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E-BOOK

Open Banking Use Cases

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Introduction

Open banking is developed on the grounds of governance, security, and, most importantly, the customer at the forefront.

There are numerous ways in which Open Banking can mitigate customer discontent and improve their overall experience. Consumers are the intended audience for Open Banking solutions, which aim to close a functional gap in financial management.

These are typically integrated into a banking app and use data from multiple financial institutions or external sources to provide a more comprehensive picture. Customers are more likely to be satisfied and loyal if they can easily manage their finances thanks to this consolidation of data.

By allowing customers to choose additional services that rely on data exchange, open banking establishes the bank as the hub of a larger ecosystem. This will necessitate that the bank's systems orchestrate and aggregate diverse sources of data and have the capability to interpret and utilize this data for microservices solutions.

The forthcoming use cases illustrate how open banking products and services may benefit banks, consumers, small and medium-sized enterprises (SMEs), as well as the entire payments value chain.



Open Banking Use Cases

Account & Identity Verification

Open banking grants users (individuals and businesses) greater control over their financial information. They have the power to decide which accounts may be viewed, for how long, and for purposes, such as account opening, loan approval, credit score improvement, etc.

The Open Banking API takes care of establishing safe, trustworthy connections to financial institutions, allowing account holders to easily authenticate themselves, and returning previously accessed financial data immediately when a query is executed.

Financial services like loans, payments, and account opening can all take advantage of the Open Banking API's extensive features that include account aggregation, payment facilitation, and credit scores.

More efficient fraud detection procedures for account opening, M2M transfers, P2P transfers, bill payments, and other types of transactions make it more challenging for criminals to use real or fake IDs to commit fraud, resulting in a significant drop in identity fraud.

Income Verification

Open banking eases the income verification process without the need for pay checks, salary statements, and tax returns, since it has always been a crucial stage in many procedures, especially when it comes to leasing a house or obtaining a loan.

Open Banking income verification offers safe access to the necessary account information with reference to the several sources of income people have these days.

This will allow the lender to see the whole picture of the applicant's financial situation and demonstrate the borrower's reliability and long-term income stability.

Open banking allows third parties to confirm a customer's identity and income with the customer's permission.



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Income verification can serve as the foundation for a full financial profile, which would allow participants to examine spending patterns, risk tolerance, sources of income, and trends of the client. Having access to this data means being able to create prediction models, evaluate risk, and make wise choices regarding any user's present and future situations.

By consolidating the management of valuable bank data, open banking enables you to make more efficient use of financial resources, grow operations, and cross-sell products and services.

Affordability Check

Open banking enables the identification and evaluation of applicants' expenses in the context of affordability, including housing costs, Loan payments, utilities, and travel expenses. insurance payments, etc.

Open banking will facilitate the analysis of consumer data and provide it via API, speeding up the process of determining an applicant's affordability in minutes.

Businesses and individuals alike can benefit from lending powered by open banking technology, as it reduces nonperforming loans and increases lender profits by keeping borrowers from taking on more debt than they can afford to repay.

Better, faster decisions may be made with the aid of open banking and cutting-edge analytics. It drastically altered the ways in which marketers, financial planners, and creditors communicate with their clientele.

By analysing customer histories, labelling consumers based on their behaviours, and sorting through crowdsourced data, open banks are better able to zero in on the most profitable clients at the most opportune times.

It allows for better interest rate decisions, risk evaluations, loan approvals, cash management, and cost savings in general operations.

Open banking allows you to make better use of funds, grow operations, and cross-sell services by centralising and organising key bank data.



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Expenses Tracker

Open banking allows banks and fintechs to augment client transaction data beyond conventional categories. We can further categorise expenses as "Entertainment," "Groceries," "Bills," "Travel," "Shopping," etc., and similarly categorise income as "Salary," "Dividends," "Pensions," etc.

Open banking enables financial institutions to gain greater knowledge of their customers' needs using enriched data. Financial institutions can increase customer retention and revenue by providing personalised service.

They are also simplifying affordability analyses and speeding lending decisions. And the same insights are also assisting financial institutions in spotting timely up-sell and cross-sell prospects.

Let us imagine that open financial data shows a consumer has been travelling more. Depending on the requirements of the consumer, the bank may recommend different travel-related products like a foreign exchange service, special credit card or a travel insurance policy.

The expense-tracking feature of open banking is an effective tool that is extending access to personalised financial services for every customer by utilising raw data and transforming it into valuable insights that can be put into action.

A personalised financial experience encourages the customer and thus financial institutions like banks and fintechs see improved customer loyalty, retention rates, and revenue as a result. It benefits everyone equally.



Auto Savings Services

With the introduction of open banking, innovative personal financial management apps have been developed to help customers create budgets, control their spending, and initiate automatic savings.

Open banking allows automated savings apps to assess a customer's expenditures and set aside small sums of money. These apps help customers automatically save money by establishing rules and goals.

Consequently, there will be a reduced need for overdrafts and other emergency borrowing, which will improve cash flow management, analysis of spending habits, improved propensity to save, and enhanced long-term financial security.

With Open Banking APIs, financial institutions can improve the customer experience by ordering digital banking support tailored to the specific needs of their customers. Having more alternatives means more satisfied customers. You can improve the customer experience and propel your business forward.

Instant Account Transfer

For a payment to be initiated via open banking, a customer must provide permission to a third-party provider (TPP) to access their bank account and make a payment on their behalf.

Easy and instant topping up of accounts is the primary reward of this open banking approach. They only must verify their identity with their bank, choose the account they want to pay from, and confirm. And they can do it without leaving their current setting!

By standardising payment processing, Open Banking helps to expedite and simplify banking experience. This allows to save time and money on transaction processing by cutting out the need for human intervention.

With the rapid account funding use case in place, financial institutions can swiftly and safely deposit funds for the purpose of constructing an investment portfolio.

Banks earn a great deal of money using Open Banking API by providing customers with valuable, one-of-a-kind services. In addition to profiting from your consumers, you can also assist them financially and meet their needs.



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Rental Recognition

Open banking technology allows for the verification of both rental and credit histories. When reviewing a person's credit history, lenders look at their past spending patterns and overall fiscal discipline. When reviewing a person's rental history, Open banking technology indirectly facilitates the substantiation of rental history through the provision of financial transaction data.

However, Open banking rental recognition depends on the availability of rent payment data in the banking system and the services or integrations offered by financial institutions or rental platforms.

A positive rental history improves an applicant's chances of getting their new lease signed off on quickly. Additionally, tenants have the option of automatically verifying their history of rent payments and sharing this data with landlords.

With open banking, financial institutions can strengthen the quality of their decisions by relying on real-time data and credit line information. They can also speed up the processing of digital applications, thus improving the quality of their customer interactions and simplifying their procedures by reducing the complexity and paperwork involved.

The advent of open banking has opened up numerous opportunities, allowing financial institutions to implement sophisticated digital solutions to entice and retain consumers while also easing internal processes.

Comparing FX Rates

Open banking enables customers to allow authorised third-party providers to access their banking information, including FX transactions. By utilising this access, these service providers can deliver customised financial solutions, such as the ability to access and compare foreign exchange rates from various sources. Following this, customers can select the FX provider that best meets their requirements among the others.

Thus, Open banking promotes competition among the service providers, pushing them to offer competitive FX rates.



Transaction Monitoring

Open banking has the potential to consolidate a customer's banking, transaction, investment, and spending data in a single location.

With open banking, financial institutions can access accurate data about their customers' financial transactions directly from the customer's own bank account. Open banking presents a broader overview of a customer's transactions with banks, allowing them to better analyse the financial standing of potential customers.

This enables banks & FIS to learn about the identity of the customer's partners, the location of any such partners, and the customer's typical transactional pattern.

Because of this, open banking prevents fraud by allowing banks and FIS to gain more data about their customers. Having this knowledge enables them to screen out possible risky consumers, prevent money laundering and fraud, make smarter decisions, and save compliance costs.

Business Payment Initiation Services

Open banking promotes payment initiation, where the customers authorise third parties to connect to their banks and make payments straight from their bank accounts.

The user just needs to log in to their bank, select the account of their choice, and complete the transaction with just one tap.

Providing customer with comfort and satisfaction can increase business revenue, as people are more likely to return if their overall experience is excellent.

Payment initiation eliminates the need for merchants to store sensitive customer data throughout the transaction process. Also, there is no interchange fee or card processing fee associated with it.

Account-to-account transfer of payment reduces manual errors and hence contributes to decreased transaction failures and increased conversion rate.

In the context of open banking, payment initiation can indeed accelerate the transfer of payments, but it does not eliminate settlement periods entirely.



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The settlement period depends on the banks, payment type (domestic or international), payment mechanism, regulatory requirements. and other underlying financial infrastructure.

Faster payments allow businesses to manage their cash flow, meet their payment commitments, and make appropriate investments more efficiently. This can have far-reaching beneficial effects on business operations.

Payment initiation is not only a quick and affordable option, but also a safe one. As a result, both customers and businesses benefit from the improved advantages of their respective environments.

Risk Scoring Services

Open banking paves the path for more in-depth risk analysis by giving businesses access to customer bank account data, which is accurate and up to date.

Open banking makes the application process simple since neither the applicant nor the lender needs to put in significant effort. An applicant's bank authentication is all that's needed to grant permission to utilise their information (and it only takes a few clicks).

The lender may get a clear picture of the situation without having to go through reams of data, provided that they employ an open banking solution.

It helps you make a sound choice by giving you a more complete view of a person's financial status. You may establish a stronger customer portfolio and provide a loan, line of credit, or other financial services that is a better fit for each individual's position if you consider their way of life in addition to their credit history and account balances.

Utilising open banking benefits businesses by increasing conversion, improving efficiency, and decreasing the percentage of non-performing loans, while also improving the user experience and criteria for applicants.

Open banking allows more people to gain access to financial services who could have been denied the opportunity before and thus brings more prospects for businesses.



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Transaction Reconciliation Process

Open Banking enables real-time status updates on settled transactions, allowing businesses, merchants, and PSPs to instantly identify and reconcile completed transactions with the original payment.

No longer must you dread the monthly ritual of reconciling your bank accounts because of the monotony and length of the process. The Open Banking module allows you to see the individual line items of your bank statements, so you can quickly and easily rectify any erroneous or unauthorised charges.

By automatically matching bank transactions to statement lines based on both established and custom rules, the auto-match feature streamlines the bank reconciliation process.

Most reconciliations only require a few mouse clicks to complete.

Instead, you may easily make up any missing paperwork without leaving the reconciliation screen by selecting the option to construct ledger transactions from bank statement lines. It could encourage you to do a weekly bank reconciliation.

Thus, banks can save money on administrative costs and boost productivity by adopting open banking means of payment reconciliation and eliminating the manual methods.

Business Finance Finder

Businesses can grow in strength, efficiency, and prosperity with the support of open banking, a simple and secure approach to facilitate improved financial management.

The most up-to-date financial information is made available to businesses through Open Banking, allowing them to gain insight into their financial situation and make informed choices about how to manage and conserve their funds.

This includes speeding up payment processing, providing more precise projections, or submitting credit applications.

With the use of open banking, account-to-account (A2A) payments can be an affordable alternative to card payments.



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The company bank account is the repository for numerous types of financial information, including credit costs, cash flow, invoicing, and payroll.

By safely sharing this information with banks and fintech firms, businesses can find more reasonably priced goods, services, and apps to help them better understand their finances.

Open Banking is a useful instrument for securing and comparing various forms of financing, such as business loans, asset finance, commercial mortgages, working capital, invoice financing, property loans, mergers, and acquisitions, etc.

Banks can get an edge over their competitors by offering clients exceptional value for their investment.

SME Funding

Smaller businesses can get more banking choices by using open banking and can benefit from lower fees, reduced rates of interest, and more specialised financial services owing to a heightened degree of competition.

Using open banking empowers SMEs to manage their finances more competently and to make wise business decisions by enabling them access to real-time financial data. This helps SMEs to better manage their finances, plan for future needs, and make smart investment decisions.

SMEs can make use of technology to learn more about consumer information including buying habits, account balances, and demographics. This information benefits SMEs in a variety of ways, such as enhancing customer service, making recommendations that are more pertinent, and personalising financial products and services.

Banking information for SMEs is secure with open banking and SMEs may keep a competitive edge with the use of open banking. They could use the knowledge they get from open banking to develop their business, grow their customer base, and manage their finances more effectively.



All in One Platform for SMEs

Open Banking services offer value to banks' financial data, allowing them to better serve their existing small and medium-sized enterprise (SME) clients and attract new consumers.

The Open Banking provider can assist banks in analysing SMEs' entire financial condition, identifying any loans or payment patterns, and calculating credit risk once SMEs provide access to all of their firm bank accounts.

Moreover, Open Banking can contribute significantly to the effective administration of small and medium-sized enterprises' (SME) financial resources by the following means.

- ➔ Gives SMEs a real-time feed of their bank accounts, featuring neatly organised, transactional details that can be loaded directly into their accounting software
- ➔ Presents a categorical breakdown of the revenue and costs of a SME.
- ➔ Based on the outcomes of the cash flow forecast, the bank suggests additional funding proposals for the SME utilising the bank's financing products.
- ➔ Enables SMEs to transfer funds between their accounts quickly and conveniently without having to leave the online banking interface of the recipient bank;
- ➔ Assists SMEs in paying their suppliers in a safe and affordable manner by sending a bulk payment file straight to the bank without having to set up a pricey SWIFT connectivity;
- ➔ Reducing credit card processing fees by letting SME customers pay invoices with bank transfers;

Open Banking can greatly assist banks in improving their SME offering by lowering the barriers associated with strong customer authentication (SCA), enacting SCA exemptions proposed by PSD2, and extensively promoting bulk payments for all payment products (not just standard SEPA payments, but also Instant payments and cross-border payments).



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Subscription Model

Open banking makes sense in the subscription era because it gives users visibility and security thus benefiting the businesses.

Well, most subscription payments are conducted through card-on-file payments, where individuals share sensitive card information with merchants who collect the payment as needed. Due to the possibility of card expiration, loss, or theft, this approach is costly for businesses and prone to fraud. It also increases the likelihood that payments will bounce.

Since card-on-file payments do not show up in banking apps, paying subscriptions this way makes it tougher for users to track them.

VRPs, the latest aspect of UK open banking, enable users to pay for ongoing services or purchases with their bank account "on file" rather than a card. Customers determine the VRP's initial parameters (such as the maximum amount and frequency), and the VRP is managed in the background by regulated parties.

With open banking, authorised third parties can view customers' banking information using open application programming interfaces (APIs) and process payments on their behalf, without needing to charge the customer's card. It simplifies connecting bank accounts to digital services and products and is increasing across Europe.

Open banking technology and the concept of embedded finance can bridge the communication gap between the bank, the consumer, and the retailer. Consumers can view all their subscriptions and easily cancel or stop them by using subscription management software that is integrated into a banking app.

With more freedom and choice, customers are more likely to feel comfortable and confident utilizing subscription services which boosts the functionality of a banking app.

Also, banks can determine whether a consumer can afford a product or service by tracking the customer's past financial activity.



Faster and Real-time Customer Onboarding

Open banking plays a crucial role by instantaneously connecting and verifying consumer or business accounts to enhance conversion and avoid risk.

Billing and invoicing platforms, banking, the financial sector, e-commerce, and retail are the sectors that gain through this faster onboarding process.

Banks can automatically fill out numerous forms and acquire data from both internal and external sources with the support of onboarding solutions, which leverage open APIs and, occasionally, robotic process automation (RPA).

Besides, instant, and simple onboarding via open banking decreases drop offs and allows users to sign up and begin using the services in just a few minutes. There will be neither laborious tasks nor mistakes caused by humans.

And it means we can give our consumers an extremely straightforward and trouble-free service.

Product Comparison Services

By analyzing a customer's spending patterns and identifying their preferred service providers, open banking offers the potential to streamline the comparison and switching processes. The goal is to create smarter and more personalized versions of services like retail banking, personal financial management, and pricing comparison.

Customers can choose the most favourable loan, CASA, overdraft fee, and banking fee combinations by using product comparison services.

By providing thorough comparisons, open banking helps customers get the best prices possible, which in turn benefits the banks by increasing both new and returning clientele.

This feature of open banking leads to offering more cost-effective alternate service providers and opportunity for customized comparisons, based on a user's geographic location and energy consumption.

Customers benefit from the bank's ability to make it easier for them to keep track of their money, while the bank itself gains new clients and promotes financial well-being.

Account Aggregation Services

One of the core tenets of Open Banking is account aggregation, which calls for financial institutions to make their customer data available to approved third parties using application programming interface (API).

Banks provide customers with the ability to "aggregate" information from their various accounts and the services of other institutions the customers utilise through account aggregation.

It's vital to remember that the data is in read-only format, meaning users and parties attempting to accessing them can only view them, not alter them.

By analysing consumer data in real time, banks can deliver spending insights that increase app engagement and help customers better manage their finances.

Since banks can see prospective borrowers' financial standings in real time, this information can be integrated into the credit rating process so that bad loans can be avoided, and better terms can be offered.

Banks can create a compelling banking app that unifies all their customers' international bank accounts, regardless of whether those accounts are held with the bank itself or with another financial institution.

After gaining a more nuanced understanding of the user through the categorization insights, the bank is in a better position to cross-sell insurance, loans, and other proprietary products to the customer.

Request to Pay

Users can make payment requests to other accounts in an organised way using the Request-to-Pay feature. Request for Payments can be used for both recurring and one-off payments in real time, unlike direct debits.

Payment requests can be issued detailing the amount owed and due date, via multiple channels, including SMS, email, the company's app, and eventually the customer's own online banking environment, giving customers and businesses an easy and versatile method of settling accounts. The payer has the option to initiate the transaction at his convenience.

If a business uses Request to Pay linked to its ERP (Enterprise Resource Planning) software, then all its payments will be in sync with its financial records without any manual intervention.

A request to pay solution built on open banking might be a useful and profitable intervention for several businesses. They replace commission-based fees charged by intermediate card acquirers with a flat price per transaction and guarantee immediate funding, saving businesses time and money while eliminating the danger of nonpayment and late fees.

It also facilitates the payment of products and services straight from a bank account without the need for setting up a recurring payment plan.

Banks may now offer rapid, user-friendly, and secure online payments to their customers thanks to the Request to Pay use case, which has the potential to completely revamp the invoicing and recurring payment systems.

Anti Money Laundering

Open banking assists financial institutions in Anti- Money Laundering checks which are done to make sure that any potential clients do not have any criminal histories or other illicit goals related to money transfers or acquisitions.

Using open banking APIs, financial Institutions construct dynamic risk profiles of customers that change and evolve in real-time. Open banking enabled AML (Anti Money Laundering) checks give a full picture of the partners with whom a client does business and where those partners are located; generate buying and selling habits; assess the level of risk posed by a customer and act accordingly; and able to make informed forecasts about the likelihood of future fraud.

Instead of switching tabs and searching directories, it is possible to access them easily and make smart choices.

Know Your Customer (KYC)

Open banking is the backbone upon which today's businesses may construct their Know Your Customer (KYC) infrastructure. It completely automates the processes involved with Know Your Customer (KYC).

There will be no wasted time organizing papers. Digitalization will automate and streamline procedures including locating a user's fundamental details (name, surname, date of birth), verifying their wealth, giving transaction data, and constructing risk profile projection models.

Open banking assists financial institutions to cut down on the money and time spent on a pile of processes, prevents frauds, and promotes authenticity.

Tax preparation

Using an open banking system can simplify tax preparation in several ways. Banks can improve their operations, better serve their customers both retail and commercial, and see a decrease in the number of calls they receive during tax season if they establish a direct connection between their systems and popular accounting platforms for the purpose of retrieving tax data.

With Open Banking, users can choose to have their payment information pre-filled from their bank account, rendering the payment process faster and less prone to human error.

Open banking paves for less paperwork, the right taxation amount to the government and reduction in tax fraud with customer integration.

Buy Now Pay Later (BNPL) Services

Open banking allows BNPL providers to improve customer service by preventing customers from getting their credit scores dropped. With accessible financial data and relevant insights by embracing open banking, providers can now analyze customers instantly

With the help of open banking, such analyses can advance from being unclear and sometimes incorrect to be pinpointed accurately and constantly updated.

Open banking offers numerous advantages by helping financial institutions in terms of customer identity verification, financial data retrieval, and account verification. performing Know Your Customer and making credit decisions and increased conversion rates.

Mortgage Lending

With the help of Open banking, lenders can determine a customer's identity and credibility, and effectively evaluate the ability of a borrower to pay back a loan as they have access to extensive financial information of the borrower.

Thus, loan decisions become more accurate, benefiting both the lender and the borrower. This decreases the likelihood of fraud, lowers the cost of lending to high-risk clients, aids borrowers in securing more favorable loan terms, and enhances the transparency of the lending and borrowing process.

An enhanced user experience is just another reward of open banking in mortgage finance.

Tavas - Cloud-based, Open Banking (PSD2) Compliant Solution

Macro Global's Open Banking (PSD2) solution can help you enter new markets quickly by utilizing Open Banking's benefits and builds confidence between financial institutions and third-parties providers (TPPs), helping institutions conform more closely to Open Banking (PSD2) rules while still allowing for robust consumer authentication.

Metrics and Key Performance Indicators such as Onboarded TPPs, Transactions, and TPP Registration Requests can be visualised in a centralised dashboard for managing payments and account consent.

State-of-the-art Open Banking Application Programming Interfaces (APIs) that make up Tavas provide access to features including Account Information Services (AIS), Payment Initiation Services (PIS), and Confirmation of Funds (COF).

Interoperability and maintaining authority in a dynamic payments' ecosystem are both made possible by Tavas' Open Banking Product Suite and Solutions, which guarantee compliance with applicable rules.

By preventing unauthorised access and ensuring that only authenticated access requests are handled, MG's security APIs for Tavas safeguard the banks' traffic.

Macro Global's Open Banking Solution & Suite, Tavas, can assist you in discovering novel market niches in the digital age as Open Banking use cases expand across a broad spectrum of contexts.



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