



## The Potential of Open Banking for SMB Customers

small business business customers open banking

**Summary:** When one thinks of open banking and third-party APIs, one tends to think of all the benefits for consumers. But CFIs could also leverage the technologies to better serve their small- and medium-sized business customers. We explore the possibilities of open banking, including what the financial sector in Europe has achieved so far.

Open banking is a recent phenomenon, but the idea for it actually goes back more than 40Ys. In 1980, a German postal service in conjunction with a financial institution ran a successful experiment to determine whether people could conduct banking transactions online from their homes. A screen test was conducted using five external computers, and roughly 2K people were invited to participate. It was a success.

Today, we have graduated to application programming interfaces, or APIs, which are thought to be more secure and straightforward. Third-party APIs have since exploded, paving the way for ever-more innovations in the financial services industry. Open banking is one of those innovations, and it's still new ground for the US financial industry.

### The Case for Open Banking

Most of the focus of open banking and third-party APIs has been on uses for consumers, but these technologies can be leveraged for small- and medium-sized business (SMB) customers, as well.

"Open banking ... is a huge paradigm shift for small business owners, empowering them to be smarter both when making business decisions and when managing their finances," [writes Mastercard in its groundbreaking report on the topic](#). "Rather than going it alone, small business owners view open banking as an opportunity for partnership in their ventures as they continue to grow."

More than seven in 10 small business owners link financial accounts for banking, invoicing, paying bills, accounting, and receiving payments, according to the report. Moreover, 85% are looking for customized financial recommendations for their business from the use of their data. Many SMBs are also leveraging open banking for their customers, as well. Nine in 10 accept some form of digital payment from their customers, and a similar percentage use open banking backed methods to accept payments. Although the use cases of open banking are numerous for SMBs, progression on this front has been slow in the US.

### Open Banking Adoption in the US

Open banking has seen wider adoption in other areas of the world, such as Europe, and there is a reason for that. According to Mastercard, open banking in the European Union is regulation-driven, so there is national cooperation and support for it. In June of this year, the European Commission put forth [revisions to its Payment Services Directive \(PSD2\)](#) to include removing obstacles to open banking services, granting consumers greater control over their data, and overall functionality improvements for open banking. Third-party providers are also required to be registered with a national regulatory agency before they can provide open banking services. These standards encourage the widespread adoption of open banking.

The US, however, has not been as quick to adopt it because open banking in the US is industry-led instead of widely regulated. Individual fintechs and financial institutions have developed their own open banking services to grant their customers the same level of data-sharing capabilities, but there are no established common standards for them to draw from like banks in Europe have.

For community financial institutions (CFIs) that would want to develop these services for their SMB customers, they would rely on fintech partnerships or open banking platform support from companies such as Mastercard, which [provides open banking solutions](#) to financial institutions through their company, Finicity. The outside expertise could go a long way in alleviating concerns around data sharing, privacy, and partnerships, and help CFIs develop a solid tech strategy.

The slow US adoption that we [reported on earlier this year](#) remains, but with the upcoming PSD3 directive from the European Commission expanding their guidelines on open banking, perhaps US regulators will take note.

What CFIs Can Offer

Here are some ways that CFIs can best serve their SMB customers via open banking:

- **Comprehensive services.** By incorporating APIs from fintechs onto one central platform, CFIs can offer their SMB customers better control of their expenses, cash flow, payment rails, permissions, loans, forecasting, and other financial activities. The aggregated data can also enable CFIs to offer better strategic solutions for the unique business needs of each customer.
- **Loan access.** CFIs can give SMBs the capability to offer financing to their own customers via open banking. Fintech partners can private label [a loan origination solution](#) for the CFI, branded as the private financing arm of the SMB. For SMBs themselves, the efficient nature of loan origination through open banking helps them gain access to capital without the delays of a traditional loan process.
- **Automated payments.** Poor payment management can lead to cash flow issues, and open banking opens the door for automated payments through payment links, where businesses can supply a link or QR code with invoices to collect immediate payment. One example of this is Mastercard’s [Pay by Link](#), which provides a secure, fast way to make and accept payments.

Although the US lacks the regulation of Europe when it comes to open banking, the progress it has made overseas makes open banking an efficient and secure possibility for the US in the future. As advancements are made, we will continue to provide updates on the potential for open banking in the US.

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ECONOMY & RATES

Rates As Of: 11/28/2023 05:36AM (GMT-0800)

Treasury	Yields	MTD Chg	YTD Chg
3M	5.49	-0.10	1.07
6M	5.45	-0.09	0.69
1Y	5.23	-0.20	0.53
2Y	4.87	-0.22	0.44

5Y	4.39	-0.46	0.39
10Y	4.39	-0.55	0.51
30Y	4.53	-0.57	0.56
<b>FF Market</b>		<b>FF Disc</b>	<b>LOBB</b>
5.33		5.50	5.40
<b>SOFR</b>		<b>Prime</b>	<b>QBFR</b>
5.32		8.50	5.32

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