



Why Open Banking Is Growing Globally

industry update open banking

Summary: Global open banking activity is predicted to reach \$124B by 2031. From enhanced security to meeting customer desires, there is no shortage of reasons why US financial institutions should embrace it.

During the 2008 primetime television season, CBS introduced “Swingtown,” a series that followed the lives of Susan and Bruce Miller, a conservative couple in the 1970s who move to a Chicago suburb and are quickly lured into the swinger lifestyle of their new neighbors. Though CBS embraced the series for its edginess, [low ratings and fierce competition with another new risqué period drama](#) — “Mad Men” — quickly led to its demise before the show ran even a single season.

While countless edgy programs have helped cable networks such as HBO and Showtime flourish, “Swingtown” made it clear that the American public wasn’t quite ready for a program about open relationships on primetime TV. When it comes to open banking, a similar phenomenon is occurring. Some global financial institutions (FIs) are embracing the transparency and enhanced customer service experience from sharing customer data through application programming interfaces (APIs). On the other hand, most US-based FIs have been slow to adopt open banking.

Opening Doors

Open banking allows customers to have a comprehensive picture of their overall finances through strategic partnerships with Fintechs and third parties. With US regulators having yet to institute standards specific to open banking, US banks have been able to experiment with third-party relationships outside of the banking industry. These third-party partnerships help aggregate information from multiple accounts and institutions so that customers can have convenient and easy access to their information, and can have more services available. Community financial institutions (CFIs) have learned that open banking can help reduce fraud, enhance data security, and even make it easier to meet know-your-customer (KYC) requirements. As a result, FIs have been stepping up their adoption of open banking — so much so that the global open banking market is [expected to be valued at \\$123.7B by 2031](#), up from just \$13.9B in 2020, according to Allied Market Research. As we previously noted, a large portion of global FIs have been [considering open banking for the last few years](#), though US institutions have been slower to incorporate this strategy.

The Benefits

Larger institutions such as Evolve Bank & Trust and USAA have been dipping their toes in the open banking waters and working with regulators to determine what oversight for open banking will look like. *“Open banking has evolved from the marketplace, and now the regulators have woken up in the last several years and said, OK, we better start paying attention and maybe bring some standards to the space,”* Jonah Crane, a partner at investment firm Klaros Group recently noted at American Banker’s 2022 Digital Banking Conference.

There are multiple benefits open banking technology would provide:

- **Enhanced security**, as open banking could eliminate the need for people to share their banking details with anyone beyond their own CFI.
- **Niche services** customers desire that CFI's may not want to invest in, but can be offered via partnerships, thus eliminating the risk of losing customers to competitors.
- **A comprehensive view of customers' finances**, including more detailed information about their credit usage. This ability would allow CFIs to more easily partner with fintechs to offer their customers more services.
- **Streamlined application processes** for CFIs, by aggregating much of the information needed on applications for products and services. This would enable a better applicant verification process as well as a better customer experience.

Although US CFIs may not yet be ready to fully embrace open banking, it is clear that this strategy isn't going away. CFIs need to stay on top of what is happening in this area, particularly as regulators step up their own involvement and pave the way for open banking to gain a stronger foothold in the US.

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ECONOMY & RATES

Rates As Of: 01/04/2023 07:06AM (GMT-0800)

Treasury	Yields	MTD Chg	YTD Chg
3M	4.53	0.11	0.11
6M	4.77	0.01	0.01
1Y	4.66	-0.04	-0.04
2Y	4.32	-0.11	-0.11
5Y	3.83	-0.18	-0.18
10Y	3.68	-0.20	-0.20
30Y	3.79	-0.18	-0.18
FF Market	FF Disc	IORB	
4.33	4.50	4.40	
SOFR	Prime	OBFR	
4.31	7.50	4.33	

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