Open Banking Guide: Key Elements to Consider Before Choosing a Provider

ponto

by Isabel Group

Open banking, in which user banking data is made available to authorized third-party providers and software applications – with owners' consent, of course – , has released a financial services revolution. In letting third-party financial service providers (TPPs) use secure application programming interfaces (APIs) to access customer data held by banks and other financial institutions, open banking fosters unprecedented innovation in the financial sector.

Based on the principle of facilitating a simple, secure, stable and regulated digital marketplace, open banking makes it easier for people and businesses to access their money and other banking information. As a result, customers get to enjoy more choices, convenience, and control over their finances.

There is little doubt that markets believe that open banking, closely followed by a broader cross-industry data sharing ecosystem, is the way forward. And as the boundaries between financial services and other industries break down, firms' relationships with their customers are going to change fundamentally.

An abundance of opportunities

Open banking, and the use of the APIs which facilitate it, has triggered a huge wave of innovation. There is an abundance of opportunities for software companies to deliver applications for account aggregation, payment initiation, data analytics, and many other services.

With over 80 countries around the world now having open banking regulations in place, the playing field is huge. According to the European Banking Association (EBA), in Europe alone there are (as of the end of Q1 2023) 362 parties with an Account Information Service Provider (AISP) PSD2[1] license. Of these, 103 are AISP parties, 201 are Payment Institutions and 58 are Electronic Money Institutions (EMI)[2].

As adoption of open banking continues to increase, the use cases for exploiting the service will dramatically change the way banks, businesses, and customers manage data, pay, and get paid. Opportunities abound in every direction.

---

[1] The Second Payment Services Directive (PSD2), which came into force in 2016, is the European Union regulation that requires banks to provide third parties with access to customer account information through APIs.

[2] Source: EUCLID - Register (europa.eu)

Application Customers
PSU: Payment Service Users

User Interface

| Accounting | Invoicing | Cash Mngt. | Real Estate | Automation |

Software applications

Need to connect to both customers and banks

Open API

Account Information

Access user bank account information, transactions and balances

AISP:
Account Information Service Provider

Payment Initiation

Initiate online payments directly from user bank accounts

PISP:
Payment Initiation Service Provider

Open banking providers

Facilitate API connections between banks and customers' chosen software applications

Open API

Banks

Banks and credit unions (banking, accounts, loans, payments, savings, investments, etc.)

ASPSP:
Account Servicing Payment Service Provider

Payment Institutions

Non-banks and financial institutions (payments as a business: PayPal, Stripe, Revolut, Ayden, etc.)

PSP:
Payment Service Provider
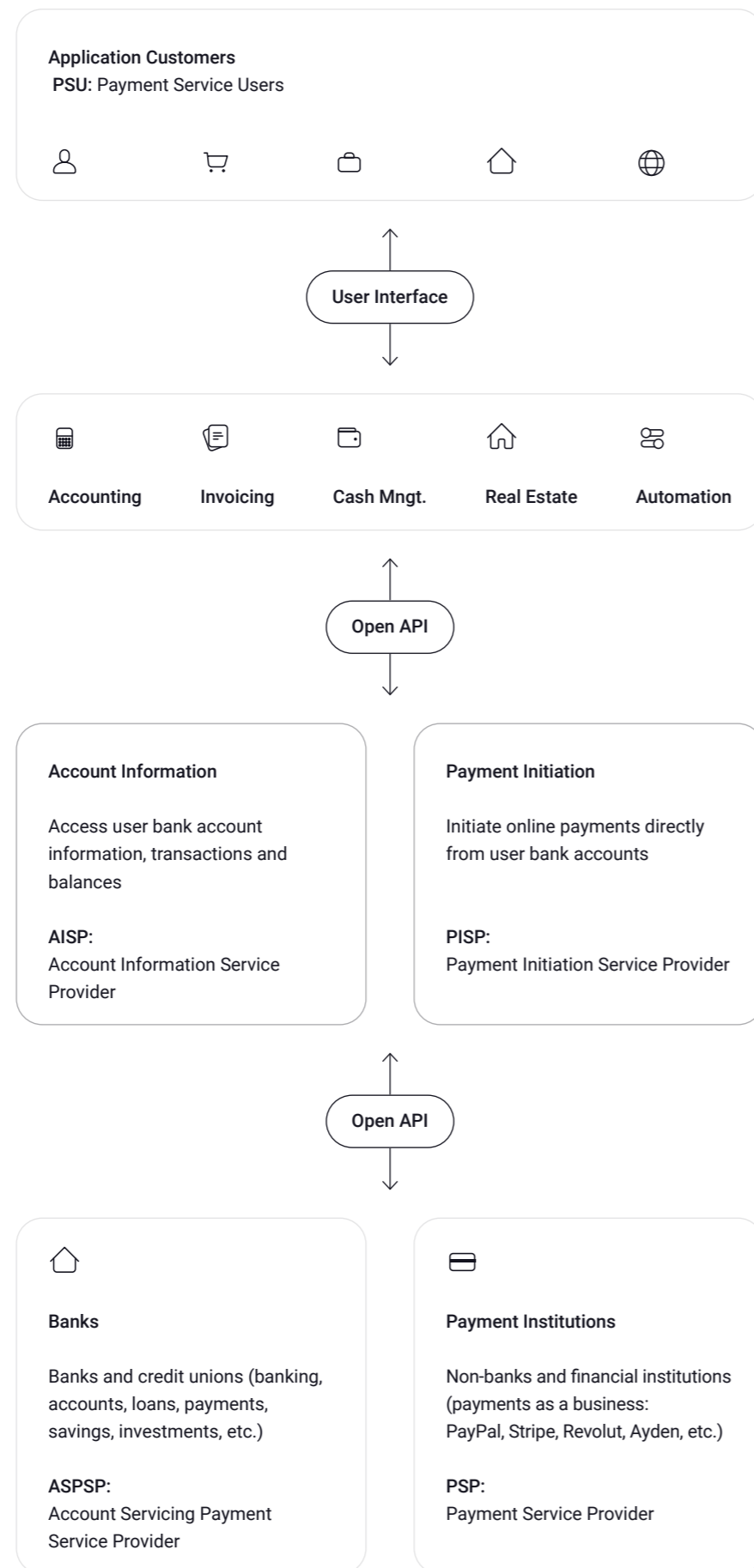
As shown in the open banking landscape diagram, open banking providers facilitate the connections between software applications and the banks and financial institutions.

In theory, software companies can manage this themselves. But given the thousands of different financial institutions each application needs to connect with, **it isn't realistic for software companies to create all the necessary bespoke connections for their applications.**

Open banking providers, who are also known as Third-party Payment Providers (TPP) and API aggregators, specialize in managing the in-between ground which enables software companies to integrate tasks, such as gathering account information and initiating payments, directly from their application or platform.
They perform two main roles:

- Account Information Service Provider (AISP), retrieving information about a user's accounts and balances

- Payment Initiation Service Provider (PISP), initiating payments directly with the user's bank

Engaging with an open banking provider frees software companies to focus on their core business, while ensuring their application services are quickly, securely and efficiently connected to a whole world of banks and financial institutions.

How software companies benefit from working with an open banking provider

Convenience

Open banking providers offer fast and convenient access to financial information and payment services, making it possible for software applications to let users view their account balances, track spending and make payments, all from a single platform.

Enhanced security

Open banking providers are regulated by national banks. PSD2 rules require them to implement strong security measures to ensure the safety of customer data as it is passed to software applications.

Reduced costs

Open banking providers take care of developing all the necessary technology for harmonizing data from multiple banks, then give software companies competitively-priced access. This also enables software companies to expand their services more quickly.

Flexibility and agility

Open banking providers can quickly respond to changing market conditions and evolving customer needs. This can help software providers introduce new products and services more quickly and stay ahead of their competition.

While banks' APIs are, in theory, standardized, and all customer data identical in nature, many other variables come into play when choosing an open banking provider. Here are a few essential factors to look out for:

Feed synchronization

Currently, most banks do not facilitate batch synchronization or pushing of data to open banking providers when something has changed. A good open banking provider will step in to fill this void. Otherwise, you will need to develop a polling mechanism to retrieve the up-to-date status of the bank account and its balance.

Proven connectivity that's robust and relevant

Connecting to banks is easy, but debugging the connections in real-world applications is a much greater challenge. You need to be sure your open banking provider is really up to the job, with a robust real-life transaction volume which demonstrates stability right across the banking landscape.

Smooth user experience

If end-users are to fully get onboard with open banking, they need to enjoy a compelling, intuitive and frictionless experience. Open banking providers can help provide clear instructions for setting up payments and keeping track of transactions, which give software applications the best chance of being both efficient and profitable.

Certified regulatory complicity

In order to have TPP permission to access bank account information, an open banking provider operating in Europe must hold a PSD2 license.

Obtaining and maintaining such a license, which involves demonstrating compliance with multiple open banking regulations, is complex and rigorous. A PSD2 license puts the holder under the supervision of the relevant national authority, with stringent requirements to adhere to the terms of KYB (Know Your Business), AML (Anti-Money Laundering) and other processes.
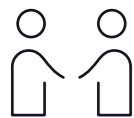
Unified data handling

Different banks implement different ways to authorize account access. Some of the most common are embedded authentication, decoupled, OAuth redirect, bespoke redirect flows, and multiple redirections. But there are many others too.

Implementing different data requirements and bespoke user flows for each bank requires extensive work. Not only does this need to be done at onboarding, but as banks further develop their solutions, it needs to be tracked and updated. An open banking provider should at least provide the underlying redirection model, with the option to provide additional models when supported by the banks.
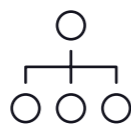
Multi-provider interoperability

It's essential that an open banking provider's user interface allows customers to share their bank account data with multiple third-party applications, without any conflict.

This may sound obvious, but many open banking providers only have one active authorization per customer/bank, which means two different applications using the same white labelled aggregator will never be able to access the same bank for the same user. This results in access being denied and a need to reinitiate consent authorization.

Ponto were our first choice of open banking provider. Primarily for their wide coverage of European banks, but also because the simple Ponto API accelerated our time-to-market, ensuring we can unlock customers within 24 hours. The ability to have direct access to the Ponto development team, typically through Slack, greatly speeds up implementation.

Thibaut Tang,
Developer, Axonaut

No-compromised support

Open banking is a large, complex and dynamic ecosystem in which issues with onboarding, consent, payments processing, and banks' APIs can crop up at any time.

Enabling end-users to connect their accounts requires detailed knowledge of each of the relevant APIs, along with direct contact with banks' own support teams. It's imperative that an open banking provider has the right resources to swiftly resolve every eventual issue, giving direct reassurance to both you and your application's end-users.

Support is not a matter to be overlooked, as poor service will increase both your time-to-market and your workload every time you make a change or implement new features.

Data and IT

While PSD2 stipulates that banks must provide the same service on external APIs as they do on their internal channels, most have their own interpretations of PSD2 standards. As a result, it is very costly to support all of the banks' different message formats, and the development cycles to bring each online are long. What's more, banks are, unfortunately, known for planned and unplanned downtimes.

An open banking provider should offer advanced unification of data and workflows. They should also ensure the API connections to the banks are continuously monitored, and each application is designed to be resilient and handle expected and unexpected outages.

European Reach

Ponto is currently connected to over 2,000 financial institutions and payment service providers across 15 European countries. Ponto can connect to new bank APIs within a couple of days.

End-to-end open banking support

Ponto's team ensures your users can always effectively link their bank accounts to your application, providing support via online chat when banks have issues with their APIs, as well as real-time reporting of bank issues.

A trustworthy party

Ponto provides a license-as-a-service model, taking care of PSD2 and AML compliance, so you can focus on your core activities.

Ponto is a payment institution authorized by the National Bank of Belgium.

Accelerated integration and launch

Ponto has been built for developers by developers. Getting started is easy, thanks to comprehensive documentation being available online. Ponto also offers individual implementation support via dedicated private Slack channels and a free sandbox testing environment.

What Ponto offers
as an open banking provider

Having entered the fintech arena in 2016, Ponto has progressed in alignment with the sector's rapid development, with constantly updated products, expansion into new markets, and an ever-growing collective of banking partners. In addition to satisfying the criteria described in the chapter 'Choosing an open banking provider', Ponto offers the following benefits.

"As industries digitize all aspects of their business, we find that entrepreneurs increasingly need direct connectivity with their accountants and bookkeepers for on-going, routine administration processes. From creating sales invoices to processing expenses, with Ponto, we can present customers' bank account information in real time, and soon we will also be offering payment initiation capability from within our application."

Roel Korting,
CEO and Founder, WeFact

Rooted in deep fintech expertise

Ponto is part of Isabel Group, the largest fintech company in Belgium, and a key player in multi-banking and banking connectivity, with almost three decades of experience.

As a European leader in the provision of digital financial services, Isabel Group offers a wide array of financial services including the exchange of digital documents, payments, and identities.

Ponto's APIs are exposed in Ibanity, Isabel Group's API Marketplace. This offers a private space dedicated to testing software applications through a personalized free sandbox, and a one-stop shop for subscription to other Isabel Group products.

A reliable partner

Whatever your setup – on-premises or cloud-based – Ponto offers a single API connection for account information and payment initiation services. We are able to batch-synchronize bank account data and push updates to you via webhooks.

Ponto securely stores all account balances and transactions and ensures 24/7 access to end-user data. This guarantees a stable response time, regardless of any bank API's performance or down-time.

Track Record

Ponto is trusted by 200 partners
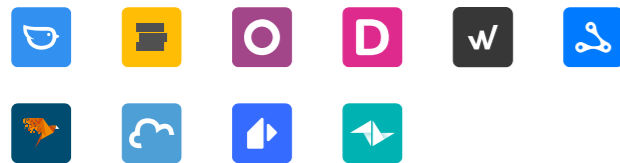
- 220,000 monthly API requests.

- € 500 million payments per month

- 99.999 % uptime.
  In 2022, Ponto's Open Banking service was only down for five minutes!

With Ponto, our application has seamlessly automated the linking of accountants to their customers' banks. Utilizing the Ponto API is simple and quick, and backed up by excellent documentation and developer tools from a knowledgeable team that truly understands our business.

Edwin Vlieg,
CEO, Moneybird

Want to know more?

Supercharge your business' capabilities. Schedule a call with our team to learn how to seamlessly integrate European bank data and payments in your application – or create an account to test our free sandbox.

Schedule a call →