



Open Your Eyes to the Benefits of Open Banking

An untapped opportunity is a rare prize in the corporate treasury community, but open banking offers this potential. By leveraging the digital infrastructure that open banking creates, corporates can harness real-time data, benefit from new ways to pay and collect instantly, and ultimately leverage the evolving digital ecosystem to improve process- and cost efficiency. In turn, these innovations can help to reduce fraud, bolster sustainability, and enhance relationships with customers, suppliers and financial providers.



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Many misconceptions exist around open banking, not least the idea that it is simply a regulatory initiative that applies only to consumers and small businesses. Although the concept for open banking came from a 2016 report into the UK's retail banking market (see box 1), in practice it has a much wider scope. In fact, it is a digital framework that underpins the very future of corporate treasury.

As Conor Maher, Head of Transaction Banking Products, NatWest, explains: "Open banking is an infrastructure that facilitates the secure sharing of financial information as well as payment instructions – through the use of open application programming interfaces [APIs]. There are clear opportunities to leverage the digital ecosystem that open banking creates to solve real business challenges for corporate treasurers and to leverage innovation opportunities. And let's not forget that APIs are a tried-and-tested technology. Open banking is simply opening up new avenues for using this technology to build even greater business value."

Box 1:

Open banking: a brief history

In 2016, the UK's Competition and Markets Authority (CMA) published a report on the UK's retail banking market, which found that older, larger banks "do not have to compete hard enough for customers' business, and smaller and newer banks find it difficult to grow and access the market." To tackle this, the CMA proposed a number of remedies including open banking.

To this end, the UK Open Banking Implementation Entity was formed in August 2016. Over the following months, 'open data' was launched as a concept and open banking standards were created and refined to help regulate and streamline the transfer of data between approved third-party providers (TPPs). There are two types of TPPs:

1. Account Information Service Provider (AISP): authorised to retrieve account data provided by banks and financial institutions
2. Payment Initiation Service Provider (PISP): authorised to initiate payments into or out of a user's account

Open banking went live in the UK in January 2018, coinciding with the publication of the Second Payment Services Directive (PSD2) in Europe. This legislation enables regulated TPPs, with a customer's consent, to access a customer's bank account information and/or request payments.

Since then, open banking has become a global concept – with Asia and the US following suit. While there are nuances, the fundamentals of data sharing through open APIs underpin the notion of open banking worldwide.

Source: <https://www.openbanking.org.uk/about-us/>

Payment use cases

As treasurers continue to embrace digital solutions, spurred on by the unique challenges of the Covid-19 pandemic, open banking has much to offer. Matthew Giannotti, Head of Transaction Services Sales FI & Professional Services, NatWest, comments: “The impact of Covid-19 lockdowns has brought about significant changes to corporate business models, with some organisations venturing into e-commerce for the first time. Many corporates have also shifted away from solely B2B [business-to-business] sales into direct to consumer [D2C] sales, through their own websites, or through digital marketplaces.”

In turn, this has led to a rapid shift in the payments and collections channels used by corporates. “Organisations are also re-examining their digital strategies to look for ways to become more competitive and improve their customer service – by offering instant re-imbursments on returned items, for example. This is where open banking is coming into its own, especially around payment initiation,” says Giannotti.

Maher agrees, adding: “Traditionally, payment initiation was a secondary journey on the back of an underlying commercial transaction. What we’re seeing through open banking solutions today is that payments are becoming an integral and seamless part of the underlying e-commerce transaction journey.”

To illustrate this, Maher and Giannotti cite the example of Payit™ by NatWest, which leverages open banking rails to provide corporates with a new way to send and receive online payments. The benefits include the ability to easily reach non-NatWest customers, no requirement to hold customer data, real-time transactions, and a reduced potential for fraud (see box 3 for further details).

Box 2: Bank of APIs

NatWest’s Bank of APIs is a community designed to help build the future of banking through collaboration with fintechs and customers. The bank’s API ecosystem simplifies and facilitates the development of innovative digital solutions across a range of services. Discover more at www.bankofapis.com

Box 3: Payit™ by NatWest

Payit™ is a new NatWest innovation, based on open banking, which offers a fast, fair, simple and safe way to pay and get paid. Although Payit™ is developed by NatWest, as part of NatWest’s Bank of APIs initiative [see box 2], end customers don’t need to bank with NatWest to use it.



Collecting payments

Payit™ offers businesses a new way to collect payments online; an alternative to credit and debit cards. Maher elaborates: “For collections, the open API enables customers to pay direct from their bank account – with any bank. At the point of online transaction, customers can now choose a ‘cardless’ experience. Using Payit™, they see a list of all the main UK banks, and can scroll through to use their bank, and their account of choice, to pay from.” Giannotti explains: “Payments are settled in real time, which improves cash flow and visibility over cash. It is an end-to-end solution, which simplifies the merchant’s financial supply chain and ultimately saves costs, such as card-related interchange fees. Since customers do not enter their details or register for Payit™, the merchant also has no need to store customer billing data, which reduces the data protection burden under GDPR [General Data Protection Regulation] and mitigates the risk of fraud.”

For customers, Payit™ is a quick and easy journey – they don’t have to enter their card details or create an account to use Payit™. The solution also provides them full visibility and choice over the account they use, so they can see their account balance before confirming the transaction. In addition, customers – like merchants – benefit from reduced exposure to fraud and greater control over data sharing as they don’t share their financial data with anyone outside their own bank.

Maher adds: “So, in one solution, we are able to resolve major e-commerce pain points for the merchant and the customer, all thanks to open banking.”

Sending payments

Additional functionality launched in February 2021 means that Payit™ now offers corporates the ability to send money direct to customers’ bank accounts, without needing their account details. The feature aims to replace the use of cheques and bank transfers when sending money to customers, allowing for instant payments to be made when issuing refunds or customer service payments, as well as for specific uses such as compensation payments and emergency cash requirements. The rapid, electronic means of processing the payment not only delivers a seamless customer experience and reduces environmental impact but also gives instant cash flow information for the corporate and saves significant time and money compared with refunds by cheque or cash.

Making a positive impact

Maher notes that as well as delivering concrete results for corporates and their customers, Payit™ also embodies NatWest’s purpose-led strategy to champion the potential of people, families and businesses and to help them thrive. “Our aim is always to make a positive impact on our customers’ lives by supporting and driving enterprise, giving them confidence through learning and combating climate change. Payit™ is a great demonstration of how innovation can achieve those aims. The solution helps to make businesses more efficient and competitive, provides a fair and safe environment for end customers, and improves ESG metrics – what’s not to like?”

Eligibility criteria and fees apply. You must hold a business current account with the NatWest Group.

Aside from Payit™, another interesting innovation leveraging open APIs is the Confirmation of Payee services that UK banks have rolled out. This functionality validates a payee's account details ahead of a payment being made, by checking the account name and number with the payee's bank via an API call. If the result is a match, the payment can proceed. If there is no match, the payer must double-check the details with the payee before they can authorise the payment. Maher comments: "Confirmation of Payee is a simple yet incredibly useful functionality that can significantly reduce fraud. It's something treasurers have long been asking banks to provide, and now, because of open banking, we are able to deliver it."

Real-time treasury and trade

The transformational potential of open banking is by no means limited to payments, however. As Rowan Austin, Head of Trade Origination and Advisory, NatWest, explains: "The fundamental point is that open APIs create a broader digital ecosystem that enables the sharing of information – this can be particularly useful in the world of global cross-border trade."

Traditionally, trade has relied on paper-based processes. This creates numerous challenges – not least the slowing down of transactions. Until recently, these 'analogue' processes have been difficult to digitise but "Technology solutions are starting to be implemented to enhance processes in many areas of global trade," says Austin. "Indeed, we are seeing numerous digital platforms emerge, many of which are collaborations between banks and fintechs, as a means to digitise trade workflows and trade finance instruments, such as letters of credit."

Although the digitisation of trade processes has undeniable benefits, there is a risk that the new platforms turn into digital 'islands' rather than being part of a digital ecosystem, says Austin. "Of course, everyone thinks that the 'island' they have built is best. But if these platforms don't talk to each other, this creates barriers to the flow of data. In turn, this hampers the efficiency of trade processes – which is counterproductive."

The ray of light here is that APIs enable interoperability between technology platforms and can build bridges between those digital islands, linking them together to form a trade ecosystem. In fact, "APIs are rapidly becoming the cornerstone in the development of new technology in global trade and trade finance," notes Austin. "And many of the emerging trade platforms built on distributed ledger technology are in fact based on open API technology."

Visibility and velocity

From the treasurer's perspective, one of the main potential benefits of using these digital platforms is obtaining a single view of trade-related transactions and trade finance arrangements. Currently, corporates typically have to access multiple 'destination' platforms and bank systems to achieve this visibility. "Thanks to open APIs, corporates will be able to manage and control their financing and risk-related requirements through their own, or selected third party, platform – rather than having to access a multitude of individual bank systems."

By creating a digital ecosystem, APIs will also help data flow quickly and transparently across the many counterparties involved in a global supply chain. At the same time, the availability of this data will enable financial products and solutions to be accessed and delivered in a more seamless and rapid manner. Corporates can also manage their own financial supply chain in near real time, thanks to APIs.

Bringing this to life, Austin cites the example of a customer that is waiting for a shipment of goods from a supplier. "It is common for suppliers to hold back further shipments until the customer has cleared their account to below their credit limit. An API can ensure the supplier's credit control department is notified in near real time of any incoming payment from the buyer. In turn, credit can be granted and the goods can be shipped – in a timely fashion. This delivers benefits for all involved."

As well as providing greater transparency over the financial flows related to trade, APIs will also enable greater visibility and data sharing around ESG metrics, believes Austin. "Sustainability is becoming an increasingly an important component of corporate life, and organisations are keen to understand the ESG impact of their supply chains. APIs are a natural fit for enabling ESG transparency and I expect this to grow as an area of focus. Treasurers could also find their role in ESG expanding as companies look to incentivise suppliers to become more ESG-compliant through sustainable supply chain finance programmes."

Additional treasury benefits

Besides increasing the velocity of global trade, open APIs are also speeding up the delivery of multibank cash positions, without the need for SWIFT connectivity. Says Giannotti: "The beauty of APIs is that they enable treasurers to have a real-time connection with their banks, providing an immediate and accurate picture of their cash position. More and more treasurers are using API calls in this way, and we are also witnessing a significant uptick in the use of APIs to authorise payments in real time [see box 4]."

"Now more than ever, treasurers require multibank real-time cash visibility. They need to be able to initiate payments in real time, from their TMS. Treasurers also require an immediate line of sight over receipts, with the ability to layer intelligent reconciliation solutions on top. Dashboards with real-time information for improved decision making will also be critical, and vendors must respond to these requirements sooner rather than later."

Seeing the bigger picture

It is not just vendors who have homework to do around APIs and real-time treasury, however. Giannotti comments: "It is one thing having access to real-time information thanks to APIs; it is quite another to know how to use that information to the benefit of the business. Treasurers would do well to assess which information they truly need in real time, and which can simply be provided in a timely fashion. Then there are wider conversations to be had around business processes – is the company ready for a real-time environment? Are next-day processes baked in or could they be modernised through automation, for example, to increase the velocity and productivity of the entire business, not just treasury?"

Maier agrees, adding: “APIs can help to solve many business pain points, not just treasury challenges. For example, we are working on pilots in the Digital ID space where corporates could use APIs to verify customer identification. This can be particularly useful in age-restricted industries to safeguard minors, speed up the customer onboarding process and reduce identity fraud, while improving customer experience.”

Of course, all the usual data protection and security caveats exist around such functionality. And, as Maier points out, “trust is essential” for API usage to grow. “The beauty of open banking is that it brings together experts in their relative fields – banks and fintechs – to deliver the best of both worlds for customers. Corporates get the security and reliability of their banking partners, together with the cutting-edge technology know-how and agility of fintechs,” he adds.

That’s not to say that banks aren’t innovating themselves, many are also investing internally in technology advances. But open banking has led to a much stronger partnership approach whereby banks, fintechs and corporates are working together to create a seamless, real-time, digital business environment.

Giannotti and Maier also advocate a partnership approach within the corporate entity, to help make the most of what APIs have to offer. Says Giannotti: “Open APIs are all about ecosystems. The treasurer is not an island and to reap the full benefits of APIs, treasury must work hand in hand with other business functions – such as IT, procurement, sales and marketing. There is a waterfall effect to open APIs and, through cross-departmental collaboration, treasury can identify pain points in other areas of the business that could be solved using the information obtained via an account information API, for example.”

Open dialogue within the corporate organisation can also help to pinpoint areas where APIs and open banking will not add value, says Maier. “Using open banking for the sake of using open banking is not going to deliver results. Having a clear idea of the pain points that need to be solved is vital. It is also important to consider how open banking fits into the enterprise’s broader ambition, and chimes with its digital strategy and future ambitions.”

So, while open APIs themselves are easy to implement and use, arguably the internal reflection required to extract maximum value from them is the hardest part of the corporate journey. Maier concludes: “Open APIs offer an opportunity for corporates to make their business more sustainable in every sense of the word. Those organisations that leverage the current and future potential of open banking within treasury and the wider business will reap the benefits – by building out digital ecosystems that bring them closer to the customers, suppliers and business partners. In short, open banking can no longer be ignored.”

Box 4: The numbers speak for themselves

- 125 million requests were made by customers via NatWest Group’s APIs in March 2021, which represents a 60% increase from March 2020
- 577,000 customers used NatWest Group’s APIs in March alone for account information services, up from 335,000 customers in March 2020
- 1.44 million customers in total have now used NatWest Group’s APIs for account information services at least once, as of March 2021
- 368,000 customers in total have initiated payments using NatWest Group’s APIs, as of March 2021
- £836 million in transactions have been made in total through payments authorised via NatWest Group’s APIs, as of March 2021 – this is over ten times the total reached in March 2020

Source: NatWest Group

See the infographic accompanying this article for more open banking statistics (link to be added).

Making the most of open banking: 5 key takeaways

1. **Forget what you think you know.** Open banking is not just a regulatory initiative. And it is not only for consumers and small businesses. It is the digital infrastructure that enables the secure exchange of financial information and payment instructions – and it holds huge potential for corporates.
2. **Explore the payments possibilities.** APIs can be used to collect from customers in real time, direct from their bank account without the need for account details or costly fees. APIs can also be used to generate instant payments again without the need for bank account details. Benefits of payments APIs include improved cash visibility, greater efficiency, reduced costs, mitigation of fraud, and data compliance risks.
3. **Begin to transform trade.** While there is still a long way to go in the digitisation of global trade processes, APIs can be used to create a digital trade ecosystem through shared data. In turn, this can help increase the velocity of trade transactions, as well as the provision of trade finance. Corporates can also manage their own financial supply chain in near real time, thanks to APIs. For example, if treasury is alerted of incoming funds from a customer via an API, this information can then be passed onto to credit control so that the customer can have pending goods released to them, or even plan an additional order, almost instantaneously.
4. **Embrace real-time treasury.** APIs deliver information instantly, and form the basis of real-time treasury. But to make the most of this real-time data, treasurers require their TMS and ERP to be up to speed. Moving away from batch-processing habits and next-business-day mindsets will also be critical.
5. **Examine the waterfall effect.** The benefits of open APIs are not limited to treasury. Cross-departmental collaboration could enable the identification of pain points in other areas of the business that could be solved using the information obtained via a treasury API – delivering even greater value.

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