# Industry impact of emerging open banking models

Open banking is a fast-moving, vital component of the modern banking business. With measures underway to embed open banking standards into the usual banking practices in the region, including the publication of a set of recommendations by the regulators, financial services ecosystems must prepare to embrace it.

Open banking has firmly put down roots in the global financial sector over the past few years. The open banking landscape in the GCC is highly dynamic and exciting, with Saudi financial institutions doing the spadework in compliance with SAMA's open banking framework. In the region, the Central Bank of Bahrain has been catalyzing the GCC's open banking revolution.

Open banking acts as an accelerator for banks and can be a new revenue-generating business model. This will pave way to a plethora of opportunities for the customer who has control over their data and the service provider who will design customer-centric financial products. In today's financial ecosystem, open banking as a concept, funnels into two business models.

### Banking-as-a-Platform

Banking-as-a-Platform is essentially a business strategy to improve the customer base and increase the product and service offerings. Providers and consumers are connected via platform enterprises through efficient value exchanges. Such exchanges promote interaction on both supply and demand sides, thereby enhancing the networking effect. A platform involves one or more sponsors – someone to manage who participates and handles concerns like intellectual property (IP), and one or more providers – someone to provide an interface visible to producers and consumers. Both providers and sponsors play an important role in controlling a platform's openness, and how they interact has been used to classify these platforms into two dominant types of platform models:



**Regardless of whether banks choose the Banking-as-a-Service or Banking-as-a-platform model, it is critical to maintain strategic partnerships with stakeholders and engage in strengthening them.**

1. **Proprietary platform (one sponsor, one provider)** This is a closed platform over which the sponsor has complete control. In the financial services industry, proprietary platforms leverage open APIs to make data available to developers and provide finished products to clients (both B2B and B2C). Banks grant developers access to their sandboxes, allowing them to experiment before releasing finished products to the public. Third parties also use APIs to consume products and construct fresh apps on top of existing products.

2. **Licensing platform (one sponsor, many providers)** This type of platform improves the network effect by utilizing a range of providers where a bank, for example, provides a white-label banking platform for both financial services and non-financial services entities, whereby these entities are able to run banking products under license by the traditional bank.

### Advantages

One of the most important monetization models that banks can use in this approach is to charge a fixed fee to all listed third parties for selling their products and services through the bank's distribution network.

In addition, if the third parties are offering more complicated products or services, such as investment or insurance, banks can establish a revenue-sharing model with them.

Finally, banks can always use their open banking platform to considerably increase the client base, reduce operational expenses, and enhance efficiency, all of which will have a direct beneficial influence on their bottom line.

### Banking-as-a-Service

Banking-as-a-Service is the next open banking business model that banks may implement. In this scenario, banks can charge other parties for utilizing their banking APIs while also distributing their API to a third-party provider's network. Additionally, supplementary monetization opportunities under this approach include increasing the reach and awareness, lowering operating costs, and strengthening crucial alliances.

Banking as a Service can assist fintech and non-fintech businesses in providing online banking services to their clients. Instead of concentrating on bank licenses and integrations, they should and can concentrate on improving their own core services. These user-friendly and technologically advanced products may be a better option for their customers than traditional banking. They can also develop applications for their users to track daily transactions, account balances, and savings. Aside from that, for a better customer experience, they can ensure faster access to funds and no hidden expenses.

### Advantages

Open banking as a service can enable banks not only generate revenue but also save money. Banks are not required to invest in technical advancement. They can benefit from their third-party partnerships and get access to ready-made solutions. In reality, this can aid banks in future investment and profit forecasting.

### Going forward

Financial institutions, consumers, technology providers, and regulators can benefit from open banking since they are all at crossroads. To achieve this, both banks and the API users must maintain a dynamic community that explores new ideas and helps turn them into actionable use cases.

One of the fundamental pillars of monetization in the open banking domain is creating and strengthening critical partnerships. Regardless of whether banks choose the banking as a service or banking as a platform model, it is critical to maintain strategic partnerships with stakeholders and engage in strengthening them.

Neo- and digital banks around the world are developing relationships with significant fintech businesses on a fee-for-service or revenue-sharing basis, so that both parties gain equally from the arrangement. Open banking has consistently strived since its inception, and today, with so many income models available, institutions are preparing for the next phase of expansion.

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