

Klarna
Kosma.



Open banking standards and PSD3.

What you need to know.

Report
October 2022

Introduction.



The introduction of open banking in 2018 marked a watershed in the delivery of financial services. Designed to improve competition and innovation, it allowed customers to share their current account information with authorized third parties.

By placing greater control of transactional data in the hands of the customer and providing secure connections between apps and banks via application programming interfaces (APIs), it has driven diversification and efficiency in banking and e-commerce services.

What is the difference between open banking and PSD2?



Open banking and PSD2 are often talked about together.

Although they are closely related, they are not the same. Open banking describes the service and a standard format for its delivery, while PSD2 is one of the regulations that govern that service in the European Union.

PSD2 is the EU's Second Payment Services Directive, which was incorporated into national law in each member state in January 2018. This legislation aimed to improve digital payments across Europe and heighten data protection for individuals.

It requires banks to provide data to third parties (where consent has been given) and applies to all payment accounts, not just current accounts.

In the same year, the open banking initiative was launched by the Competition & Markets Authority, on behalf of the UK government. It required the nine largest UK banks to grant regulated third parties secure access to their customers' current account data via APIs, allowing applications and services to be built around the specific needs of the consumer. The UK also passed its own laws based on PSD2; [The Payment Services Regulations 2017](#).

Since then, the benefits of open banking have seen widespread uptake across the world.

What is the open banking standard?



There is currently no definitive open banking standard.

The introduction of open banking APIs promoted a degree of standardization in that a single platform can connect many financial institutions. Klarna Kosma, for example, connects more than 15 thousand banks in 27 markets worldwide. But each country still has its own way of regulating, implementing, and promoting open banking.

There is currently no definitive open banking standard. In terms of legislation, the EU's PSD2 has the broadest coverage. In the context of open banking, it provides an

EU-wide regulatory framework that allows the use of open APIs to help third-party providers (TPPs) access customer banking data. Within this directive are some of the required elements for implementing standards, including the secure communication requirements of the Regulatory Technical Standards (RTS) for Strong Customer Authentication (SCA).

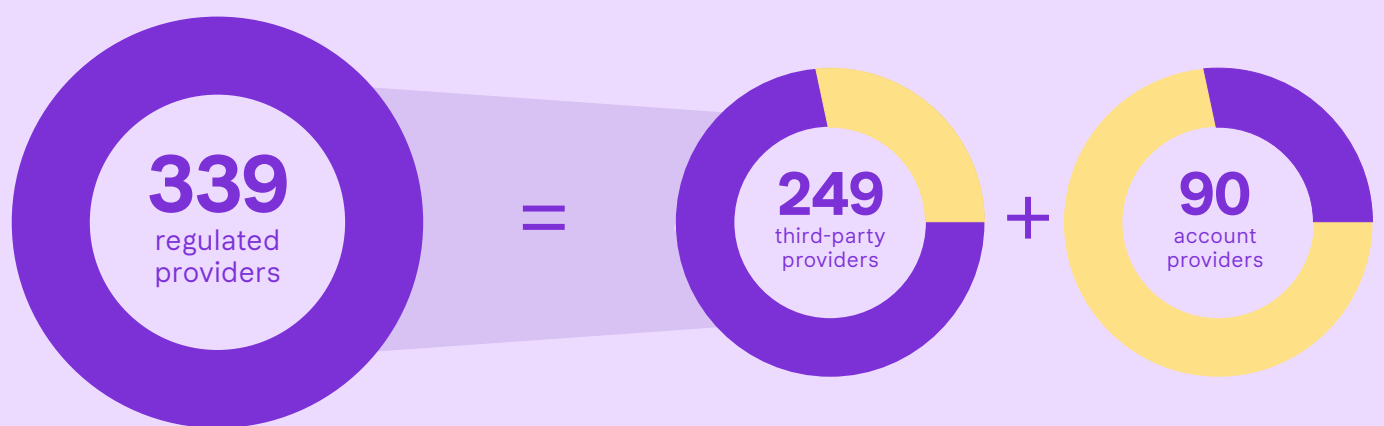
Two widely adopted API specifications have been based on the legislation - by the European working groups [Stet](#) and [Berlin Group](#). The UK has a similar working group, the open banking Implementation

Entity (OBIE), which has created [software standards](#) and industry guidelines for providers. All providers must also comply with data protection rules, including GDPR, and must outline to their users which data they will use, how they will use it, and for how long before the customer makes use of the services.

A list of regulated providers can be found on the [FCA register](#) or the [open banking Directory](#) in the UK and via [open banking Europe](#) and EBA Clearing subsidiary [Preta](#) in the EU.

The race to develop APIs.

Open banking: May highlights.

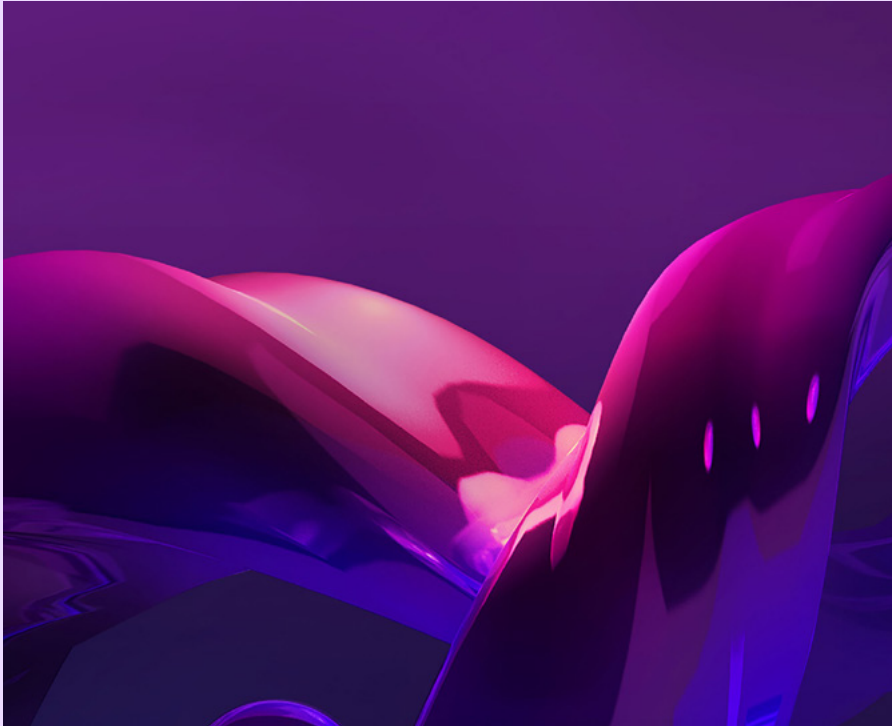


139
regulated entities with at least one live offering.

Data from openbanking.org.uk, published 31 May 2022.

According to a [Mastercard](#) study in 2021, the UK and Nordics were the leaders of the open banking revolution in Europe, thanks to a high number of well-functioning bank APIs, progressive regulators, and consumer readiness.

Given its origins, the UK is arguably one of the most mature open banking markets in the world. According to the [UK's open banking website](#), there are 339 regulated providers, of which 249 are TPPs (as of 31st May 2022) and 139 have live offerings.



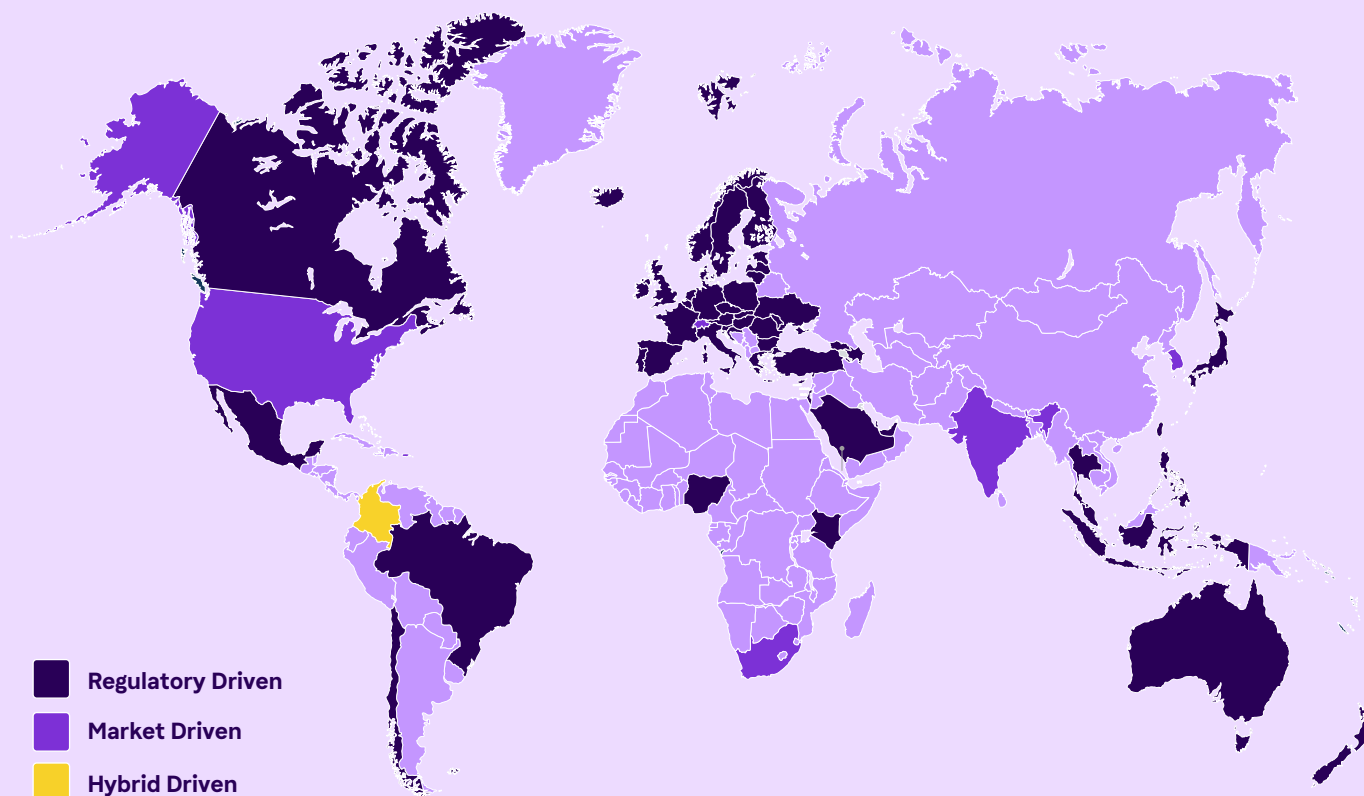
“ Klarna has some of the best and broadest open banking infrastructure in the industry – the Kosma platform ”

In the Nordics, a collaborative approach between countries and the [P27 initiative](#) to create a pan-Nordic payment infrastructure has helped [most of the big banks](#) in developing an open banking strategy. Meanwhile, the Swedish Bankers' Association has formed an [independent Swedish API](#) forum where banks and fintech companies can meet to exchange experiences and collaborate. The aim is to achieve well-functioning API solutions based on PSD2 requirements and technical standards from the EBA.

Klarna, founded in Stockholm, Sweden, has been an important driver of API growth in Europe. Although it is best known for its consumer-facing payment and shopping solutions,

Klarna has some of the best and broadest open banking infrastructure in the industry – the Kosma platform – and this is what has helped it grow to more than 150 million global active users and 2 million transactions per day in 45 markets.

The world of open banking.



Map data from Konsentus, as of September 2022.

Germany, although one step behind the UK in terms of open banking readiness, has long been a leader in interoperability and connectivity, with the Klarna-powered payment method SOFORT implementing domestic bank connections since 2005.

Outside Europe, a few countries are taking a regulatory-driven approach to open banking adoption. The Hong Kong Monetary Authority delivered its [Open API framework](#) for the banking sector in July 2018 and has been

pushing for its adoption on the island. In 2020, Brazil's Central Bank and the National Monetary Council launched their own [open banking regulations](#), which are largely inspired by the European regulations.

Having started with the passing of a Consumer Data Right Act in the same year, Australia completed a phased timeline of [open banking development](#) in February this year.

In contrast, the approach to open banking in the US has so far been largely industry-led with no standardized rules and guidelines for all open banking ecosystem participants, although some critical steps have been taken to reform its regulatory framework this year.

How can Klarna Kosma help your business meet open banking standards?



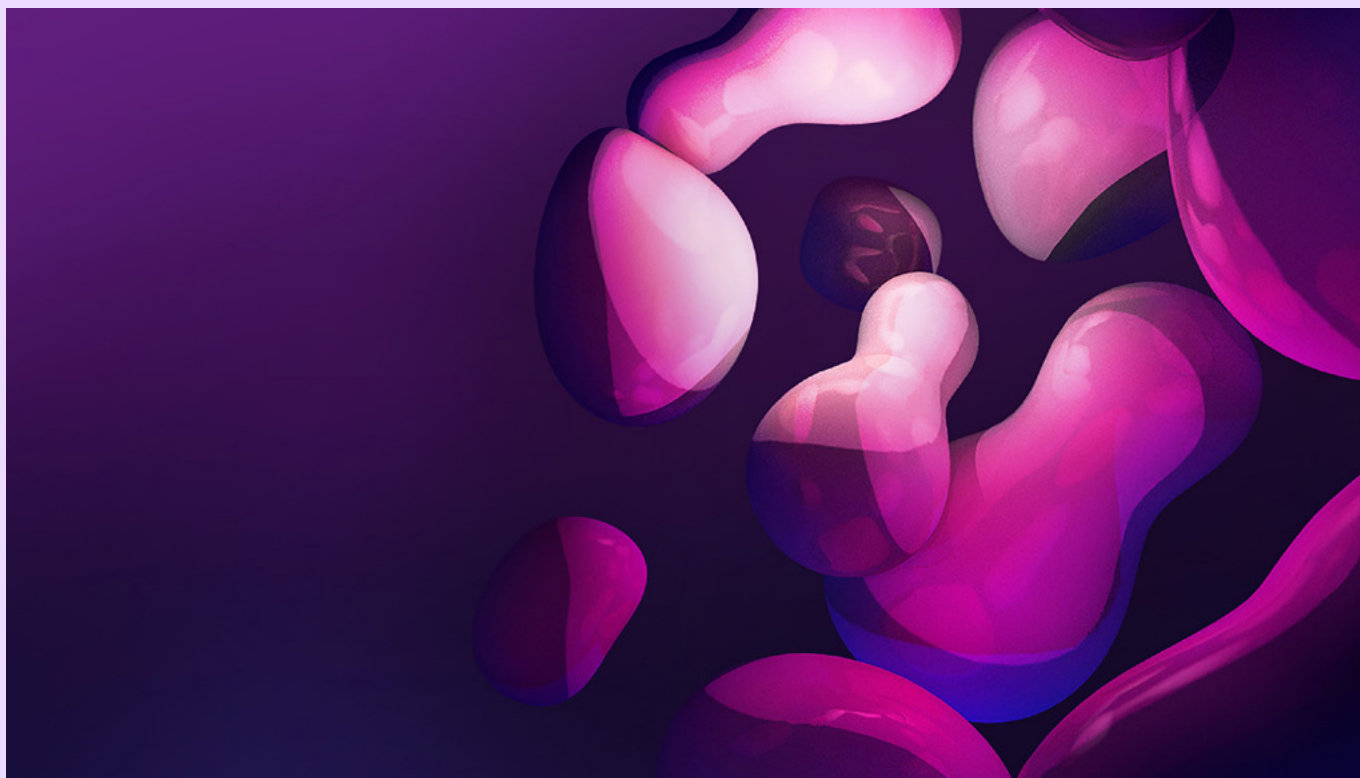
Whether you need full-service open banking or access to a 'plug and play' solution for fast integration with key banking partners, Kosma can help your business navigate the open banking standards within your chosen markets.

Our open banking services are available in more than 27 markets globally, including the UK, EU, and the US, with new markets added all the time. Offering access to both financial data and bank payments, we can

help you build a product that's easy to use and understand for your customers, boosting conversion and adoption rates and directly impacting your topline.

We make it sound easy but it is not all plain sailing. APIs are working hard to shake up finance through open banking but there are still some significant obstacles to achieving their full potential.

PSD2 reboot could make open banking truly 'open'.



The European Commission is currently reviewing PSD2, which will assess the legal framework's efficiency and relevancy. This follows a consultation earlier this year, in which market players, supervisory authorities, and users could participate.

One of the main topics of the consultation, in which Klarna Kosma participated, was how PSD2 is fulfilling its main objectives to:

- make payments easier and safer
- encourage fair competition and innovation

PSD2 has brought a lot of benefits but it has so far fallen short in its mission to enable consumers' full choice. Barriers to entry that innovative challenger banks and fintechs faced before PSD2 still exist. Ironically, PSD2 has even limited the data that TPPs, such as Kosma, can access. There are three core issues that Klarna Kosma believes need addressing in relation to this.

PSD2 reboot could make open banking truly 'open'.

Issue 1 – Lack of authority.

...some banks fence off competitors, failing to comply with PSD2 requirements. Many actively discourage the use of TPPs.

PSD2 has not been consistently implemented across member states or the banks within them. In practice, some banks fence off competitors, failing to comply with PSD2 requirements. Many actively discourage the use of TPPs.

There is currently a lack of penalties or sanctions that have been placed on banks that are non-compliant with

the legal provisions and therefore there is little incentive for banks to adhere to their requirements in good time. Furthermore, there appears to be little collaboration between the National Competent Authorities (NCA) and the European Banking Authority (EBA) in overseeing activity that exacerbates this problem.

Potential solutions

- The EU is considering whether the potential successor of PSD2 (PSD3), should be a regulation as opposed to a directive. Regulations are directly incorporated into member state law, which would shorten the timespan in which the PSD2 successor becomes effective law and promote increased standardization across member states. But there's still a long way to go until this legislative process will be completed.
- Kosma would welcome more outcome-driven regulation, in which banks are obligated to provide a smooth user experience and customer journey via dedicated interfaces, with minimal friction.
- If a bank's API is not functioning, TPPs should always have the choice to access the end customers' payment accounts through the same access method used by the end customer themselves, for example, the bank's online banking portal or mobile banking app.
- The EBA should have more power to ensure a harmonized approach across the EU.



PSD2 reboot could make open banking truly 'open'.

Issue 2 – Customer opt-in.

“ True data mobility, free of charge and easily executed, should be readily available to all end customers. ”

Banks require opt-in from business customers to grant access to an API. This opt-in means that the businesses cannot start using the PSD2 API the first time they enter that environment. Some banks require that the business consents via the online banking portal, by calling their advisor at the bank, or that the business signs a separate agreement with the bank to use the PSD2 API. This is not legal, and EBA has clarified that in later guidance of the PSD2.

Potential solutions

- True data mobility, free of charge and easily executed, should be readily available to all end customers.
- The regulation should outline the specific requirements of banks in this respect.

PSD2 reboot could make open banking truly 'open'.

Issue 3 – Poor support for corporate accounts.

... the regulation should outline the specific requirements of banks and promote the equal treatment of corporate and consumer accounts.

It is clarified in PSD2 that the payment service user has a right to make use of third-party providers' services where the account is accessible online. PSD2 does not make any distinction between consumer and business accounts. Therefore, it is clear that corporate accounts should be available in the APIs, but many banks have not prioritized this. Support for corporate accounts is still missing almost three years after the APIs were introduced.

While these obstacles remain, open APIs have paved the way for a new era in finance and its place in our society. Alongside its new open finance framework, the EU has a huge opportunity to redesign a regulatory environment that enables fintechs to compete, innovate and deliver maximum value for end customers.

Potential solutions

- Again, the regulation should outline the specific requirements of banks and promote the equal treatment of corporate and consumer accounts.

Open banking versus open finance.

While open banking began by focusing on payments and current accounts, the potential applications of open data continue to expand as regulations extend to more areas of finance. Open finance is the next step in its evolution. It describes APIs that access additional financial data such as credit cards, savings, mortgages, pensions, insurance, and loans.

Expanding access to customers' financial data to broader data sources and additional account types, allows the customer to have enhanced views on their overall financial position and to actively choose the best value products and services for their needs. In the future, your entire financial footprint could be made available to trusted third-party APIs, if you consent.



If open banking regulations can drive more widely accepted standards, there is so much we can achieve – for the benefit of fintechs, app developers, banks, and customers alike. Talk to us today to be a part of it.

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