Unlocking Financial Innovation: Strategic Approaches to Open Banking Implementation

Banking & Payments Federation Ireland

FPAI FINTECH & PAYMENTS ASSOCIATION OF IRELAND

Executive summary

The payments landscape in Ireland has evolved considerably since the last National Payments Plan was released in April 2013[1].

The SEPA Payments Schemes, which launched in 2008 (SEPA Credit Transfer) and 2009 (SEPA Direct Debits) became mandatory in 2014[2], replacing the domestic electronic clearing systems.

In 2015, Open Banking was introduced in Europe through the revised Payment Services Directive (PSD2). While PSD2 made retail payments safer and more secure through SCA (strong customer authentication[3]), it also fostered innovation through the opening up of the EU payments market to third party payment service providers (TPPs[4]) , specifically through AISP (Account Information Service Provider) and PISP (Payment Initiation Service Provider) licensing.

In 2017, the optional SEPA Instant Payments scheme launched and is set to become mandatory this year for all existing Payment Service Providers operating in SEPA Credit Transfers.

Finally, demand for electronic and cashless payments have greatly increased over the past number of years, further accelerated by the Covid 19 pandemic. While ATM cash withdrawals continue to decline (by 32% according to data from Central Bank of Ireland) since more people choose to manage their money digitally, cash continues to play a role in society particularly for certain cohorts that rely on cash for their daily needs. The Irish Governments impending Access to Cash legislation and the EU Legal Tender of euro bank notes and coins are clear indicators reflecting the need to maintain reasonable access levels of cash for citizens, so cash will continue as part of the payments landscape both in Ireland and across the EU.

Open banking is rooted in collaboration, innovation and customer centricity and presents the opportunity to revolutionise the way financial services and delivered and consumed.

This paper has been prepared by Tony Smith (KPMG), Vincent Brennan (Industry Expert), Joe Beashel (Matheson) and Michael Concannon (FPAI), and draws on extensive expertise, discussion and insights from FPAI members and broad representation from industry through FPAI's Open Banking Working Group (OBWG).

This paper examine the opportunities which Open Banking represents, identifies some implementation challenges and issues experienced to date, examines regulatory and industry initiatives that are enablers for an enhanced Open Banking market, and provides strategic recommendations for consideration in the revised National Payments Strategy 2024.

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[1] National Payments Plan (centralbank.ie)

[2] Regulation - 260/2012 - EN - EUR-Lex (europa.eu)

[3] Strong Customer Authentication (SCA) is a secure process that requires customers to provide two or more distinct forms of identification from different categories, enhancing the authentication and protection of electronic transactions.

[4] Third Party Providers (TPPs) are external entities, such as FinTechs, that access and utilise financial data and services from banks and other financial institutions through Open Banking to offer innovative products or services

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Open Banking Working Group and its Purpose

FPAI's Open Banking Working Group (OBWG) was formed under the auspices of IFS2025, and specifically on foot of an action entitled "Fintech Foresight Group" which was charged with producing recommendations/ observations for Govt on technological developments in Financial Services.

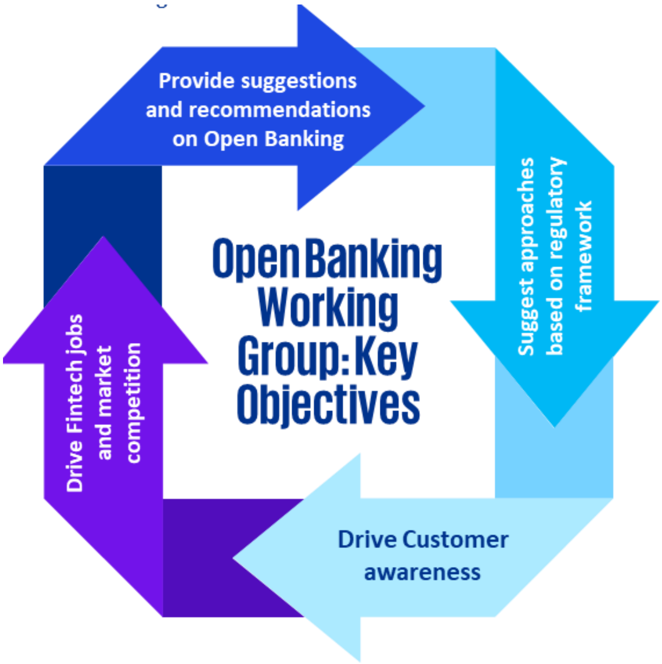
The OBWG draws a broad based industry representation (banks, FinTechs, PSPs, acquirers, legal and consultancy firms etc.).

To date the OBWG has published papers on Sustainable Finance and on Fintech and Digital Assets.

The deliberations of this OBWG were a key contributor to the development of this paper which, in the context of the Department of Finance's consultation process for developing a National Payments Strategy 2024[5], focuses on evaluating how Open Banking is operating in Ireland. Specifically the objectives of the OBWG was to:

- Consider the state of Open Banking in Ireland in the context of existing and upcoming regulatory developments in Europe
- Identify challenges and issues that have impacted on the development of Open Banking in Ireland and which have impacted on use case development and user experience
- Identify initiatives to drive customer awareness and communication of the benefits of Open Banking
- Develop recommendations for an enhanced Open Banking market in Ireland, enabling strong customer experience and Open Banking enabled job growth

[5] https://www.gov.ie/en/press-release/1a910-minister-mcgrath-publishes-national-payments-strategy-terms-of-reference/



Key Payments Developments since the National Payments Plan 2013:

Open Banking and the Payment Services Directive (PSD)

The second Payment Services Directive (PSD2), introduced in 2015, brought in a new range of measures, including the strengthening of consumer protection through secure customer authentication (SCA), and was the genesis of Open Banking in Europe through the creation of AISPs and PISPs to facilitate interaction between the bank and the customer.

Open banking represents a seismic shift in the way financial services are delivered and consumed. At its core, open banking involves the secure sharing of customer financial data between different financial institutions and 3rd party providers via application programming interfaces[6] (API's). This sharing of data enables enhanced financial transparency, fosters

[6] Application Programming Interfaces (APIs), are sets of rules and tools that allow different applications to communicate and interact, facilitating the exchange of data and functionality between them. In Open Banking, APIs enable secure and standardised communication between financial institutions and TPPs, fostering innovation, competition and seamless integration of diverse financial services for the benefit of customers.

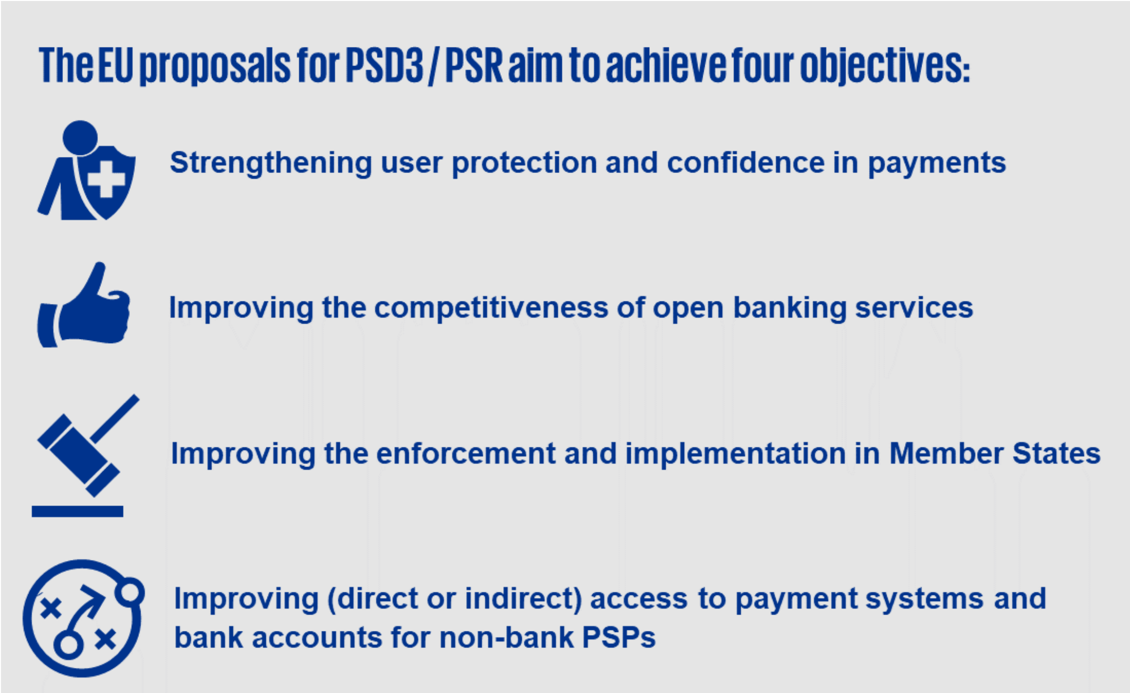
competition, and empowers consumers to leverage innovative financial products and services tailored to their needs.

Effectively, Open Banking provided institutions with AISP and / or PISP licenses to (with the consent of the end customer) collect information on their accounts and trigger payments via 3rd party apps and websites in a seamless way and without the need for them to be redirected to their own banking app for authorisation.

During a European Commission evaluation on the application and impact of the PSD2 on Payment Services[7], the European Commission found that while PSD2 positively impacted fraud prevention through SCA (70-80% lower for remote card payments) and brought increased efficiency, transparency and choice of payment instruments, some improvements were still required. They found that AISPs and PISPs experienced issues accessing data as the APIs varied in quality and performance.

The findings from the European research formed the basis of the EU proposals for PSD3 / PSR and is being presented as an evolution, not a revolution for EU payments. The proposals aim to achieve four key objectives and introduce several revisions and improvements to PSD2[8]:

[7] A study on the application and impact of Directive (EU) 2015/2366 on Payment Services (PSD2) - Publications Office of the EU (europa.eu)
[8] KPMG Netherlands, *PSD3 & PSR: New EU proposals game-changing for payments?*, https://kpmg.com/nl/en/home/insights/2023/06/psd3---psr-.html



Strengthening user protection and confidence in payments

Proposed fraud and liability improvements:

- Extended IBAN[9]/name matching verification[10] to all credit transfers and particularly, for instant payments conducted in euros
- Strengthening of transaction monitoring, most notably the introduction of a legal basis for sharing fraud-related information between PSPs.
- Obligation to provide education to increase awareness of payments fraud among customers and staff
- Extension of refund rights: in case of failure of IBAN/name verification or for victims of 'spoofing' fraud (where fraudster contacts consumer pretending to be an employee of the consumer's bank), victims can be entitled to claim damages from their PSP.
- Improvements to strong customer authentication. For example, requiring PSPs to ensure that SCA methods do not depend on one single technology, device or mechanism, such as the possession of a smartphone. Also, banks holding payment accounts will only need to apply SCA for the first access to payment account data by open banking AISPs unless there are reasonable grounds to suspect fraud. AISPs will then be responsible for SCA for subsequent data accesses.

Proposed consumer rights and information improvements:

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[9] The International Bank Identifier Number (IBAN) is a standard, internationally recognised format for identifying bank accounts, facilitating seamless and accurate cross border transactions.
[10] Name Matching verification involves promptly and accurately confirming the payee's name against relevant records and databases in real-time transactions, enhancing security and reducing the risk of fraud.

- Obligation to inform payment service users on estimated charges for currency conversion for credit transfers and money remittances from the EU to third countries.
- PSPs must provide information on payment account statements to unambiguously identify the payee.
- The European Commission also aims to clarify the interaction between payments and GDPR. For example, by clarifying that PSPs may process special categories of personal data which are needed to provide payment services.

Improving the competitiveness of open banking services

- New requirements for dedicated data access interfaces with prohibited obstacles. Examples of these obstacles currently listed, are requiring additional checks of the permission given by the payment service users to a PISP or AISP, or restricting payments initiation via an PISP only to those payees that are on the payer's beneficiaries list.
- No permanent "fall-back" interface[11] for banks required anymore.
- Banks and PSPs are required to set up a dashboard for consumers of open banking to provide insight in data access rights they have granted, to whom, with a withdrawal functionality.
- To ensure the continuity of open banking, PSPs can request the national authority to be allowed to use an effective alternative interface, such as using the interface banks use for their customers, if the dedicated interface is down and the bank cannot rapidly offer effective alternative solutions.

Improving the enforcement and implementation in Member States

- Shifting elements from PSD2 into the new PSR. As opposed to Directives (such as PSD2), Regulations (such as PSR) apply directly and consistently across the EU.
- Integration of the Electronic Money Directive (EMD) [12]with PSD3 and PSR. The EMD will cease to exist. E-money institutions[13] will disappear. Payment Institutions can be authorised to offer e-money services.
- Enhancing enforcement of the rules, including a list of breaches (infringements) and administrative sanctions and measures. For these breaches, such as on the rules on access to accounts maintained by banks, secure data rules by ASPSs, AISPs, and PISPs and fraud prevention mechanisms, the nature of sanctions and measures will therefore be known upfront.

[11] The "Fall Back" interface, in Open Banking, involves contingency measures for payment service providers when a bank's primary, or dedicated, Open Banking interface is unavailable.
[12] Electronic Money Directive (EMD) – Directive 2009/110/EC https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32009L0110
[13] https://www.centralbank.ie/regulation/industry-market-sectors/electronic-money-institutions\

Improving (direct or indirect) access to payment systems and bank accounts for non-bank PSPs

- Toughened requirements for banks to provide bank account services to non-bank PSPS are proposed. For example, banks need to explain and justify access refusal based on the specific situation including serious grounds to suspect illegal activities by or via the Payment Institution.
- Payment Institutions may be offered an additional possibility to safeguard users' funds, namely to hold those funds at a central bank.
- Possibility of direct participation to payment systems for non-bank PSPs.

While these proposals have been put forward as evolutionary rather than revolutionary to reflect the ever-evolving payments landscape, they do represent a welcome move to strengthen Open Banking.

SEPA Instant Payments

In parallel to the PSD3 / PSR draft legislation, work to finalise the SEPA Instant Payments mandate is near completion allowing up to €100k to be transferred within 10 seconds, anywhere in the SEPA zone 24 hours a day, 7 days a week and every calendar day of the year.

The legislative intervention was brought about as the current non-mandatory SEPA instant payments scheme, which was launched in 2017, has not seen the impacts and uptake initially envisaged. According to the latest available SEPA routing tables (published 9 Feb 2024)[14], just over 62% of PSPs operating in the SEPA Credit Transfer scheme (SCT) in Europe also operate in Instant with data showing only 13% of all credit transfers in euro were instant transfers That number of PSP's that have already adhered to the SEPA Instant Scheme is significantly less in Ireland; of 193 PSPs operating in SCT, only 11 are operating in SEPA Inst.

Research conducted by the European Commission indicates this was largely down to four reasons:

1. **Reluctance to Invest**: As the PSP of both the sender and receiver must use instant payments technology for the instant transaction to be successful, many PSPs are reluctant to invest in instant payments without having the guarantee that other providers will be able to support these transactions. As a result, one third of EU PSPs do not offer instant payments today.
2. **High cost to the consumer**: In many member states, consumers and businesses are put off by the high price of instant payments
3. **Perceived Concerns about the risk of Fraud and Errors**: Consumers and businesses do not have sufficient assurances to address their concerns with instant payments
4. **High failure rates**: High number (9.4%) of cross border instant payments fail due to slow, inefficient sanctions screening methods used by the industry which are not fit for these new, fast payments.

As such, the new SEPA Instant Payments mandate, which is intended to co-exist alongside the mandatory SEPA Credit Transfer scheme, needs to be seen as affordable, secure and the 'new normal'.

The legislation was written into the official journal in February 2024 and sets out the following:

1. **Mandatory participation:** All PSPs currently offering SEPA credit transfers must offer instant payments to all customers

[14] Registers of Participants in SEPA payment and payment related schemes | European Payments Council
[14] https://www.europeanpaymentscouncil.eu/what-we-do/sepa-instant-credit-transfer

2 **Restrictions on cost to the consumer:** Charges for instant payments must be equal to or lower than charges for non-instant euro credit transfers
3 **Verification Process:** All providers must offer a service to check the match between IBAN and beneficiary name, warning about any detected discrepancy as it could suggest fraud
4 **Harmonisation of sanctions screening processes:** All PSPs must follow a harmonised procedure for sanctions screening based on daily checks of their own clients against EU sanctions lists.

A staggered timeline is mandating that institutions must offer the ability to receive instant payments within nine months and offer their customers sending of instant payments within 18 months of the legislation entering force; effectively Q4 2024 and Q3 2025. In an effort to minimise Authorised Push Payments (APP) fraud[15], an additional requirement of the legislation requires institutions to offer a name and IBAN matching service – similar to the Confirmation of Payee[16] initiative seen in the UK – prompting senders with a warning where the recipient name does not match the IBAN. In line with the sending instant payments timeline, this must also be implemented within 18 months.

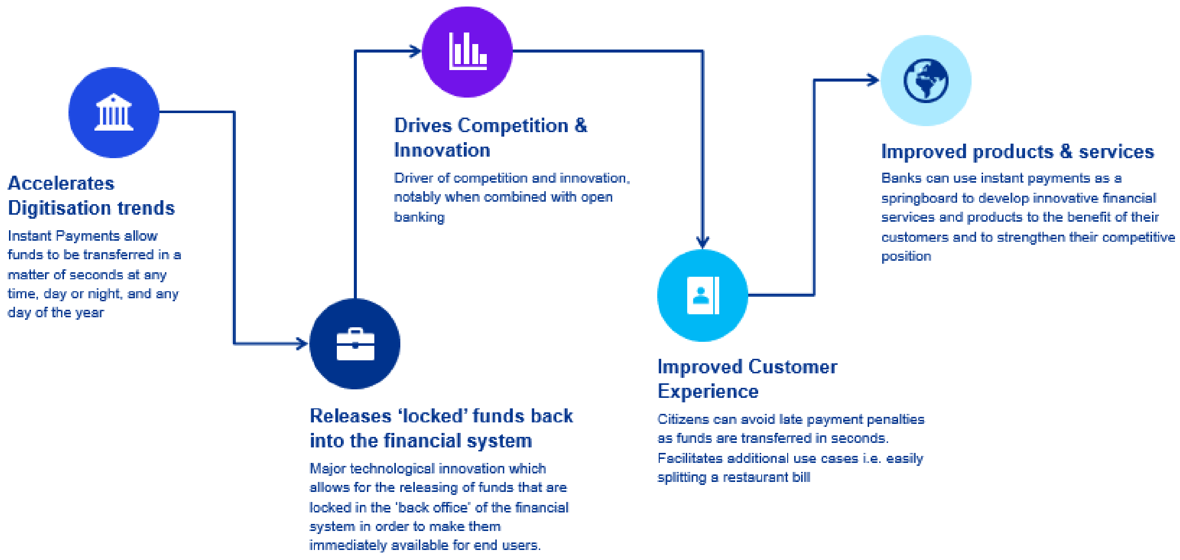
The real value of Instant Payments

The movement from a bulk processing environment Mon – Fri (as is the case with SCT), to having all channels, across all accounts, operating in real time (less than 10 seconds) 24 x 7 x 365 means significant change.

For consumers, online and mobile baking payments have jumped 60% in Ireland in the last 5 years[17]. Consumers are tapping for 85% of their in-store transactions, showing the customer preference for digital and quick, frictionless payments – which Instant Payments will support. Instant Payments are a major technological innovation in payments. They allow releasing funds that are locked in the financial system (currently €200bn in Europe at any given time), making them immediately available to end users – consumers and businesses in the EU – for consumption and investment.

For businesses, instant payments mean better real-time visibility of cash and an improved cash flow. For e-commerce retailers particularly, it means less risk, since they can fulfil orders immediately (for comparison, online card payments take up to three days to settle).

[15] Authorised Push Payment (APP) Fraud happens when customers are tricked into sending money to a fraudster posing as a genuine payee. https://www.psr.org.uk/our-work/app-scams/
[16] Confirmation of Payee is a name checking service for UK payments https://www.ukfinance.org.uk/policy-and-guidance/guidance/confirmation-payee
[17] BPFI Payments Monitor Q2, BPFI Payments Monitor - Q2 - Banking & Payments Federation Ireland



The mandating of Instant Payments will fundamentally alter the payments landscape in Ireland and indeed across Europe, for the betterment of the customers, both business and individuals.

Electronic ID (eID)

The electronic ID[18] initiative leverages the existing cross-border legal framework of the eIDAS regulation[19] to establish trusted digital identities for all EU. This grants every EU citizen the right to an EU Digital Identity Wallet (EUDIW)[20] and can play a crucial role in facilitating Open Banking propositions by providing secure and reliable identification and authentication mechanisms.

Positioned as a pivotal stride towards the Digital Decade 2030 and the digitization of public services in Europe, this initiative mandates the use of eID for user authentication across public, private, and major online platforms.

Features of the eIDAS regulation include:

- eID & EUDIW will create a single secure and user-friendly digital market across Europe.
- EUDIW has the potential to augment existing KYC [21]requirements for financial institutions to streamline the onboarding process and give enhanced user experience, which could significantly reduce onboarding costs due to the availability of high level of assurance credentials for identifications.
- Encourage and support strong customer authentication (SCA) journeys.
- Payment initiation services will be mandated to accept EUDIW for transactions and authentication purposes.
- EUDIW adoption could significantly aid financial institutions in their authentication processes, resulting in operational efficiencies and cost reductions.
- EUDIW has the potential to replace physical documents like ID cards, passports, visas, etc., making transactions and travel more seamless, promoting wider adoption of secure payment options under open banking frameworks.
- EUDIW will allow banks to issue credentials, which gives banks control over data value chain and directly monetize value they can create rather than replying of TPPs.

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[18] Electronic ID guarantees the unambiguous identification of an individual and ensures the right service is delivered to the person who is really entitled to it, for example for banking purposes. https://digital-strategy.ec.europa.eu/en/policies/electronic-identification

[19] EIDAS – the regulation for electronic identification and trust services for electronic transactions in the internal market https://digital-strategy.ec.europa.eu/en/policies/eidas-regulation

[20] https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/europe-fit-digital-age/european-digital-identity_en

[21] Know Your Customer (KYC) includes the requirement to establish customer identity, understand the nature of customers' activities and sources of funds and assess money laundering risks associated with customers. https://www.swift.com/your-needs/financial-crime-cyber-security/know-your-customer-kyc/meaning-kyc

Global Developments in Open Banking

Regulatory and Market Driven market developments

The approach to open banking across jurisdictions has been dependent on various factors like market dynamics, regulatory readiness, and innovation. The different approaches have seen variances in outcomes across the globe. Some examples of these approaches are presented below as an indication, but note this representation is not exhaustive.

Regulator Driven

Open Banking regulations and implementation are controlled by the regulators with mandatory participation from incumbents.

- Hong Kong has implemented an Open API Framework that requires banks to adopt a four-phase approach, beginning with product info sharing and culminating in TX data and payments initiation services.
- Unlike the EU approach, Hong Kong allows banks to restrict access to their APIs and collaborate only with chosen Third-Party Providers (TPPs).
- Australia stands out for its ambitious and innovative OB approach, allowing consumers to share their data with authorized third parties of their choice.

Market Driven

Open Banking initiatives led by industry participants at individual capacity. No regulatory frameworks in place yet.

- Countries such as India, Japan, Singapore, and South Korea are promoting data sharing in banking through various measures, despite lacking formal Open Banking regimes.
- Japan has implemented an authorization process for TPPs, mandating banks to disclose Open APIs policies, and encouraging partnerships with TPPs.
- In the US, there is no significant government initiative for Open Banking, but major banks are actively developing API-based offerings in partnerships to attract customers and gain a competitive edge.

Collaborative

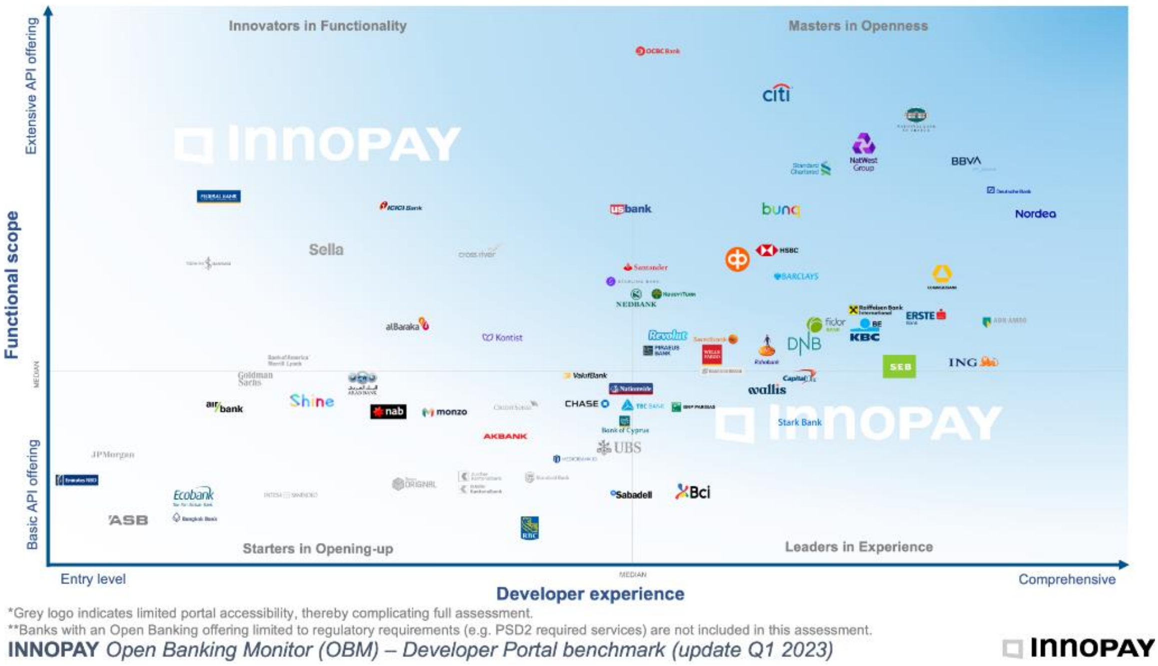
Regulatory guidance and facilitative infrastructure for Open Banking along with industry initiatives. Participation is encouraged, but not mandatory.

The underlying accelerator to whatever approach is adopted is the consumers digital maturity and their openness to new digital and integrated banking services.

It is reasonable to posit that while a form of Open banking has been adopted in many jurisdictions globally, differing approaches to regulation, infrastructure and policy means a lack of cross border standardisation.

Open Banking API Development

Innopay's Open Banking Monitor report 2023[22] presents a recent view of where banks are leading in terms of their Open Banking approach in respect of both functional scope and developer experience, with the most progressive featuring in the top-left quadrant of the Monitor, labelled as "Masters of Openness".



The Innopay Open Banking Monitor 2023 highlights several key trends:

1. **Community Development Driving Differentiation:** EU banks, particularly Dutch and German players, lead in Developer experience through extensive community engagement efforts. These efforts include direct interaction channels, collecting user feedback, and organising events. Generally, non-EU banks lag behind in developer usability.

2. **Rise of Payments API's:** Payment API's are increasing in number and scope, constituting 34$ of observed API functionalities. Instant Payment API's are particularly on the rise due to the recent developments with SEPA Instants Payments mandate and the launch of the

[22] https://www.innopay.com/en/publications/sneak-preview-innopay-open-banking-monitor-q1-2023-old-guard-are-embracing-new

FedNow[23] scheme in the US. Bank and Account Information API's remain stable but significant, focusing on transaction history, account balance and other functionality.

3. **Open Banking in the EU vs US:** While Europe still leads in available API's, Open Banking in the US is catching up. US banks have significantly improved their developer portals, with notable players like Citi, US Bank and Wells Fargo expanding their API catalogues. US banks differentiate themselves with extensive offerings of investment and foreign exchange API's, driven by industry initiatives rather than regulation.

[23] FedNow is an instant payments system from the US Federal Reserve https://www.frbservices.org/financial-services/fednow

Open Banking Implementation Challenges and Issues

The OBWG identified a number of challenges and issues that have impacted on the development of Open Banking in Ireland and which have impacted on use case development and user experience.

Balancing Fraud Protection and Customer Experience

Building and maintaining customer trust is essential in financial services, and this carries through to Open Banking. Consumers need confidence that their financial data is secure and that they have control over how it is used. They also want to be assured they are being protected from fraud actors when availing of open banking propositions. Balancing data security, fraud protection and seamless purchasing experiences is challenging, particularly when faced with the growing sophistication of fraud.

The use of emerging technologies, such as biometric authentications (fingerprint and facial recognition) and machine learning and AI algorithms (pattern recognition and predictive modelling) contribute to a more seamless and effective fraud checking experience. Similarly, regulatory requirements for Strong Customer Authentication (SCA), mandating the use of multiple forms of authentication to verify customers, and the promotion of secure App to App[24] interfaces in Open Banking, are designed to protect customers from unauthorised transactions and fraudulent activities.

A Level of 'friction by design' is necessary in combatting fraud, but too much friction hampers customer propositions and experience. They key is in finding the right balance between fraud protection effectiveness and compliance with the regulations on one hand, and good customer experience on the other.

Where poorly designed or implemented, fraud prevention adds additional steps or verification processes, negatively impacting experience. OBWG members reference Open Banking service friction caused by some SCA and App to App bank implementations, and where certain fraud measures by banks, such as reduced transaction limits, payments limited to trusted beneficiaries, blocked payments are inconvenient and frustrating, and can impede open banking.

[24] "App to App" refers to a communication or interaction process, used in Open Banking and other fields, where one software application (e.g., a TPPs payment initiation application) directly interfaces with another application (e.g., a bank's payment authorisation application), typically through APIs, enabling seamless exchange and functionality between the two applications. in Open banking lies in their ability to enable secure and standardized communication between financial institutions and third-party providers, fostering innovation, competition, and the seamless integration of diverse financial services for the benefit of customers.

A further challenge arises where the fraud prevention message of 'don't share financial details' is strongly reinforced and engrained in Ireland, which can be perceived as being at odds with the core Open Banking message of 'consent to sharing financial data'.

Other Issues encountered in the Irish Open Banking Experience

Seamless customer experiences in Open Banking is essential for increased adoption and to positively influence customer convenience and satisfaction. Combined with robust security measures, it builds trust among users. Financial institutions and third party providers who adopt a customer centric approach to ensure seamless experiences can gain competitive advantage, as users choose services that provide hassle-free and efficient experience, fostering loyalty and positive brand experience. In tandem, ensuring APIs and interfaces are well-designed and easy to integrate will encourage developers to innovate solutions and will foster industry collaboration.

In contrast, poor experience and excessive friction in Open Banking transactions, whether accessing information or completing payments, impedes adoption and trust and it hampers the promotion of open banking services, competition and innovation.

Underlying cause of friction in Open Banking in Ireland include:

1. **App to App Issues**. Friction in the App to App experience can hinder the seamless flow of information or transactions, potentially leading to sub-optimal experience for users and drop off rates in transaction completion for service providers. Friction can arise from lengthy or complicated authentication processes, complicated or confusing consent interfaces, technical glitches or timeouts, slow loading times or integration issues and applications requesting an excessive amount of information or permissions.

2. **Quality of APIs and Latency**. Unavailability, slow loading times, or performance related issues between applications impede seamless data flow and real-time communication, leading to time-outs and incomplete transactions in open banking. A further challenge arises where, even for simple API calls, it can be difficult to pinpoint the root cause of breakdowns, where multiple parties are involved in the end-to-end process, giving rise to delays in resolving the issues experienced.

3. **IBAN discrimination**. The Accept My IBAN coalition, in their letter to the EU commission in October 2023[25] acknowledge that "*some Member States, such as France and Ireland, have*

[25] https://www.acceptmyiban.org/industry_letter

publicly stated their commitment to tackling IBAN discrimination and are proposing stronger action". Poor customer and business experience arises not from an outright ban of non-local IBANS but from instances where too much friction is added in the payment process where non-local IBANs are accepted.

The Accept My IBAN coalitions letter also suggests *"there is no effective framework for enforcement. It is essential to ensure that national competent authorities have adequate powers and resources to proactively and rigorously fight against IBAN discrimination."*

Lack of centralised monitoring and reporting on API availability and performance.

Unlike Open Banking in the UK[26]., for example, there is no centralised data collection framework, or publicly available data showing API volumes, efficiency, availability and performance for Open Banking in Ireland. As result, efforts to address friction in Open Banking experiences falls to individual players to seek to highlight and resolve bi-laterally.

[26] https://www.openbanking.org.uk/api-performance/

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Enabling Regulatory and Industry Initiatives

Key objectives of the National Payments Strategy 2024 include setting out a roadmap for the future evolution of the entire payments system and to enhance and build public trust in and the effectiveness of the payments system, set against four interlocking principles:

- Access and Choice – promoting reasonable options for consumers and small business.
- Security and Resilience - of the payments system and system operators.
- Inclusion – future focus that enhances interoperability and inclusion.
- Sustainability and Efficiency – solutions that have regard to cost / benefit and the environment.

In the context of the Strategy, the possibilities for greater access to and use of Open Banking in Ireland are, we believe, greatly enhanced by the regulatory and industry initiatives underway at EU and Ireland level. PSD3/PSR, Instant Payments, the EU Digital Identity Wallet and the SEPA Payment Account Access (SPAA) scheme at EU level, and the proposed CBI Approach to Innovation Engagement in financial services are key enabling initiatives for growth in Open Banking in Ireland.

PSD3

As outlined earlier, the European Commission published its proposals for PSD3 and PSR in June 2023. The package is an evolution of the revised Payments Services Directive from 2015 (PSD2) and seeks to ensure the EU's financial sector is fit for purpose and capable of adapting to the ongoing digital transformation, and the risks and opportunities it presents – in particular for consumers. The measures seek to:

- Combat and mitigate payment fraud.
- Improve consumer rights.
- Further level the playing field between banks and non-banks.
- Improve the functioning of Open Banking.
- Improve access to cash, and
- Strengthen harmonization and enforcement.

In the context of some of the PSD2/Open Banking implementation issues outlined earlier, the PSD3 proposals (along with some of the implementation detail which will emerge from the European Banking Authority (EBA) deliberations on updated Regulatory Technical Standards

(RTS)[27]), can contribute to redressing issues and challenges encountered in Open Banking in Ireland to date. We note that:

- As distinct from a directive needing transposition from member states into national law, the PSR is a Regulation, and its requirements must be adopted as standard across Europe, leading to a more harmonised payments market, with significantly fewer differences and inequalities between member states.

- The PSR contains new rules on the performance requirements of APIs, on the minimum functionality they should support, on the levels of availability and response times/latency. These requirements, when met by industry players, should address existing issues such as API downtime, lack of harmonised API standards and poor levels of support for APIs.

- EBA RTS are expected to promote more streamlined authentication where open banking SCA journey will be required to be at least as seamless as what the user has available to them via online banking. For example:
    - Users will no longer have to go through significantly longer authentication journeys than they do when they complete a manual bank transfer.
    - Users will no longer be asked to type in their own lengthy IBAN to initiate a payment or access their accounts.
    - Payments can no longer be restricted to contacts on the trusted beneficiaries list, or to domestic beneficiaries.

- PSR IBAN and Name Checking requirements mean payment providers must ensure that, for Instant Payments in SEPA, the payee account details that the payer inputs match those on the receiving account. This requirement can help reduce cases of fraud or misdirected payments in manual bank transfers.

Instant Payments

The European Parliament has formally approved (Feb 7th)[28] the Instant Payments in Euro legislation whereby banks and other payment service providers must to offer EU citizens and businesses the option of performing virtually instantaneous credit transfers. This sets the implementation clocks running towards a deadline of Q4 2024 for acceptance by institutions of inward instant SEPA Payments and Q3 2025 for outward instant payments.

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[27] Regulatory Technical Standards are a delegated act, technical, prepared by a European Supervisory Authority, which further develop, specify and determine the conditions for consistent harmonisation of the rules included in the basic legislative act. https://www.deutsche-boerse.com/dbg-en/regulation/regulatory-topics

[28] https://www.europarl.europa.eu/news/en/press-room/20240202IPR17318/ensuring-euro-money-transfers-arrive-within-ten-seconds

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FPAI welcomes this development, as the adoption of Instant payments (of which uptake in the scheme to date has been considered “underwhelming” by the European Commission[29]) can play a crucial role in enabling various Open Banking propositions by enhancing the speed, efficiency, and accessibility of financial transactions. Specific benefits include:

- Real-time funds transfers enable immediate online and in-store commerce, as users can make payments with near instant settlement.
- Enhanced customer experience through immediate access to funds, quicker settlement of transactions and faster response-times for payment-related activity.
- Open banking platforms can leverage the speed of Instant Payments to offer new and innovative services such as real-time budgeting, instant loan approvals and drawdowns and real-time personalised financial insights.
- Instant payments compliments Open Banking by enabling real time verification and authorisation of transactions and the rapid exchange of financial information between institutions.

Examples of the combined benefits of Instant Payments and Open Banking include the meteoric growth of the PIX[30] payments scheme in Brazil and the rapid take up of UK Variable Recurring Payments[31] (an alternative to Direct Debits) since their launch, as part of the Open Banking UK initiative.

EU Digital Identity Wallet

In November 2023, the European Commission welcomed the final agreement by the European Parliament and the Council of the EU on a legal framework for an EU Digital Identity Wallet (EUDIW)[32], “the first trusted and secure digital identity framework for all Europeans”. The Wallet will offer a user-friendly and practical means for users to securely store their digital identity, open bank accounts, make payments, and hold digital documents, such as a mobile Driving Licence, a medical prescription, a professional certificate, or a travel ticket.

Under the new Regulation, each EU member state will be required to issue at least one EUDIW within 24 months of the Implementation Acts being adopted. In addition, except for small and medium-sized businesses, where strong user authentication for online identification is required by law or contractual obligation, relying parties must accept the EUDIW no later than 36 months after the entry into force of the Implementing Acts.

In the context of open banking, Digital ID services, such as the EUDIW, can smooth customer journeys, improve security and trust, reduce the vulnerabilities and insertion points malicious actors can exploit and – ultimately – make fraud more difficult.

[29] Q&A: Commission's proposal to promote euro instant payments (europa.eu)
[30] https://www.bcb.gov.br/en/financialstability/pix_en
[31] https://www.openbanking.org.uk/glossary/variable-recurring-payments-vrps
[32] https://digital-strategy.ec.europa.eu/en/news/commission-welcomes-final-agreement-eu-digital-identity-wallet

As outlined earlier, building and maintaining trust in Open Banking data sharing is important. Consumers can be wary of the security of the new providers in Open Banking, or they or may feel bound to a particular security solution from legacy providers. In providing a digital ID service which is mandatory for a wide variety of providers, the EUDIW can serve as the gateway for users to access the growing number of Open Banking financial options.

Consultation 156 – Central Bank of Ireland (CBI) approach to innovation engagement in financial services.

Launched in 2018, the CBI Innovation Hub[33] seeks to help innovators to gain a deeper understanding of the CBI's regulatory and supervisory expectations by sharing its perspective on innovation within financial services including with its subject matter experts. The Innovation Hub is a valuable mechanism for the Central Bank to engage and have dialogue with regulated and unregulated entities about innovation, as an element of how the regulatory framework seeks to play a positive role in the functioning of an innovative financial system.

In November 2023, the CBI published Consultation 156[34], the CBI approach to innovation engagement in financial services. The Consultation outlined a range of engagement initiatives to:

- allow the CBI to reach a wider audience, complemented by more targeted activities to drive specific engagement.
- allow for more engagement on regulation, intelligence gathering, and participation in international initiatives.
- contribute to a more dynamic and productive exchange of ideas, ultimately supporting innovation that benefits consumers, businesses and the economy, while addressing the risks.

In its response to the Consultation, the FPAI welcomes the enhancements proposed. In the context of Open Banking and other areas of innovation, the CBI proposal to establish a Regulatory Sandbox Initiative (an initiative that enables innovative firms engage with the regulatory framework in a clear and transparent way and develop innovations that promote better outcomes for society and the financial system) is seen by FPAI as an opportunity to:

- allow both FinTech start-ups and established Financial Service innovators to conduct live experiments in a controlled environment under the regulator's supervision.
- encourage financial services innovation while appropriately managing risks and protecting customers, and
- balance the need for innovation with the necessity of maintaining financial stability and protecting consumers.

[33] https://www.centralbank.ie/regulation/innovation-hub
[34] https://www.centralbank.ie/publication/consultation-papers/cp156---central-bank-approach-to-innovation-engagement-in-financial-services

SEPA Payment Account Access (SPAA) scheme

The SEPA Payment Account Access (SPAA) scheme is a EU scheme developed to drive 'open payments' in the European Union (EU) in a way that unlocks and creates value, from the investments incurred through the PSD2, whilst allowing for a fair distribution of value and risk between scheme participants. The SPAA scheme is an initiative from the European Retail Payments Board (ERPB)[35], a high-level strategic body tasked with fostering the integration, innovation and competitiveness of euro retail payments in the EU. SPAA is administered by the European Payments Council (EPC)[36] which is also responsible for the main SEPA Credit Transfer and Instant Credit Transfer and SEPA Direct schemes.

The SPAA scheme provides a mechanism for participants to transport information in relation to payment accounts and transactions, as a basis for the development of value added services toward end consumers and businesses. It is envisaged that the scheme will evolve further over time to support more elaborate functionalities, in line with market demand.

According to the EPC, the key benefits behind the SPAA scheme include that it:

- builds on investments done in the context of PSD2.
- Is managed as a scheme, developed collaboratively by the retail payments industry (supply and demand) and the end-user community as represented by the ERPB, and with the support of EU institutions.
- enables value-add 'premium' payment services beyond PSD2 in a way ensuring harmonisation, interoperability, and reachability across Europe.
- enables Asset Holders (Account Servicing Payment Service Providers - ASPSP) expose information and transactions through the scheme to Asset Brokers (Third Party Providers - TPP) for a fee (from TPPs), with prior consent from the asset owner (end customers).
- considers the input from major European standardisation initiatives in the field of 'PSD2 APIs'.
- could be a stepping-stone towards 'open finance' beyond open payments and 'open data' beyond finance.

Premium services are services built on PSD2-regulated ones but going beyond the minimum regulatory requirements via the combination of premium features. For example, a 'one off payment' is a PSD2-regulated basic service, but when combined with a premium feature such as a 'payment certainty mechanism', it becomes a premium service as described in the SPAA rulebook.

The ability to monetise, through fees for premium features, the investments which have been put into becoming PSD2 compliant may become very appealing to banks. Equally, access to financial data beyond the minimum, with user consent, enables both ASPSPs and TPPs develop more innovative products and services for end users. In November 2023 the EPC published its

[35] https://www.ecb.europa.eu/paym/groups/erpb/html/index.en.html
[36] https://www.europeanpaymentscouncil.eu/

default remuneration model, marking a significant step for the scheme, and for the advancement of Open Banking in the EU.

Members of FPAI were represented in the SPAA Multi Stakeholder Group[37] and several FPAI members have recently announced that they have joined the scheme.

[37] https://www.europeanpaymentscouncil.eu/document-library/other/spaa-msg-membership-list

The Case for Open Banking in Ireland and Recommendations

As a small, open economy, Ireland is well positioned for Open Banking implementation having key criteria for success:

- Thriving FinTech sector with high levels of investment.
- Concentrated banking sector.
- High levels of cross border trade.

For consumers, It allows more for increased access to financial data with more choices and greater control. Open banking platforms can offer Irish customers personalised insights and recommendations tailored to individual financial goals and circumstances. By analysing spending patterns, savings habits and investment preferences, these platforms from PISP's can provide actionable advice on budgeting, saving and investment strategies. In addition, as information from across multiple accounts can be consolidated into one place, individuals can track their spending, cash flow and areas for optimisation for effectively.

Financial inclusion is an important pillar of the National Payments Strategy and Open Banking has potential to support this for the underbanked population. By enabling individuals securely share their financial data with 3rd party providers, open banking allows for the development of tailored financial solutions of tailored financial solutions for individuals with unique financial needs or challenges. Further, improved access to financial products and services and increased competition will support more affordable financial products and services.

For business, it opens the door to new sources of funding, greater control of cash flows and planning, streamlining payments and better risk management.

For the economy, Open Banking will enhance transparency, foster innovation and support greater economic growth.

Ultimately, Open Banking empowers individuals with greater control over their financial lives by giving them greater control of the money, allowing for proactive steps to be taken to improve their financial health, build wealth and achieve their long-term financial goals.

Further consideration should be given to Open Banking in the context of the Irish National Digital Strategy[38], driving innovation, opening up of new digital payment and transaction services to drive eCommerce and online business and supporting job creation and economic growth. In support of this, the following could be considered:

- Investment in digital infrastructure.

[38] https://enterprise.gov.ie/en/what-we-do/the-business-environment/digital-single-market/national-digital-single-market-aspects/#:~:text=The%20National%20Digital%20Strategy%20(NDS,position%20to%20enjoy%20those%20benefits.

- Promotion of digital skills and literacy.
- Support for digital start-ups and entrepreneurs Development of digital innovation hubs.
- Promoting Ireland as a place for digital businesses (e.g. IDA Ireland digital).

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Recommendations.

FPAI recommendations fall into two categories:

- Recommendations 1 to 5 focus on the immediate objective of enhancing access to and use of Open Banking in Ireland. These are:

    1. Reconstitution of the FPAI Open Banking Working Group (OBWG)
    2. Development of a communications plan on User Education and Trust in Open Banking
    3. A framework and accountable body for monitoring and reporting on open banking progress
    4. Regulatory and industry engagement on Instant Payments and PSD3 Implementation
    5. Industry collaboration on Fraud Prevention measures

- Recommendation 6, considers the longer horizon of the Payments Strategy 2024, and encourages the development of a more expansive and ambitious Open API and Data strategy

    6. Develop a National Open API and Data Strategy with clear goals and objectives.

FPAI welcomes engagement with the Department of Finance on these recommendations and on the outcome of the consultation process for the development of the National Payments Strategy 2024.

R1: Reconstitution of the FPAI Open Banking Working Group

FPAI proposes to reconstitute the OBWG in 2024 with refreshed and broader membership with the objectives, for example, of collaborating to:

- Seek to address issues and obstacles to Open Banking pending and post PSD3 implementation.
- Promote enhanced developer experience, innovation and use cases.
- Consider use cases that benefit from collaboration amongst OBWG members.
- Work on specific projects, events, hackathons, innovation labs.
- Develop proposals on how Open Banking can be a catalyst to enhance financial services for vulnerable customers.
- Encouraging the development of value-add 'premium' APIs and services and promoting membership of the SPAAS Scheme or similar initiatives.

FPAI proposes to co-ordinate regular engagement between the OBWG and the CBI and Department of Finance with a view to optimising collaboration between the public and private sector which is key to the implementation of the recommendations proposed in this paper. We also foresee opportunities for collaboration on Open Banking initiatives from Government, such as, for example the addition of a 'pay by Open Banking' option to central and local government payment menus.

R2: Development of a Communications Plan on User Education and Trust for Open Banking

We recognise that as Open Banking gains momentum, the role played by trust and education in maximising its benefits for consumers and financial institutions is critical. Educating customers and institutions on the 'why' of Open Banking is an important element of building trust.

Without understanding what Open Banking is, or whether it is safe to participate in, particularly in the context of heightened authorised push payment fraud, scam text messages, GDPR concerns and regular messaging from institutions not to share personal information such as PIN numbers and passwords, failing to appropriately address the important education piece has the potential to diminish uptake in and overall successfulness of the Open Banking project.

Quite simply, for consumers to embrace open banking, they must have trust in the security, reliability and privacy of the systems and services involved. This trust is built through transparent, clear communication, and robust data protection measures.

We recommend that a series education campaigns and other initiatives form part of the Payments Strategy 2024, with a view to highlighting the benefits of open banking and potential use cases it will support, while balancing this messaging by raising awareness on the rights and protections afforded to consumers and institutions under the relevant regulations.

A collaborative approach between FPAI, BPFI, wider industry players to support the CBI and Government is essential to ensuring that these campaigns are recognised as originating from trusted sources and have the desired effect.

R3: A framework & accountable body for monitoring & reporting on Open Banking progress

Unlike Open Banking in some jurisdictions, such as the UK, there is no centralised data collection framework, or published information of API availability and performance for Open Banking in Ireland. The objective of such reporting, together with engagement between the authority collating the data and Open Banking participants, is to improve availability and performance and the Open Banking experience for proposition developers, service providers and end users, which in turn builds confidence in open banking services, so that the market for services can scale and grow.

In the UK in December 2023, the Joint Regulatory Oversight Committee (JROC) of the FCA and PSR, approved a data collection framework[39] to collect and analyse API performance and availability data. This collection is supplementary to the mandatory regulatory requirements under the SCA-RTS. The data collection exercise is intended to consider the performance of the ecosystem, as well as helping the FCA to evaluate whether and how existing technical requirements should be amended to improve open banking API availability and performance. All ecosystem participants (including TPPs) are requested to voluntarily submit their monthly data on API availability and performance to Open Banking Limited in line framework.

FPAI recommends that one of the Irish authorities be given responsibility for developing and operating a similar framework in Ireland, with a view to improving service availability and performance both under the current regulatory regime and when the updated requirements for APIs come into effect under PSD3 and the updated EBA RTS.

Consideration should be given to collating and reporting on additional indicators such as:

- Awareness: user awareness of Open Banking benefits, levels of trust
- Adoption: rate of uptake by consumers and businesses
- Innovation: level of new products and services
- Competition: number of active players, new entrants, regulated firms

[39] https://www.fca.org.uk/news/news-stories/joint-regulatory-oversight-committee-welcomes-obls-submission-two-data-collection-frameworks

R4: Regulatory and industry engagement on Instant Payment and PSD3 Implementation

The European Parliament has formally approved (Feb 7th) the Instant Payments in Euro legislation whereby banks and other payment service providers must to offer EU citizens and businesses the option of performing virtually instantaneous credit transfers. This sets the implementation clocks running towards a deadline of Q4 2024 for acceptance by institutions of inward instant SEPA Payments and Q3 2025 for outward instant payments.

On PSD3/PSR, it is anticipated that the legislation will be finalised in 2024, with provisions taking effect 18 months thereafter, sometime in 2026.

These two regulatory developments individually and collectively represent a major implementation undertaking for FPAI and BPFI members. Both FPAI and BPFI have an excellent record in facilitating industry collaboration, working closely with the regulators towards a timely implementation of requirements and delivering for its members and their customers.

FPAI propose, once again, to convene and moderate Instant Payments and PSD3/PSR working groups to:

- **Foster a customer focused approach to implementation with a view to delivering on the ambition of the regulations and expected benefits and outcomes.**
- **Facilitate exchanges on practical implementation issues of collective relevance for participants.**
- **Provide clarity or explanations on open issues around key areas of impact and, where relevant and useful, define industry best practices addressing such open issues.**
- Support industry engagement from key government stakeholders (such as the Department of Social Protection (DSP) and Revenue) for aligned communications to customers about any changes to existing payment timeframes.

R5: Industry collaboration on Fraud mitigation measures

Through the integration of Open Banking and Instant Payments, industry players can enhance the speed, efficiency, and accessibility of financial transactions and accelerate the pace of innovation in instant electronic commerce.

At the same time, this integration amplifies the fraud threat by providing cyber criminals with more diverse entry points and accelerated transaction speeds, increasing the potential for unauthorised access and fraudulent activities.

PSD3/PSR introduces additional measures to combat and mitigate fraud including helping banks and other PSPs cooperate against fraud through increased fraud-related data sharing, imposing obligations on banks to improve customers' awareness about fraud, enhancing victims of fraud refund rights.

Mitigating payment fraud requires a multi-faceted approach involving advanced security measures, user education, and collaboration amongst stakeholders in the payment ecosystem.

One such measure, is the proposal from Banking and Payments Federation Ireland (BPFI), for the development of a shared fraud database which will enable banks to share real-time information on fraud cases and other criminal activity with authorities and other banks. The proposal requires legislative changes which is hoped will be completed later this year, subject to the outcome of further stakeholder consultations that are necessary to inform drafting of the regulations.

As the Open Banking ecosystem widens to include more participants, the FPAI supports and encourages collaboration between the broadest representation of industry players (e.g., banks, BigTech, Fintechs, telcos, retailers etc.) to implement measures to assist in the fight against financial crime.

R6: Develop a national Open API and Data strategy with clear goals and objectives.

The National Payments Strategy 2024 consultation argues that the Strategy should look to the possibilities for greater access to and use of Open Banking in Ireland. We have set out our support for this element of the strategy in this paper, including an evaluation of the enabling initiatives and the recommendations in this section of the paper.

We believe that the Strategy should go further in its ambition, by extending the strategic focus beyond services based solely on access to bank account data. A broader Open API and Data strategy should promote wider data sharing and incorporate financial products and innovation from diverse sectors, thereby enhancing overall customer experience and satisfaction.

This is consistent with the European Commission proposals for Financial Data Access which, in the words of Commissioner Mairead McGuinness, "will modernise not only the EU's retail payments industry but also the financial services sector as a whole"[40].

An expansive Open API and Data strategy could:

- encourages collaboration and innovation beyond traditional banking, promoting the development of innovative services that cater for a wider range of customer needs and preferences in line with the Strategy 2024 'access and choice' principle.
- enable a more holistic view of customer behaviour and preferences, leveraging data from multiple sources, enabling businesses offer personalised and targeted services. This could include improved services such as improved personal financial management and advice, enhanced comparison and switching services, enhanced creditworthiness assessments and products tailored to vulnerable customers in line with the 'inclusion' principle of Strategy 2024.
- encourage government services to providing public access to a broader range of non-sensitive data, fostering transparency and accountability and enhancing the efficiency of public services through collaboration on the creation of innovative solutions

FPAI acknowledges the imperative of the industry focusing on the immediate priority of enabling and encouraging greater access to and use of Open Banking in Ireland through a focus on recommendations one through five. At the same time, in the horizon of the National Payments Strategy 2024, FPAI encourages the development of a more expansive and ambitious Open API and Data strategy.

[40] https://ireland.representation.ec.europa.eu/news-and-events/news/modernising-payment-services-and-opening-financial-services-data-new-opportunities-consumers-and-2023-06-28_en#:~:text=Today%20we%20are%20taking%20concrete,the%20heart%20of%20financial%20services.