

Open Banking 101

Niyogo Solutions

1. Introduction to Open Banking:

Business models

Offerings

Partnership strategies

2. Business and operating model of Open Banking

3. Open Banking in India

4. Open Banking Case Studies

5. Common myths about Open Banking

6. Conclusion: Flash in the pan or next big thing in banking?

1. Introduction to Open Banking



What is Open Banking?

“Banking beyond physical walls”

- The term **“Open Banking”** was first coined in **2017**
- No physical branches
- Financial services via Digital Channels:
 - Smartphones
 - Web interfaces



Traditional Banks

- Business functions siloed into distinct departments
- Rely on “physical touch model”
 - Feet on street sales forces
 - Branches
 - Physical distribution models

Open Banks

- Modelled on scalable open platforms
- Usually integrate with traditional banks through open APIs, making them:
 - Scalable
 - Nimble
 - Flexible

Customer experience is at the heart of Open Banking



**Intuitive and
interactive experience**

Feature rich

Mobile Interface



**Spending analytics,
budgeting tools**

**Fast, simple, paperless
account opening**

Transparent pricing

Customer experience

**Consumers feel understood
and well-catered to**

Features of Open Banking

More than just UI/UX

- **Value added offerings** and non-financial tools
- Not offered by a traditional bank.

A scalable, flexible, platform-based business model

- **Scalable, flexible** and not segregated.
- **Frees the constraints** faced by large traditional banks
- Enabling **rapid adaptation** in business landscapes and evolving customer expectations.

Neo-banks put the customer at the centre of everything

- Simplicity, trust, control, and **digital self-service**

Collaborate instead of compete

- Mutual benefits of collaborating
- Ecosystem—made up of **traditional banks, non-bank lenders (NBFCs)** and **insurers**
- Inorganic **growth** through **partnerships**.

History of Open Banking



Atom Bank (UK)

Founded in 2014, Atom Bank was granted its own banking licence in 2015.



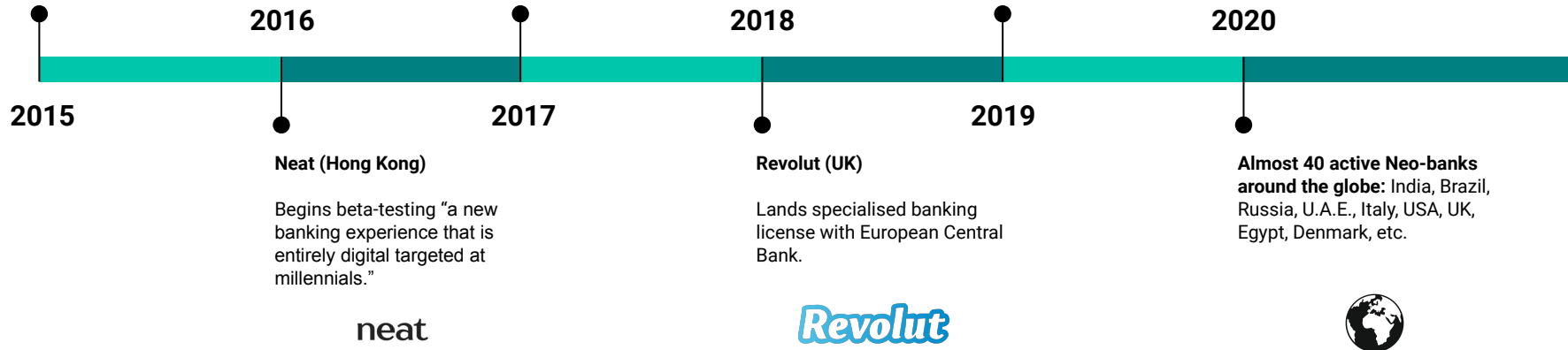
Monzo (UK)

Restrictions lifted from banking license (acquired in 2016) - starts to offer "current accounts"

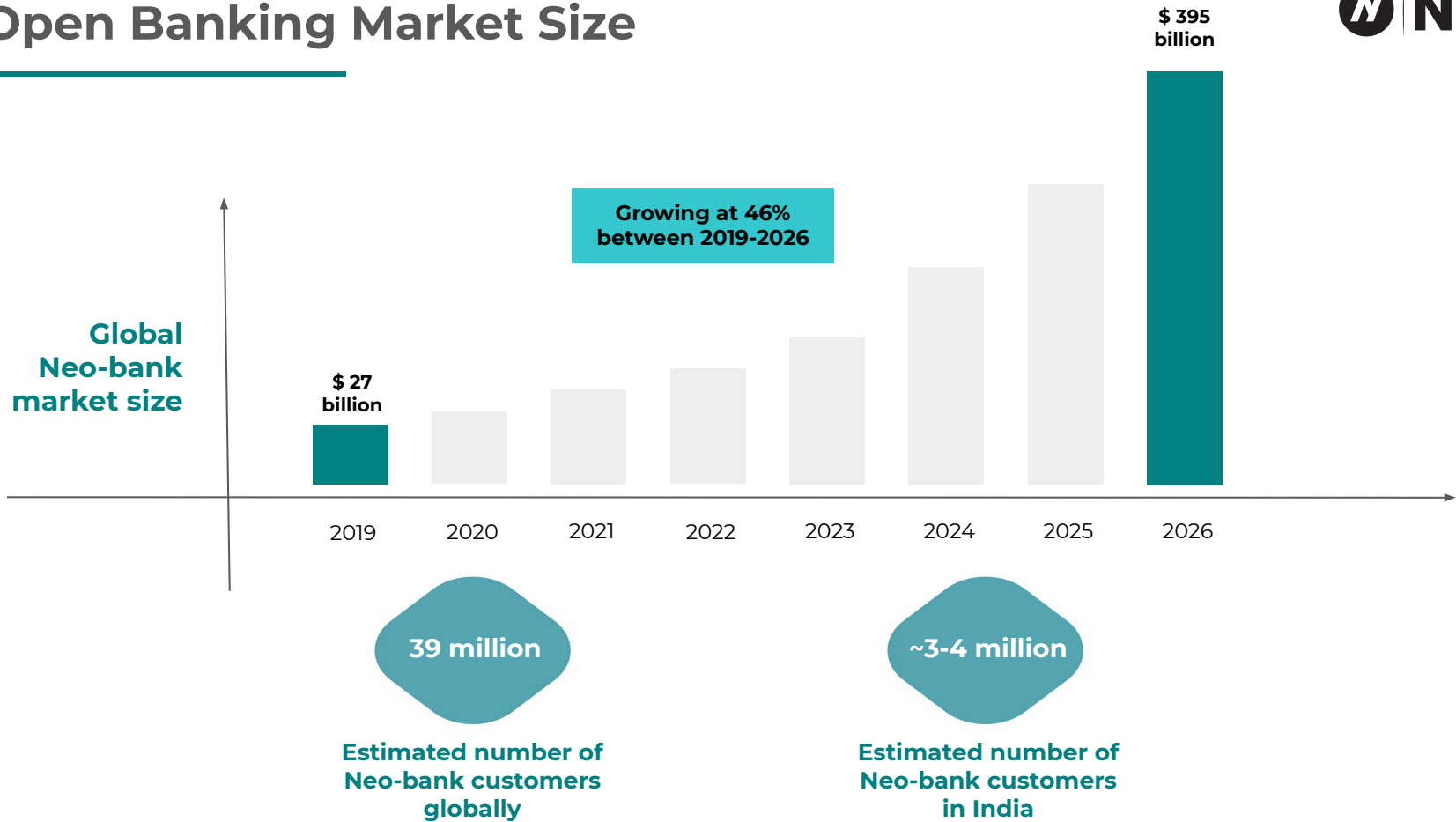


Xinja (Australia)

Granted full licence as an Authorised Deposit-taking Institution.



Open Banking Market Size



Relative Performance: Traditional Vs Open Banks

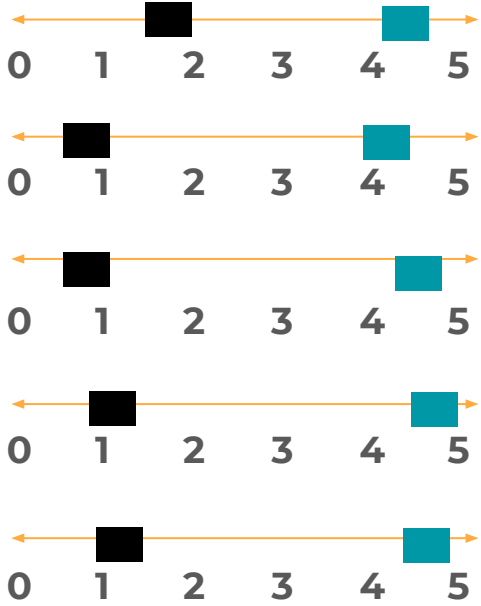
Open banks' ability to offer fast, transparent models along with their low-cost structure and superior UX are key factors influencing customers' growing preference for them over traditional banks.

Consideration factor

Description

Relative performance: Banks vs open-banks

Consideration factor	Description
Speed	<ul style="list-style-type: none"> Fast and simple account opening (5-7 minutes) Simple form filing, direct video call
Transparency	<ul style="list-style-type: none"> No hidden fees & charges, minimum account balances etc.
Lower costs	<ul style="list-style-type: none"> Minimum/No fees like overdraft and monthly fees No forex markup, foreign ATM withdrawal fees
User experience	<ul style="list-style-type: none"> 100% digital and mobile platform Feature rich platform and tools Intuitive, interactive experience
Improved financial wellness	<ul style="list-style-type: none"> Smart ways to help customers save Spend analytics, budgeting tools



Source: Neo-bank research in USA & UK by Finnovate Research, Oct 2018

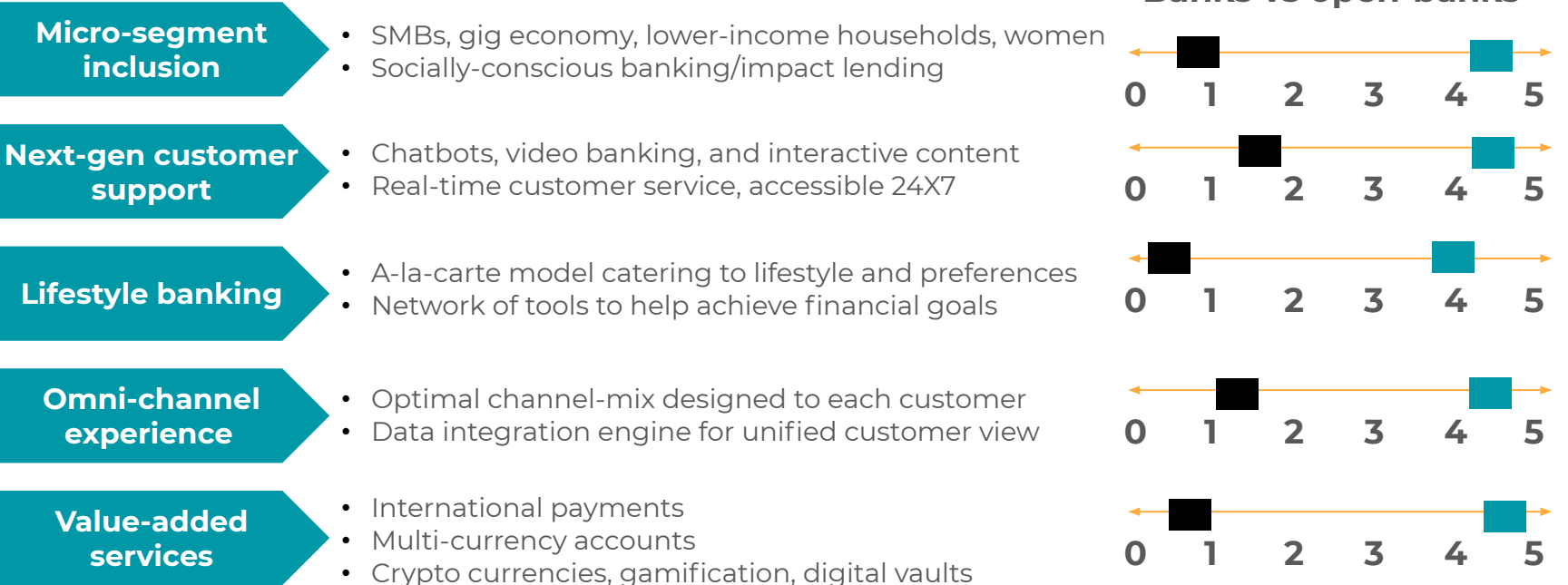
Relative Performance: Traditional Vs Open Banks

Omni-channel experience, value-added services and next-generation customer support are other factors driving customers' adoption of open-banks.

Consideration factor

Description

Relative performance: Banks vs open-banks



Source: Neo-bank research in USA & UK by Finnovate Research, Oct 2018

2. Business and operating model of Open Banking



1. Cross-border travel payments

- Zero Forex Markup
- Hassle-free ATM access globally
- Travel related tools, content
- No hidden fees and charges

2. SME current accounts

- Simple and easy to use
- Single interface for vendor payments, tax filing, accounting and invoicing
- Overdrafts, working capital

3. Salary account for working classes

- Zero balance, easy to use digital salary account
- Intuitive, vernacular app
- Doorstep banking access
- Paperless, digital onboarding

4. Bank accounts for gig economy workers

- No/flexible minimum balance requirements
- Simplified requirements for income and address proofs

Open Banking: Marketing Strategy

Focus a lot on organic customer acquisition and customer retention through superior, seamless customer journeys and engagement.



Customer referral

Global leaders such as Revolut aim to acquire >80% customers through referral route, driving down acquisition costs



Customized customer engagement

Contextualized, customer engagement through digital touchpoints

No mass bombardment



Innovative customer acquisition campaigns

Viral marketing strategies
Waitlist for in-demand product variants (ex. metal card)

Open Banking: Innovation on CX and simplified processes



Customer experience

More *connected* to personal finances



User convenience

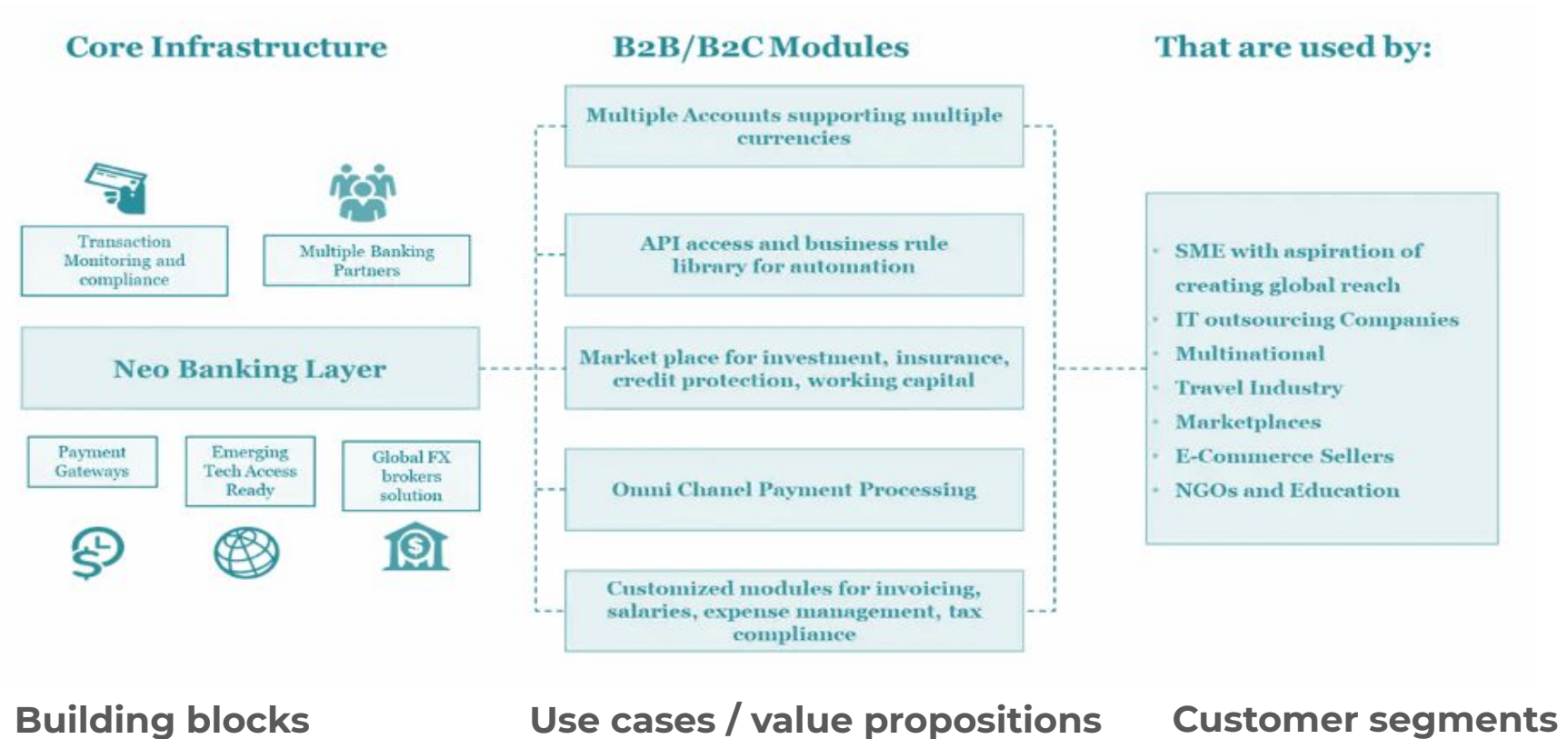
Digital interface makes it more convenient for consumer



Simplified processes

Save time via simplified financial transactions

Open Banking: A modular, flexible platform approach



Open Banking: A product platform view

An open ecosystem approach

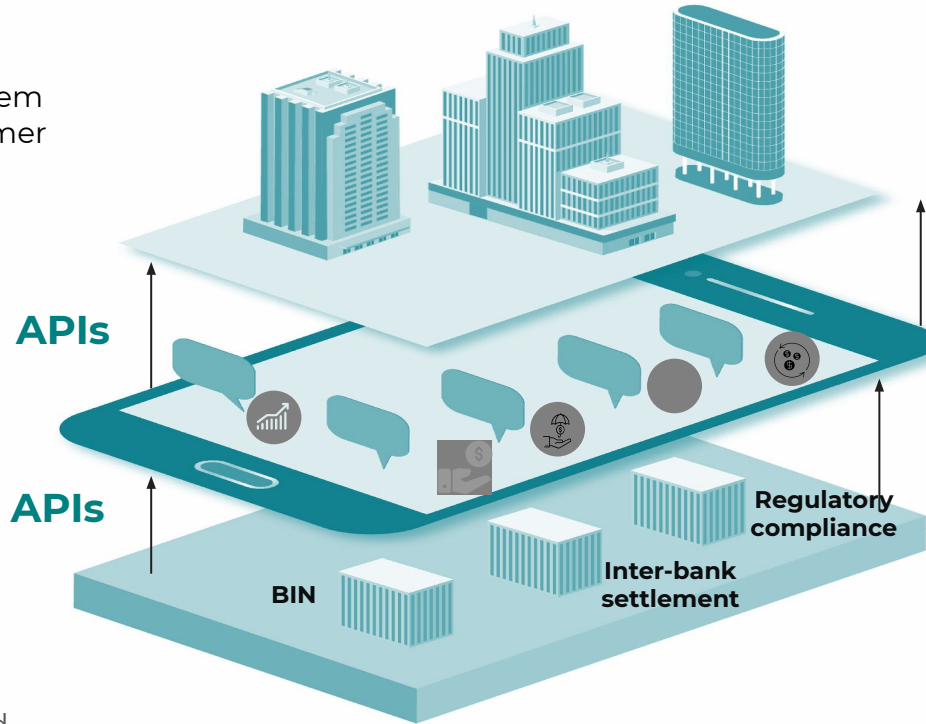
A digital banking ecosystem centred around the customer

Core product

A flagship product with a unique customer value proposition.

Eco-system view

Then other product/transaction layers are added



Strategic partnerships



Traditional Bank



Open Bank

Open-bank's application layer

Traditional Bank's core infrastructure platform

Open Banks are changing the game by offering **Banking-as-a-Platform**.

Traditional banking model Product centric

Branches

- High verticalization of products
- No strong communities around the brand/product
- Large branch/network
- High customer acquisition & servicing cost (high touch model)

Legacy tech infrastructure

- Outdated, hard to integrate with 3rd party service providers

Product centric business

- Banking data divided into silos
- Mix of paper-based and online data
- Difficulties in reconciling, monitoring data

Product centric org design

- Products and verticals drive P&L, organization structure and KPIs

Open Banking model Platform centric

Marketplace community

- High community engagement with the product
- Horizontalization of products with best-in-class apps
- Mobile/digital only distribution and servicing (low customer acquisition cost)

Open tech platforms

- Open architecture technology stack, Open Banking through APIs
- Open ecosystem allowing access to external developers

Data driven business

- Real-time data integration and management
- Data powers business model through 3rd party affiliation fees

Customer centric org design

- Customer segments drive P&L, data architecture and KPIs

Leading Open Banks have high cost efficiencies

1 Lower customer acquisition costs

- <20% cost of traditional retail banks
- Customer acquisition effort driven largely by viral marketing, customer referrals and social media.

2 Lower customer servicing costs

- Branchless (low physical touch model)
- Effective use of technology (chatbots, WhatsApp chat, AI based assistant, etc.)
- Fundamentally better app/product design

3 Back-end outsourcing

- Outsourced back-end technology stacks result in lower capital expenditure and faster time-to-market (ex. N26 and Tandem)
- Niy leverages tech capabilities of network partner, cross-sell partners, etc., aided by an open tech architecture

4 Price competitiveness

- UK: challenger banks pay roughly 2x the savings rate of traditional banks (0.92% versus 0.44% for the average easy access account).
- US: rates on deposits are 3x higher at online/digital banks compared to traditional banks (0.79% versus 0.27% for a 12-month CD).

Achieving profitability, however, remains a challenge, given rising pricing pressure

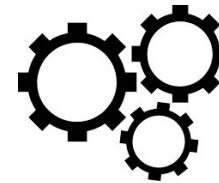
How Open APIs Work: overview

Developers connect to a third party's open API. This third party can be a bank, fintech, or other service provider. Because the API is open, any developer can connect to it.



Customer requests

a service from the third party (eg: to view an account balance) from inside the developer's app. The request is sent using the API.



Third party receives the request, and systems automatically send data back using the API.

Benefits Of Open API Model

Marketplace

- A curated selection of the best money-related apps.
- Open API's to allow other developers and FinTechs to build functionalities over their infrastructure
- Positive user experience and higher transaction activity

Integration With Third Party Platforms

- Financial API's enable business users to swiftly and securely request access to account data
- Automation platforms allow users to connect to other apps and devices

Categorization Engine And Smart Nudges

- Integration offers users access to its proprietary categorisation engine and towards making well informed monetary decisions

Benefit Of Open API Model: Some Examples



Paypal / Siri Integration

Paypal users can send and request money with a voice command with Siri.

Simply say “Hey Siri, send \$ 50 to Bill using PayPal.”



Telefónica Deutschland's O2 Banking

Transactions with **mobile number** as well as **small instant loans** and better mobile data plans.



Payments With Facebook Messenger

Facebook Messenger users can transfer money to their friends without leaving the application.

3. Open Banking in India



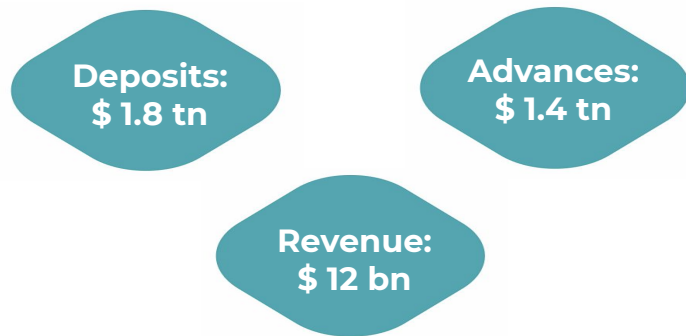
Banking landscape in India



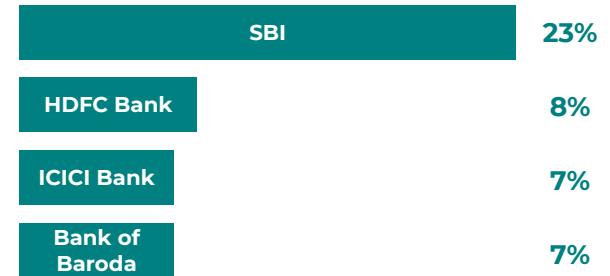
Traditionally, banking has been a very large and profitable business in India. Banking revenue pool estimated at ~ \$12 bn*



Dominated by few large public and private sector banks such as SBI, HDFC Bank, ICICI Bank



Market share of Indian banks by total business (deposits + advances)



In the past few years, 2 new breeds of challenger banks have emerged



*Source: BCG FIBAC Report 2017, estimate extrapolated using industry growth rate

No one size fits all

- Banking in India is not uniform or universal by and large.
- There are several pockets of niche market segments with unaddressed customer pain points and problem statements to be solved.

Hero Product

- Several Open Banking platforms focus on first creating a “Hero Product” to address a specific customer problem area and then look to expand their product and service offerings such as lending, wealth management, insurance etc.

Build a compelling use case

- Build unique, differentiated use cases for pockets of large, untapped market segments such as SME accounts, salary banking for underserved segments such as working classes & gig economy workers, bank accounts for millennials and students

Banking in India is hugely competitive but a profitable play. There is ample opportunity for Open Banking platforms to create a niche for themselves.

Work with a partner bank

- Digital/virtual banking licenses not available.
- Customer deposits can be held only in bank accounts.
- This enables more security and stability for customers.

Create customer experience layer on backend

- This is where the product development, innovation and differentiation takes shape

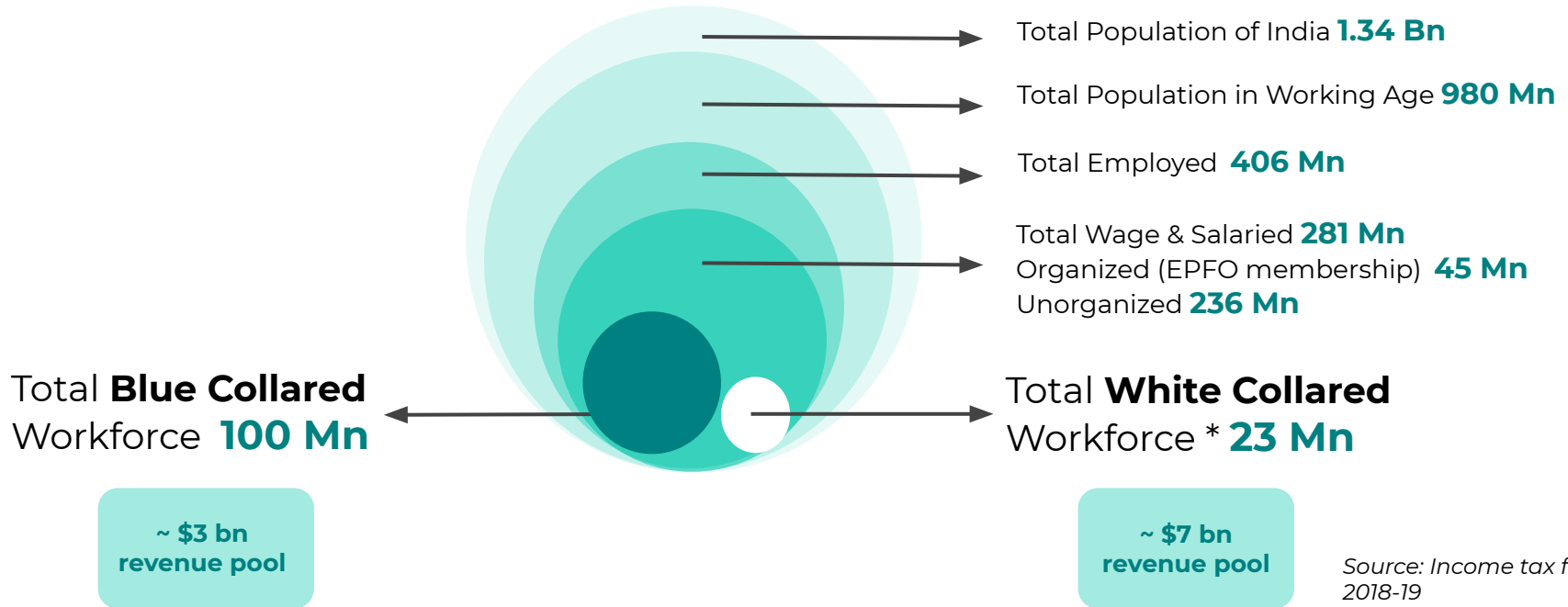
Lean, platform-centric operating model

- Instead of traditional, product centric siloed organization design, build a lean and efficient platform centric operating model.
- Collaborative, open API architecture
- Focus on leveraging power of big data, AI and machine learning

Use case 1: Market Opportunity for Salary Accounts

Both blue-collared and white-collared corporate salary banking are huge markets in India

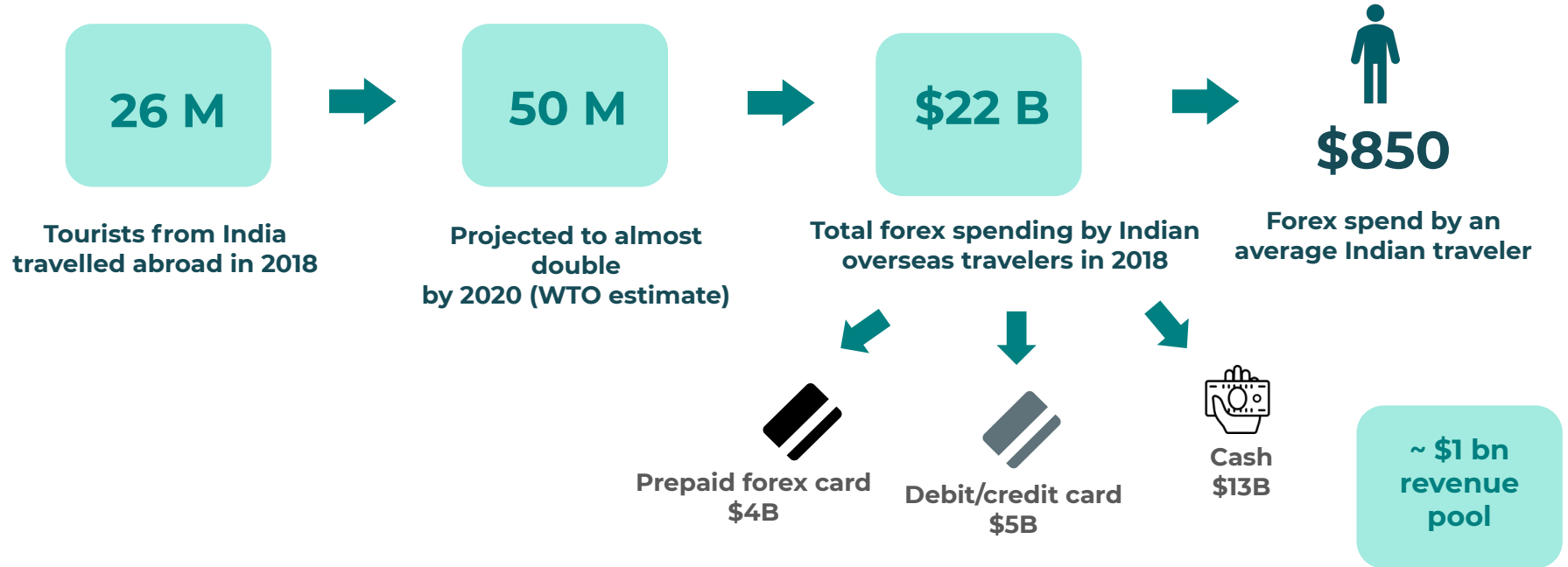
Market size of salary accounts in India



Use case 2: Market Opportunity for Cross-border Travel Payments

Payments

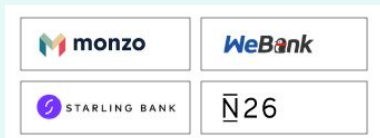
International travel payments is already a huge market, and growing at a fast pace



Indian regulations requires open banks to partner with licensed banks

Digital Banking Licence

Globally, there are digital-only open banks with a full fledged banking license



Not likely to happen in India soon, regulations don't permit digital/branchless banking license

Partnerships

Digital-only platforms partner with traditional banks

Global examples



Indian examples



Requirements to obtain banking license in India

NBFCs	Individuals	Existing Private Sector Entities	Promoters
<ul style="list-style-type: none">10 year track record of successMust be controlled (not owned) by resident Indians	<ul style="list-style-type: none">10 years of experienceMust be from the finance/banking area	<ul style="list-style-type: none">10 year successful history> 60% assets and income from financial domain (if assets > \$656 million)	<ul style="list-style-type: none">Should be “fit and proper”No wilful defaulters

Capital Needed

\$65.6 million

(with continued net worth of at least \$65.6 million)

Ownership specifications

- Promoters: at most 40%
(if more, must bring down to 40% within first 3 years)
- No more than 10% voting rights to entities other than promoters

Obtaining a full fledged bank license in India is challenging and time consuming for fintechs / Open Banking platforms due to requirements of high capital infusion, large scale physical distribution presence, compliance, track record of promoters and domestic shareholding

4. Open Banking Case Studies



Case Studies: Global

Revolut

 monzo

 N26

 niy bank

Revolut

Established in 2015 and services expand to over 28 countries.
Customer base of 7 mn

- Junior accounts
- Savings Vaults
- Insurance
- Trading
- Cryptocurrency
- Precious Metals

Partnership with Barclays and Lloyds Bank.



Monzo launched in 2016, the number of mobile banking users around the world - 47%

Currently services provided only in UK to over 4.5 million users.

Open Banks around the world



N26

Founded in 2013, its services are offered to over 23 European countries.

Customer base of 3.5 mn

Offers a basic account with no monthly fee and charges no fees for credit card payments in foreign currencies.







niy bank

Founded in 2013 and is the largest FinTech in Latin America.



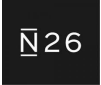

Customer base of 12 mn

Offers a digital account, an international credit card, both without fees.

Open Banking: Global Leaders

				
# Years in operation	4.5	5	7	6.5
Customer segments	Retail And Business	Retail And Business	Retail And Business	Retail And Waitlist For Business
# customer base (mn)	7	4.5	3.5	12
Home country	UK	UK	Germany	Brazil
Operating revenue per customer	\$8.3	\$ 3.63	\$ 0.31	\$1.59
Operating cost per customer	\$13.17	\$ 23.76	\$10	\$14.68
Operating profit/loss per customer	-\$ 4.87	-\$ 20.13	-\$9.69	-\$13.09
Valuation per customer	\$ 250	\$ 799	\$ 224	\$ 1568

Product Portfolios of select Open Banks

				
Savings Account	✓	✓	✓	✓
Current/ equivalent business account	✓	✓	✓	✓
Prepaid card				✓
Credit card	✓	✓	✓	
Global card (no forex markup)	✓	✓		
International transfer	✓	✓		
Investments	✓		✓	✓
Personal loan	✓	✓	✓	✓
Business loan	✓			✓
Insurance	✓		✓	✓

Open Banking Case Studies:

India

 Jupiter य येलो
Full सर्विस . Full पॉवर open
more than a bank Niyo



Founded in 2015, first and largest Open-bank in India today, with around 1m users.

Operates in 3 main businesses (retail focus):

- Niyo Bharat: Prepaid salary account for working classes
- Niyo Global Card: Zero forex markup travel card
- Niyo-IDFC First Bank Savings Account

Partnership with IDFC Bank, DCB Bank and Yes Bank



SME focused Open-bank founded in 2017

Helps small and medium-sized businesses to maintain multiple bank accounts, accounting and bookkeeping of their daily spending, avail business loans, pay vendors and receive payments through payment gateway, and pay salaries to employees.

Offers current accounts in partnership with ICICI Bank.



Founded in 2019, digital banking platform focused on Bharat (financially unserved and underserved segment)

Recently launched prepaid salary account product for blue-collared workers working in SMEs



Founded in 2019, digital banking platform aiming to offer nicer and superior banking experience.

Planning to launch debit card and savings account product in partnership with a leading bank.

5. Common myths about Open Banking



“The money deposited in my Open Banking account is not secure”

Money deposited in a neo-banking account is as secure as it would be in a regular bank account in India. All the open-banks in India work on a partnership model with traditional banks.

This means that customer funds are parked in an underlying bank account.

“I am unable to access my money”

Established, full- stack open-banks typically provide their customers with full access to ATM withdrawals.

For example, at Niyogo, customers are allowed to withdraw funds from ATMs both in India and abroad and transfer funds to their bank accounts 24X7 via the mobile app.

“Not enough customer support”

Customers can contact open-bank customer support via phone, IVR, email, online chat, in-app chat, Whatsapp, etc.

A customer support team provides 24X7 access to customers through all the aforementioned channels.

“I have data security and privacy concerns”

Digital presence = Higher Emphasis On Security

- Locking/Unlocking the entire card or any specific transaction type
- ATM and login PIN resetting
- Setting transaction limits depending on the channel or type of transaction
- Hiding account balance and card number within the app
- Live transaction updates and detailed transaction history log



6. Conclusion

Flash in the pan or
next big thing in
banking?



Open Banking: Future Prospects

1

Addressable market segments in retail and SME space are large and profitable

2

Low infrastructure costs, value passed on to customers

3

Deep product and tech integration with partner banks through APIs

Open Banking architecture adopted by many large banks

4

Great emphasis on customer experience (UI/UX, seamless transactions)

Ubiquitous availability of affordable smartphones, cheap data plans

5

Globally proven business models being customized for India

6

Huge market, space for traditional banks as well as Open-banks to thrive together, often through collaboration

Focus On Channel Shift:

Transition to digital banking will initiate a behavioral change.

Opportunities Abound:

Massive opportunity in the SME, blue-collar segment, etc

Favourable Regulatory Policies:

Financial innovation will encourage startups to enter the market.

UPI and BHIM in Indian ecosystem.





Overall bankable
population in India:
~ 500-600 million

Expected reach by Open Banks:
50% in the next 3-4 years

Thank you

Thank you

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