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Open Finance

Current Trend

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Background

Open Finance is the evolution of open banking, Open banking was implemented to enable sharing of secure data between banks and other third parties with authorized access to payment accounts and transaction data, via open APIs. The primary aim of it was to enhance the aspect of competition, innovation and customer choice in the banking sector.

Due to the spread of digital financial ecosystems, it became evident that the financial needs of customers are much broader than the bank accounts. People also have investments, insurance policies, pensions, and credit products among various providers.

Open Finance broadens the concept of open banking by a significantly wider scope of financial information by facilitating the secure exchange of data pertaining to credit, investments, insurance, pensions and other financial products using open APIs, with the consent of the user.

Open Finance lets third-party developers create more advanced applications because it expands the range of available financial information. The solutions enable the customers to manage, view and optimize their financial assets, liabilities and insurance products on a single platform.

Concept and Definition

According to the World Bank "Open Finance is a financial innovation that facilitates customer permissioned access to, and use of customer data held by financial institutions in order to provide new and enhanced services and develop innovative business models"

Open Finance allows customers to share their financial information safely, with certified third-party providers through open APIs, based on their explicit consent. Its main purpose is to develop better financial services, encourage innovation, and support the creation of new data-driven business models across the financial ecosystem.

Open Finance is based on Open Banking. Whereas payment accounts and transaction data are mainly relevant to Open Banking, Open Finance now expands its scope to include a broader range of financial products, such as credit, investments, insurance, pensions and savings. Open Finance also allows customers to oversee their assets, liabilities and financial commitments through one centralized platform.

When it 'is implemented successfully, Open Finance can give power to customers, improve customer experience, drive competition, promote financial inclusion, and increase innovation. However, it also creates new governance, regulatory and technical challenges that require strong frameworks to promote data security, competition and customer protection.

Innovation in Open Finance

The various overlapping waves of innovation are defining the future of Open Finance, including more sophisticated APIs and artificial intelligence models, embedded finance, and wider industry-spanning data integration. The major developments that can be seen to drive the upcoming era are listed below:

1- Developed APIs and Advanced Interoperability

While APIs have long existed, they are still the backbone of Open Finance due to their improved development. The new APIs have a higher degree of security, scalability, and interoperability with other sectors, allowing the systems to integrate financial and non-financial services in real-time.

With such developments, customers can connect banking, investment, insurance and pension information safely in one financial dashboard to provide institutions with 360-degree view of the financial situation of a customer.

2-Artificial Intelligence-Assisted Personalization

The data analysis of Open Finance platforms is changing due to artificial intelligence and machine learning. In the new AI models, users can get hyper-personalized financial insights, predictive financial planning, intelligent risk scoring, and automated customer experiences, much more than simple dashboards.

for banks, it implies the ability to:

- Personalize product offers (loans, savings, insurance) using live behavioral data analysis.
- Predictive analytics can be used to foresee a cash flow shortage, credit risk, and fraudulent activity before they happen.

The development of these innovations in terms of the interaction between banks and customers is making banks proactive and not reactive in terms of service delivery.

3-Real-Time Data and Decisioning

Real-time systems are the future of Open Finance decisions on credit, payment, risk and advisory services and are made in real-time, using live data streams. Real-time insights are becoming the norm and slow updates, or batch process analytics are intolerable to the user.

This shift enables:

- Immediate credit approval based on cash flow and spending patterns.
- Behavioral-based fraud detection in real-time.
- Introduction of dynamic pricing of financial products relying on current market.

Importance

Open Finance is strategically important for banks as it enables secure, standardized, API-based data sharing across a broad range of financial services, including banking, investments, insurance, pensions, and payments. It enhances data security and regulatory compliance while reducing fraud and operational risk. Open Finance allows banks to deliver a more comprehensive view of customers' financial positions, improve onboarding and account verification processes, and support advanced personalized financial solutions. Moreover, it creates opportunities for new revenue streams through data-driven products, partnerships, and advisory services. As competitive pressure from fintechs intensifies, Open Finance adoption strengthens banks' digital capabilities, builds customer trust, and positions them to remain competitive in a rapidly evolving, data-driven financial ecosystem.

Importance and key benefits of Open Finance are:

1-Liquidity Management & Outflow Prevention

By using AI-driven cash flow forecasting connected to Open Finance data, banks can detect early warning signs of liquidity stress. If a bank sees a pattern of large transfers to a specific competitor or investment platform, it can "act before capital outflows hit" by adjusting interest rates or offering personalized retention products in real-time

2. New Revenue Streams

Open Finance enables banks to expand their value proposition beyond traditional banking services by integrating third-party financial offerings such as insurance, investments, wealth management, and specialized lending solutions. Through partnerships with fintechs and other financial institutions, banks can monetize platform and API access, deliver consultative and data-driven services, and unlock new cross-selling opportunities, allowing customers to access complementary and integrated solutions within a single financial ecosystem. At the same time, the shift toward premium APIs allows banks to generate revenue by providing high-quality, real-time data to third parties, transforming data from a cost center into a revenue-generating asset. The transformation of a cost center into a new revenue-generating engine is becoming known as "Data-as-a-Service" (DaaS) business models.

3. Access to New Customer Segments

Using regional collaborations, Open Finance allows banks to reach new customer segments once underserved or inaccessible. This expanded coverage allows scalable growth and diversification of the market.

4. Better Operational Efficiency

Open Finance allows banks to integrate with third-party service providers via an API and automate and simplify fundamental operations, such as customer onboarding and account opening, identity verification and KYC, document processing, lending analytics and credit scoring. This is because this automation minimizes human intervention, reduces the cost of operation, decreases the time of processing and improves the overall standard of the service provided.

5. Enhanced Fraud Prevention and Risk Management

Open Finance opens access to real and multi-source financial information, which allows making more reliable credit and affordability checks, detecting and monitoring frauds better, and enhancing regulatory reporting and compliance. With their understanding of risk management, compliance, and cybersecurity, banks can use richer data sets, which can inform their decision-making, resilience, and system stability.

6. Financial Products and Services Personalization

Through more in-depth information about the customers, banks and other financial institutions can provide tailored pricing and repayment packages, individualized savings, investment and insurance offerings, and custom financial experiences based on the financial abilities and goals of the customers. This high degree of personalization boosts customer confidence and lifetime value.

7. Improved Underwriting and Credit Risk Assessment

Open Finance enables lenders to leverage APIs that aggregate real-time financial data to assess income stability and cash-flow patterns more accurately. This enhances underwriting decisions, reduces risk, and improves outcomes for both lenders and borrowers. Advanced Open Finance-based risk assessment tools strengthen portfolio performance while supporting fairer and more inclusive access to credit.

Challenges

1-Data Governance and Privacy

Data sharing is associated with the growth of privacy, cybersecurity, and information misuse risks. Financial institutions must have strong data governance systems, ensure that they meet all the requirements of regulations, and have solid consent-management systems.

2-Complexity of Regulatory and Supervisory.

Open Finance cuts across various financial industries, which makes the regulation process more complex. It is necessary to have clear guidelines on the ownership, liability, and accountability of data to avoid market fragmentation and safeguard customers.

3- Risk of data breaches

- Data security risks

Increased data sharing expands the attack surface, making financial data more vulnerable to cyberattacks, system breaches, and unauthorized access. Sharing sensitive financial information across multiple parties can lead to privacy violations if data is improperly handled or exposed.

- Data misuse and unethical use

Third parties may use data beyond its original purpose, including unauthorized monetization or discriminatory decision-making.

4-Mainting Customer Relationships

As innovative financial services emerge offering enhanced convenience and superior experiences, customers will be drawn toward these new solutions. This shift poses a potential risk of marginalization for traditional institutions, which could be relegated to simply providing products while large data aggregators capture direct customer relationships.

Practices

1.Mashreq (UAE)

Mashreq has pioneered a next-generation API Marketplace to accelerate digital innovation for corporate clients and fintechs. By providing seamless, real-time access to banking APIs, the platform allows businesses to integrate financial services, such as payments, receivables, and liquidity management directly into their own digital financial ecosystems. This Open Finance initiative eliminates traditional banking silos, enabling corporate treasurers to gain instant visibility into their cash positions and automate complex financial operations.

2.HSBC UK

A pilot that HSBC UK conducted in the United Kingdom showed that Open Finance has the potential to significantly improve access of SMEs to lending. Using Open Finance insights allowed HSBC to automatically assess creditworthiness, using other sources of data. As a result, over 25 per cent of SMEs in a representative sample were offered a loan without having to be referred by a human intervention. The pilot also indicated that over fifty percent of the SMEs who would have dropped off the traditional application process could have gotten a credit loan through the new application using the enriched data sets.

3.J.P. Morgan (United States)

J.P. Morgan has transitioned to the "commercialization" phase of Open Finance by launching Premium API Monetization in 2025. The bank developed high-fidelity data feeds that move beyond basic free access. These premium APIs allow third-party wealth management institutions and fintechs to access enriched capabilities for customer accounts. By charging for these enhanced data streams, J.P. Morgan ensures high-speed, reliable performance that allows external AI advisors to automatically rebalance a user's diversified portfolio or automate complex treasury functions for corporate clients.

4.Mastercard

Mastercard Open Finance enables secure account validation and faster onboarding while reducing fraud risks. It supports seamless account-to-account payments across different platforms and financial institutions. Customers can securely share real-time financial data to access more personalized and smarter financial services. Businesses benefit from improved cashflow visibility and more efficient payment reconciliation. Lenders use consent-based data to enhance credit scoring, increase approval rates, and promote financial inclusion. Mastercard Open Finance also delivers advanced data insights that improve financial decision-making. Through standardized APIs, it ensures secure and trusted data sharing across financial ecosystems.

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