingly aware of the impact their spending and purchasing has on the environment. London & Partners expects Green Finance to be the next wave of Open Banking in the UK, with Australia sure to follow suit¹², noting that 48% of investors care about sustainability, and the city has seen a 250% uptick in funding for green finance companies. Visa's sustainable banking report finds that consumers are demanding four pillars of sustainability within their banking experience¹³: understanding their carbon footprint, offsetting their environmental impact, incentivising behavioural change & anchoring their impact on the world.

A novel use case is that of carbon calculation based on merchant identifiers. For example, the Australian software developer Avarni - a Basiq partner - derives a carbon calculation index based on transaction data, once the user has consented to share their data with the Avarni API. This allows for the generation of a 'carbon score', which means consumers can see how environmentally friendly their purchases have been. It also allows for a holistic view of a user's carbon footprint that takes into account all their purchasing behaviour. This not only allows for consumers to shop responsibly but also incentivises businesses to reduce their carbon emissions and offset their environmental impact. Some businesses are even using this to nurture loyalty to green brands, using an aggregation of green brands as a merchant acquisition tool. It allows businesses to increase customer engagement, gain top of wallet preference, tap into incremental revenue streams and retain and acquire customers¹⁴. Basiq customers can access accurate carbon-emissions data and provide these insights to their end users through one API.

Instilling a social consciousness, paired with driving positive consumer change allows for an impact-driven user experience, which is prized by Millennials and Gen Z. It also bolsters education in the space, creating a positive externality in addition to loyalty. Preparing for future 'green' use cases is incredibly important for businesses to nurture their existing brand relationships, while exhibiting social consciousness.

¹² <https://indd.adobe.com/view/a79279da-3ad9-4ea9-8f5d-14be331b0f81>

¹³ <https://www.visa.co.uk/content/dam/VCOM/regional/ve/unitedkingdom/PDF/visa-sustainability-whitepaper.pdf>

¹⁴ <https://www.visa.co.uk/content/dam/VCOM/regional/ve/unitedkingdom/PDF/visa-sustainability-whitepaper.pdf>

SECTION 3

The future with Basiq

As we enter the Open Finance era, it's important to partner with a provider who is experienced not only in DDC but also Open Banking. Open Banking is presently only scraping the surface of what it can achieve. Many ideas that will be implemented in the coming years have not even been thought of yet.

Fortunately, Basiq's platform is well positioned to support any future innovations. Basiq combines years of experience and a cultural focus on ensuring data privacy with CDR accreditation. Basiq has been through all stages of the Open Banking hype cycle and is now keen to support fintechs looking to take advantage of the business opportunities that will emerge as the roll-out of Open Finance continues.

Basiq provides a platform structured around centralised consent management. A platform that is currently supporting a multitude of use cases in addition to the ones listed above. Basiq is an active Accredited Data Recipient (ADR) and has a CDR-compliant data governance framework, accessible via intuitive APIs to easily access relevant data. Basiq was built on the foundation of comprehensive, accurate and up-to-date data available on-demand which is the core of why open banking data is valuable to most financial services companies. This is supported by a set of insight services that can analyse and detect income, expenses, assets, liabilities (including BNPL and alternative credit providers).

If you have any questions about the Basiq platform or Basiq's domain expertise with DDC and Open Banking, please don't hesitate to reach out.

Conclusion

This paper has analysed Open Banking and provided four futuristic use cases for the Open Finance era. The landscape has been mapped out and some likely use cases have been examined. Basiq's next white paper will drill down into the convergence of payments and data, as well as the many use cases that are likely to be of interest to innovative fintechs during what will be an exciting period in the development of Australia's finance sector.

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Plateau of Productivity

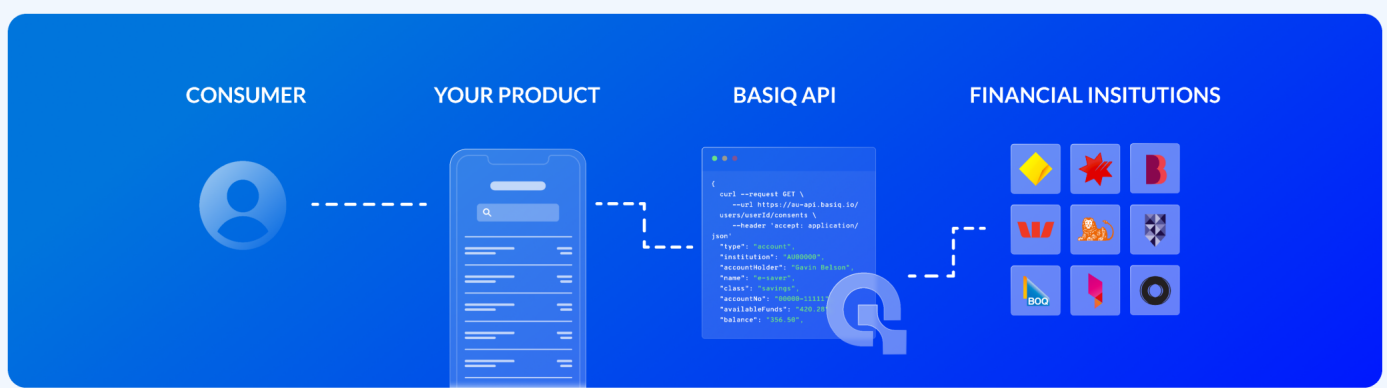
12 May 2021

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Basiq is an API platform that provides the building blocks of financial services

At Basiq, our vision is Making Finance Easy. Finance is complex and it can be hard for consumers to make informed financial decisions. We see a world where consumers are empowered to make smarter financial decisions and to engage with their finances in new and unique ways.

Basiq enables this by providing an Open Finance API platform for businesses to build innovative financial solutions. The platform facilitates the relationship between financial fintechs and consumers by enabling access to consented financial data and providing payments services.



Why partner with us



Knowledge & Expertise

Years of experience in accessing and driving insights from financial data through RESTFUL and fully documented APIs.



Scalability & Reliability

Helped over 2.5m consumers share their data on the platform with over 1m data requests per day.



Open Banking provider

Recognised as a provider of Open Banking services by the ACCC as an Accredited Data Recipient under the CDR.



Developer Tooling

Accelerate development with Basiq's developer starter kits, best practice quick start guides and API documentation.



Single Platform

A single integration to plug in to the Basiq platform to access data, insights and payments services.



Local Support

A dedicated local support team that ensures smooth implementation, continuous support and fast response times.

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