Brite Payments' Open Banking Explainer

Everything you need to know in one place.

Brite*

britepayments.com

Open banking

Open banking is a concept replete with confusing acronyms and technical terms. Anyone would be forgiven for getting confused. Thankfully, Brite has summarised everything you need to know in one place; in a digestible, bite-sized format. We hope it britens up your day.

You will come away with a clearer understanding of:

1. Open banking, its definition and vision.
2. The main players in the ecosystem and the main use cases they are solving for.
3. How account-to-account (A2A) payments are transforming the European payments landscape to the benefit of businesses and their customers.

What is open banking?

Open banking refers to the process of banks and other financial institutions opening up data to regulated third-party providers (TPPs) to access, use and share via APIs in order to develop new solutions that improve end-user experience through greater choice and more personalised services. It is also envisaged to help European businesses operate more effectively by having a wider range of vendors offering specific services from which to choose.

What benefits does open banking unlock?

The vision of open banking from the very beginning has been to stimulate innovation by introducing more competition into the European financial services ecosystem. It also aims to create a more integrated payments landscape and make payments safer and more secure, enhancing protection for European consumers and businesses. The proliferation of startups, fintechs and smaller financial institutions developing new, value-adding services on the back of consumer data suggest this vision has already become a reality.

The main stakeholders in the EU open banking ecosystem

There are multiple financial service providers responsible for making open banking functions including the EU commission who draw up directives like PSD2 and soon PSD3.

Third-party providers (TPPs)

Range from solution providers focussing on specific solutions, like alternative credit scoring, to infrastructure players enabling merchants to build and customise their own payment flows. There are an estimated 518 TPPs operating in Europe as of September 2021, up from 196 in September 2019.

Banks

Hold customer deposits and issue cards to account holders. There are 5,171 banks operating across the 27 European Union countries as of July 2022. Brite Payments now covers over 80% of bank APIs in the EEA.

European Commission

The European Commission is the EU's politically independent executive arm and is responsible for proposing new European legislation proposals. The European Commission also manages the European budget and is accountable for legislation that handles the European monetary transaction.

Payment infrastructure

Enables the flow of funds between payer and payee. More broadly, this includes Automated Clearing House (ACH), the RTP Network, SWIFT, and card rails (also referred to as schemes) like Mastercard and Visa, amongst others. Then there's the infrastructure specific to instant payments, including; SEPA Instant Credit Transfer (SCT Inst), Mobile P2P (MP2P) and Request-To-Pay (RTP). We explain these latter three in more detail further on.

Regulators

The financial authorities policing compliance at a national level, including the likes of BaFin in Germany and the Financial Conduct Authority (FCA) in the UK.

Customers

By our count, there are 340m potential open banking customers in the EEA, and this will continue to grow.

✱ Countries in which Brite is active

The regulatory bit

PSD2 is an EU law that has paved the way for open banking. Its full name is the Revised Payment Services Directive, which applies to the entire European Economic Area (EEA) and was adopted by the UK. It gives customers the right to access their payment accounts and initiate payments via third parties, called third-party providers (TPPs). This law introduced new competition into the European payments market, allowing regulated TPPs to offer Account Information Services (AIS) and/or Payment Initiation Services (PIS) by accessing user data, as long as they have the customer's consent. They can do this by accessing open banking application programming interfaces (APIs). ***More on APIs on page 7.***

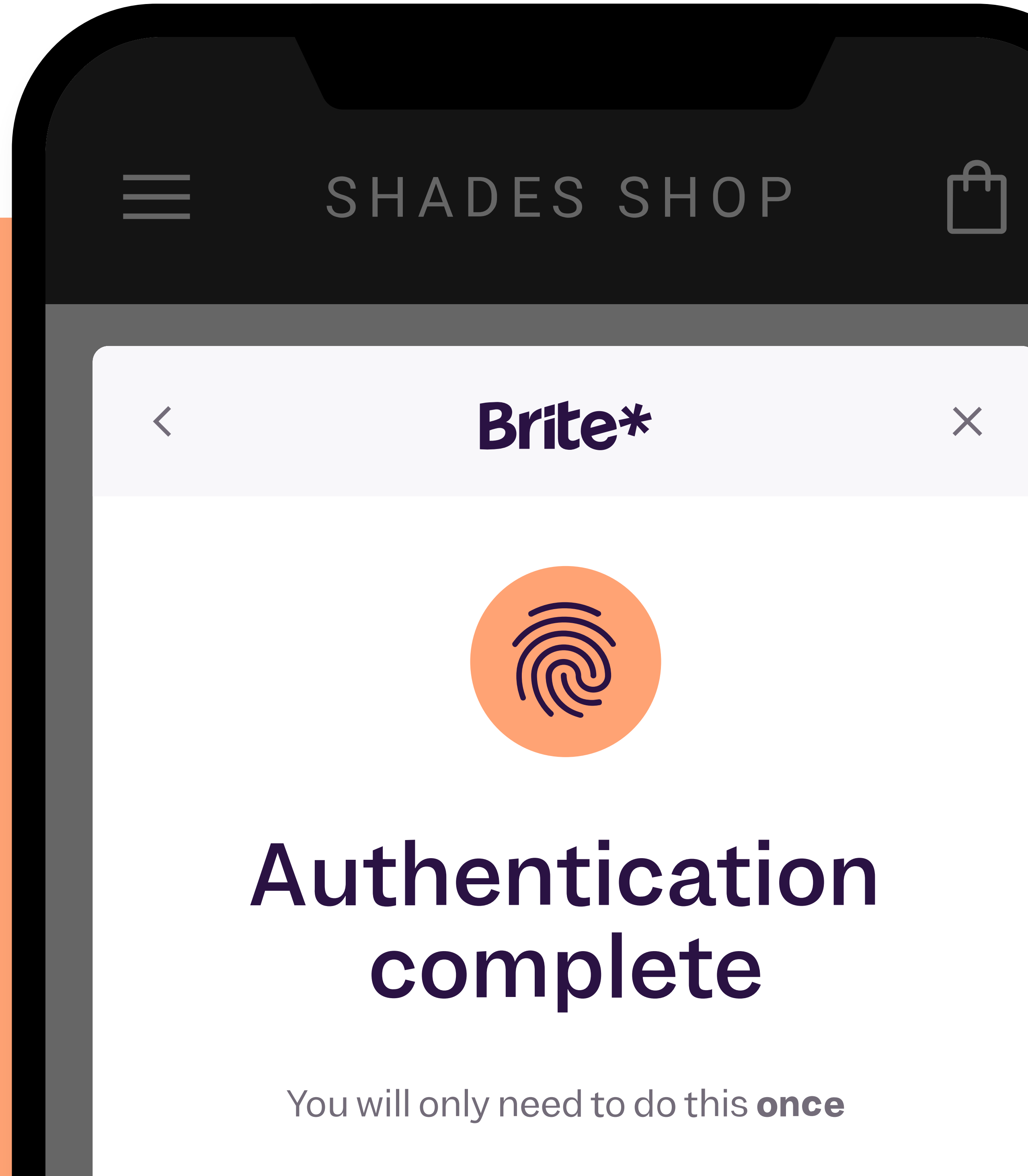
Online payments must be compliant with Regulatory Technical Standards (RTS) like strong customer authentication (SCA), which mandates the use of two-factor authentication (2FA). Authentication is the process by which a consumer provides online banking credentials to their bank in order to create a secure connection between their bank and a TPP.

Good to know

Reauthentication must happen every 90 days between a customer's bank and TPP. However, the European Banking Authority (EBA) published a draft amendment in early 2022 that would extend the renewal of SCA from every 90 days to every 180 days. This is welcomed by many merchants who see reauthentication as unnecessary friction in the payment journey and a conversion killer.

SCA requires authentication to use at least two of the following three elements:

1. **Something the customer knows**
   e.g. password or PIN
2. **Something the customer has**
   e.g. smartphone or hardware token
3. **Something the customer is**
   e.g. biometric verification like a fingerprint or face ID



What are open banking APIs?

An API is simply a set of codes and protocols that allow software and applications to communicate. It is important to remember that open banking APIs can only be accessed by TPPs that are authorised to use them.

These TPPs come in two forms:

Payment Initiation Service Providers (PISPs)

PISPs are authorised to make payments from a customer's bank account with the customer's consent. They can access and present financial information, as well as move money from a user's bank account. Again, the customers must consent to these payments and can revoke consent at any time, putting them in control.

Account Information Service Providers (AISPs)

AISPs are authorised to access a customer's bank account information. They offer account information services (AIS) by gathering read-only financial information and can compile data from multiple bank accounts. Still, they cannot initiate an activity — such as a payment — from those accounts.

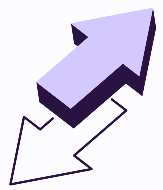
What are account-to-account payments* and how do they work?

A2A payments move money directly from one account to another without the need for additional intermediaries or payment instruments, such as cards. This means fewer middlemen taking a cut of your earnings. A2A payments have been around for a while but historically, they have been seen as bank account-specific payments, for example, when a consumer uses a bank transfer or direct debit to pay a bill.

* Also known as A2A payments

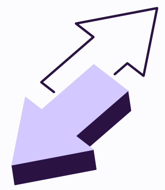
The vision for open banking APIs is that consumers can pay seamlessly from their bank account using embedded third-party services. This should mean that A2A payments are no longer restricted to a bank's channels but can be embedded in the apps that consumers already use, with a greater focus on convenience, context, and improved user experience (i.e., no redirects). In reality, this is still a work in progress because most banks are yet to offer 'decoupled flows', payment flows that do not redirect the customer to their bank to authenticate or complete a payment. Only very few players in the market have been able to solve this customer journey challenge.

There are two types of A2A payments:



Push payments

This payment type is normally used for transferring one-off sums as it requires customers to manually send or 'push', money to merchants. APIs can also trigger push payments by sending customer notifications or action prompts. At Brite we call these Instant Payments. Use cases abound: from paying freelancers and gig workers to paying insurance customers their claims in seconds, not days.



Pull payments

This is when merchants withdraw, or 'pull', money from customers' accounts. Businesses typically use this payment type with recurring payment models, such as subscriptions, and it requires prior consent from the customer. An example of this is a direct debit mandate. Variable recurring payments (VRPs) also fall into this category.

The fast increasing adoption of A2A payments

Across Europe, established banks have been slow to update and provide access to their APIs. Some of this delay is attributable to a lack of standardisation. This, in turn, has slowed the development and adoption of open banking infrastructure. But there are other probable causes. On the one hand, banks want to protect existing sources of revenue like card fees, which are major contributors to the bottom line. On the cost side, a massive investment is required to update legacy banking infrastructure, which might also explain why many have hesitated to forge ahead.

The good news is that open banking has now reached maturity and is beginning to deliver on its promise. The number of open banking users in Europe is forecasted to exceed 60 million in 2024, up from just 12 million in 2020. But there is still a long way to reach 340 million potential customers in the EEA.

12m

Open banking users in 2020

60m

Forecast open banking users by 2024

340m

Potential customers in the EEA

A quick bit about the payment schemes that underpin A2A payments

Alongside PSD2 open banking, three new payment 'rails' exist within the EEA.

These are:

SEPA Instant Credit Transfer (SCT Inst)

SCT Inst is a pan-European push payment standard that enables Instant Payments of up to €100,000 across international borders. The SCT Inst scheme aims to complete payment clearing and crediting of funds between two participating payment service providers (PSPs) within 10 seconds. Two systems are competing within the EEA instant payments market; referred to as RT1 and TIPS. The latter is operated by the European Central Bank (ECB).

Mobile P2P (MP2P)

Payments that enable instant peer-to-peer transactions with just a mobile number or email address, meaning someone can send money to a contact without asking for their bank details and without both need to use the same banking service/app.

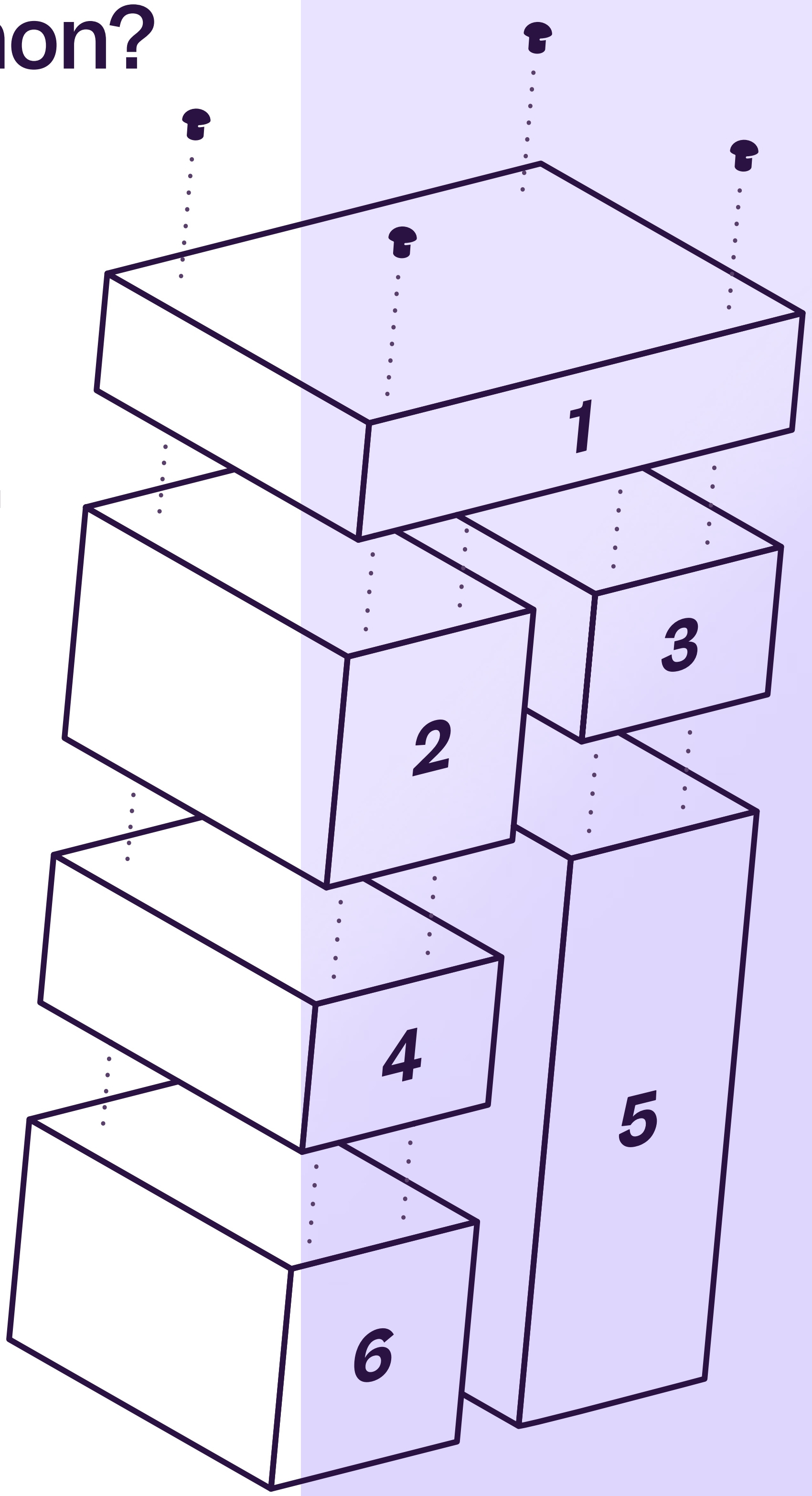
Request-To-Pay (RTP)

RTP is a messaging service that requests a recipient to initiate a payment of a certain amount to a payee. It can be considered a customer experience layer that sits on top of SCT Inst.

What do IKEA furniture and open banking have in common?

The thing with open banking APIs and payment schemes like SEPA Instant is that they are just infrastructure. Good infrastructure, but still infrastructure. Much like any piece of IKEA furniture, they still need to be assembled. And anyone who has ever tried knows that it is always harder than it looks, even with instructions!

Processing A2A funds across Europe requires thousands of individual connections with individual banks and a tech stack that includes services that reduce payment risk, from enhanced Know Your Customer (KYC) to Anti-Money Laundering (AML) monitoring. Not simple. Not only does it require a vendor to be part of the flow of funds, but it also requires them to have built an established banking network across Europe. For these reasons and many others, Brite has opted to do away with Do-It-Yourself (DIY) products that take time and resources to assemble and come to market with a range of pre-assembled solutions.



Brite Instant Payouts

Brite Instant Payouts is a payment method which you can seamlessly pay your customers, instead of having them waiting days for the money to come through. The best thing? Your customers can see exactly when their money will arrive.

Brite Instant Payments

Brite Instant Payments is a payment method where money flows seamlessly from one bank account to another. Only top-of-mind information is needed to make a payment.

Brite Recurring Payments

Brite Recurring Payments is the smartest way to set up a standing payment order without the need of any direct debit mandate registration. Since it doesn't rely on cards that can expire, you can rest assured that your payments will go through.

Brite Data Solutions

Brite Data Solutions offer fast and reliable access to bank account information, including user data like income information and/or account verification. Essential data, instantly.

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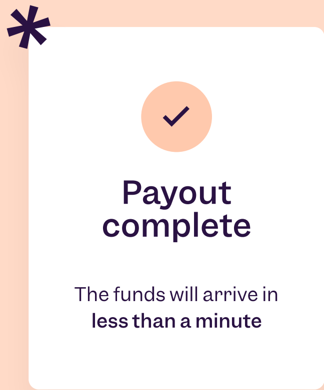
List of parts:

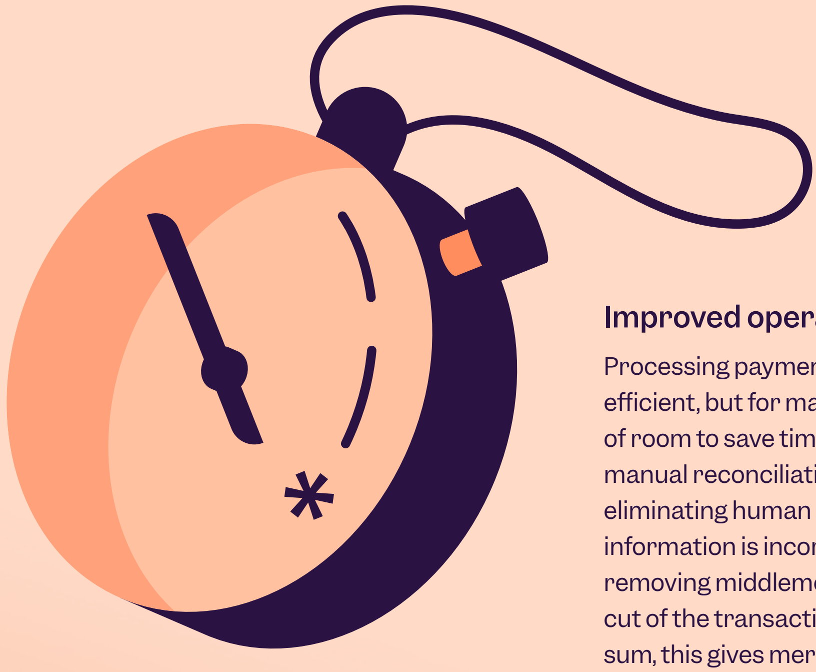
1	Bank APIs
2	Payment rails
3	KYC
4	User interface (UI)
5	Reconciliation
6	Payment back office

The advantages of Brite A2A payments

Lightening fast settlement

Many payment methods, from cards to alternative payment methods (APMs), can take days to settle on merchant accounts. It can also take merchants days to pay customers, suppliers and partners because of manual processes and a need to 'batch' payments. On the customer side, waiting for funds to clear is a significant source of frustration, both when depositing and withdrawing funds. Brite Payments offers Instant Payments and Instant Payouts so that customers are never kept waiting.





Improved operational efficiency

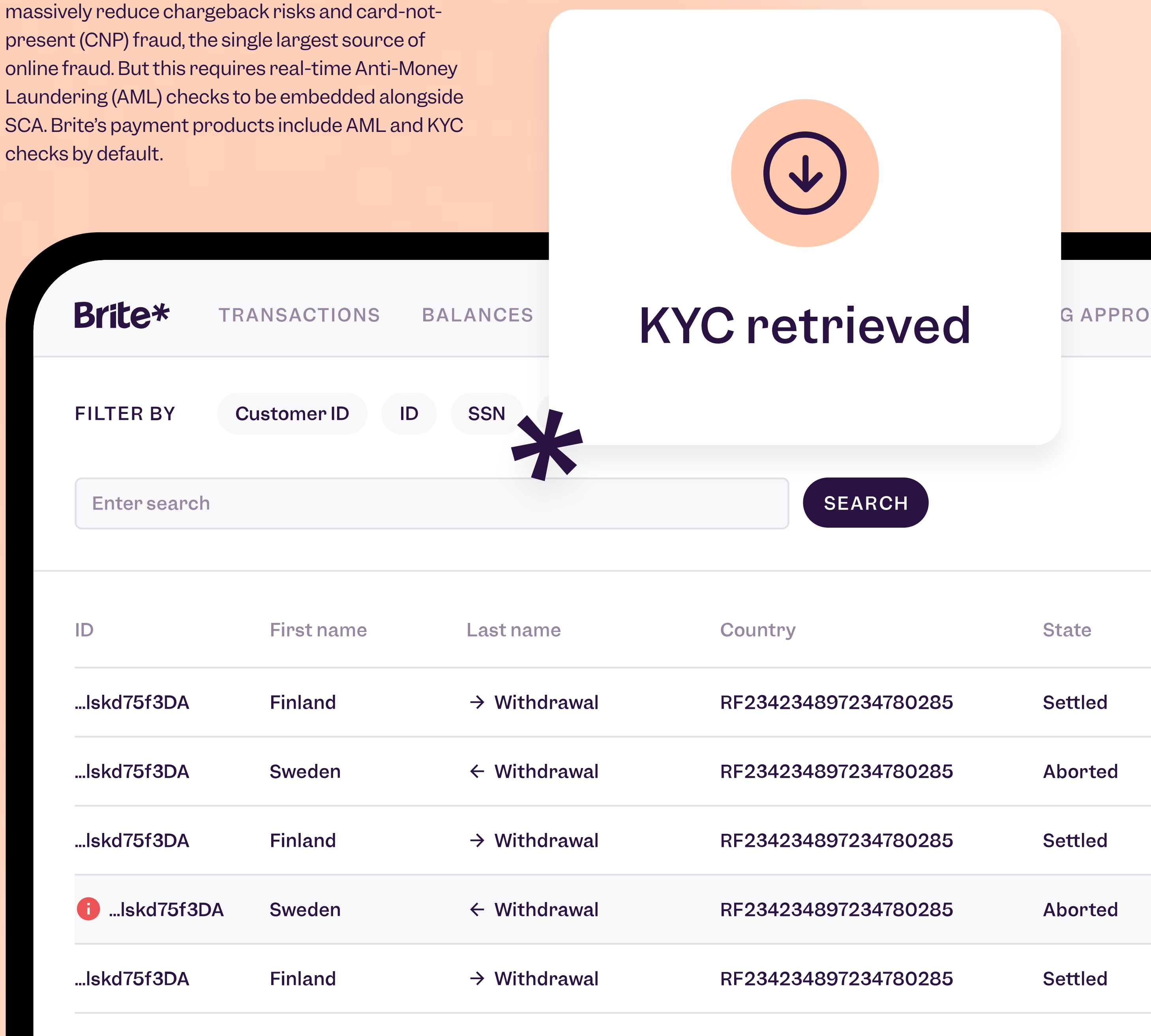
Processing payments should be time and cost-efficient, but for many merchants, there is still plenty of room to save time and reduce costs by eliminating manual reconciliations that are resource intensive, eliminating human error that arises when payment information is incorrectly inputted manually, and removing middlemen in the payment flow that take a cut of the transaction without adding much value. In sum, this gives merchants the opportunity to reduce the total cost of ownership of payments and deploy their human capital in other areas of their business.

Transparent & predictable fees

Many merchants we speak to recount nasty surprises where their end-of-month payment fees were higher than forecast. This can happen because of a change in the merchant's payment mix (a higher percentage of credit card transactions, for example), but also because many PSPs only provide blended rates. Brite's A2A payments are transparent and predictable, by design.

Reduced fraud & automated reconciliation

Open banking account-to-account (A2A) payments massively reduce chargeback risks and card-not-present (CNP) fraud, the single largest source of online fraud. But this requires real-time Anti-Money Laundering (AML) checks to be embedded alongside SCA. Brite's payment products include AML and KYC checks by default.



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Insights at the speed of Brite

Whilst we believe having the correct background information is essential, it is not the same as experiencing a solution that solves your challenges. **Book a demo today** to understand how Brite Payments' products drive quantifiable value for your business and customers.

Book a demo

Thanks
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