

# Preparing for open banking, US financial institutions make strategic plays

Article

**The news:** US financial institutions (FIs) are focused on their long-term strategies as they prepare to compete in an open banking environment.

- The data-sharing partnership between the fintechs **Fiserv** and **Plaid** may change the game for some FIs that have raised concerns about how much these changes may cost.

**How we got here:** In October, the Consumer Financial Protection Bureau (CFPB) proposed a **Personal Financial Data Rights** rule that will move the US closer to an open banking system by promoting seamless sharing of customer data among FIs.

- It aims to give consumers more control over their financial data and makes it easier for them to switch banks to take advantage of favorable rates and services.
- Implementation will happen in phases—larger FIs will need to comply more quickly than smaller ones.
- FIs have until December 29th to give feedback to the CFPB about its proposed new rule. FIs have already expressed concerns about data security, customer privacy, and how these changes affect their revenues.

**Trade association response:** The American Bankers Association (ABA) has largely supported the legislation, but pressed for greater clarity.

- ABA agrees with customers' ownership of their data and supports safe data sharing, but expressed concerns about specific aspects of the proposed rule.
- The industry group welcomes the move away from screen scraping—which contradicts concerns raised by smaller banks about wanting to be able to charge consumers for sharing their data.
- Banks advocated for stringent standards for all entities accessing consumer data and expressing intent to collaborate for clearer regulation.
- Larger banks seem focused on lobbying for these changes until the end of the public comment period.

**Fiserv companies seek to ease the transition:** Technology providers see a big opportunity ahead of them when the changes roll out. Just for one example, Fiserv and Plaid have entered into a partnership that grants consumers direct control over their bank account data sharing.

- Fiserv plans to grant immediate Plaid API access to client customer data and plans a phased rollout, with 100 institutions already in progress. Fiserv's core banking platform will directly link over 3,000 FIs to Plaid's network of more than 8,000 third-party apps.

- This integration strategy mitigates barriers encountered by the small FI clients when sharing information with apps like **Venmo** and **Cash App**.
- Fiserv also plans to collaborate with other fintech aggregators like **Akoya**, **Finicity**, and **MX** to expand open banking capabilities.

**Small banks' concerns:** While the ABA agreed that customer data belongs to customers, small banks expressed disappointment that they could no longer charge customers fees for sharing data.

- They raised concerns about the costs of having to purchase new services from companies like Fiserv and Plaid—however, such partnerships may make this transition more accessible.
- Small banks have also been advocating for a longer implementation schedule to meet technical requirements.

**What will open banking actually look like?** FIs have been divided in their approach to open banking, based partly on their size.

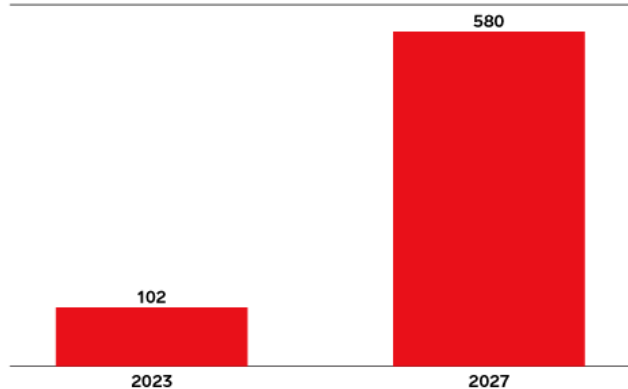
- Adding fuel to the fire, the CFPB's proposed phased rollout brings in smaller and community banks as late participants, and exempts small FIs that lack digital interfaces.
- The wording of the final rule—and how it incorporates concerns raised by FIs of varying sizes—will determine whether the CFPB can successfully push the industry toward a banking environment that is truly open, rather than fragmented.

After the rollout, FIs may naturally divide into several groups:

- **Large FIs** that already meet most requirements and have the budget to make additional changes. This group may also acquire some banks that can't keep up with the technological requirements.
- **Small FIs** that have relied on screen scraping and charging fees for data. This group may band together and focus on partnerships that make their new requirements more affordable.
- **Exempt FIs** without a digital interface. This group will increasingly rely on customer loyalty as their competitors use improved mobility and digital services to vie for their business.

## API Calls Generated by Open Banking Worldwide, 2023 & 2027

billions



Source: Juniper Research, "Open Banking: Opportunities, Competitor Leaderboard & Market Forecasts 2023-2027" as cited in press release, May 3, 2023

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