

United States Open Banking Market Assessment, By Institution Type [Traditional Banks, Neobanks and Challenger Banks, NBFs, Credit Unions, Others], By Service Type [Payments, Digital Currencies, Value Added Services, Others], By Deployment Model [Cloud, On-premises, Hybrid], By End-user [Retail Customers, SMEs, Banks, Fintechs, Insurance Companies, Others], By Distribution Channel [Bank Channel, Apps, Distributors, Aggregators], By Region, Opportunities and Forecast, 2017-2031F

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Report description:

United States open banking market is projected to witness a CAGR of 22.45% during the forecast period 2024-2031, growing from USD 7.08 billion in 2023 to USD 35.79 billion in 2031. Open banking market in the United States is going through a transformative shift driven by technological innovation and constantly evolving consumer expectations.

Open banking, characterized by the secure sharing of financial data through standardized APIs, is reshaping the financial services landscape by fostering collaboration between traditional banks, fintech startups, and third-party providers. The shift towards open banking is fuelled by a desire to deliver consumers more personalized, efficient, and inclusive financial experiences.

In recent years, the rise of challenger banks and neobanks has challenged the dominance of traditional banking institutions, offering digital-first solutions that prioritize customer-centricity. These agile players leverage open banking principles to offer innovative services such as real-time payments, personalized budgeting tools, and AI-driven financial advice. As a result, the market has witnessed a surge in partnerships and collaborations between incumbents and fintech disruptors, driving ecosystem growth and expanding market reach.

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Furthermore, regulatory initiatives such as Consumer Financial Data Rights (CFDR) framework and industry-led efforts, such as the Financial Data Exchange (FDX), promote data sharing standards and consumer data rights, providing a regulatory foundation for open banking practices. The regulatory support, coupled with advancements in API standardization and data security, is paving the way for a more interconnected and transparent financial ecosystem.

Consumer Financial Protection Bureau (CFPB) encourages banks and fintech to move forward with open banking. This regulatory framework allows individuals to grant a third-party access to portions of their bank records. On October 19, 2023, the CFPB proposed the Personal Financial Data Rights regulation, which can potentially increase competition, improve financial goods and services, and discourage junk fees. It will empower consumers to reject poor service and instead choose financial institutions that provide better products and rates.

API Adoption and Standardization

The one of the major factors driving the United States open banking market is the adoption of APIs and standardization playing a crucial role in driving innovation, interoperability, and efficiency. Adoption of APIs (Application Programming Interfaces) enables secure data sharing and connectivity between financial institutions, fintech startups, third-party providers and consumers, thus providing the necessary firewall and eliminating the customers' most common concerns regarding the privacy of their financial data. APIs allow banks and financial institutions to securely share customer data with authorized third-party providers (TPPs) while ensuring data privacy and consent management. It enables seamless integration of financial services and applications. APIs empower fintech startups and developers to build innovative financial products and services that leverage banking data. Collaboration between banks and TPPs fosters ecosystem growth and supports the development of customer-centric solutions. FDX is an industry-led consortium that develops and promotes API standards for secure financial data sharing. FDX specifications provide guidelines for data models, authentication protocols, and API implementation across the financial services ecosystem. API standardization promotes interoperability between different systems, platforms, and institutions. Standardized APIs ensure compatibility, consistency, and seamless integration across the open banking ecosystem. Standardized APIs adhere to best practices for security, data protection, and regulatory compliance. Common authentication methods, encryption standards, and consent management frameworks enhance trust and mitigate risks.

Fintech Collaboration and Partnerships

Fintech startups and companies play a vital role in the United States open banking market as their partnership is instrumental in driving innovation, creating innovative ideas and expanding market reach. Fintech startups and established financial institutions increasingly leverage strategic alliances to leverage each other's strengths, technologies, and customer bases. Fintech startups bring innovation and agility, developing technologies and solutions that address evolving customer needs. Collaborations with traditional banks provide fintechs with access to banking infrastructure, regulatory expertise, and customer data. Partnerships enable fintechs to tap into the established customer base and distribution channels of banks. Fintechs can reach a wider audience and gain market visibility by integrating their services with banking platforms.

Banks leverage fintech solutions through white-label partnerships, offering branded fintech services to their customers. The approach enhances the bank's digital offerings without heavy investments in technology development. Fintech startups integrate their APIs with bank systems to access customer data securely. It allows for real-time account aggregation, payment initiation, credit scoring, and other value-added services.

Visa completed its EUR 1.8 billion acquisition of Tink in March 2022 and has made it possible for the United States consumers to connect accounts and grant trusted parties access to their financial information. In April 2024, Visa introduced open banking in the United States, leveraging technology from Tink, a recently acquired Swedish vendor. Visa has negotiated data access agreements with merchant banks and fintechs such as Capital One, Fiserv, Jack Henry, Dwolla, and Max Rewards in preparation for the United States debut.

Demand for Innovation and Increasing Competition in the Market

The increasing competition in the open banking market is a significant driver for the United States open banking market as the intensifying competition is constantly driving innovation. As consumers seek more personalized, convenient, and efficient financial services, traditional banks, and fintech startups are under pressure to innovate and differentiate their offerings. This demand for innovation, coupled with increased competition within the financial services industry, is fueling the adoption of open banking practices. The demand for innovation is centered around delivering customer-centric solutions that cater to individual preferences

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and needs.

Open banking enables the development of personalized budgeting tools, real-time payment services, automated investment platforms, and tailored lending products. Open banking accelerates digital transformation in banks and fintechs by promoting API-driven integrations, cloud-based services, and mobile-first experiences. The shift towards digitalization enhances operational efficiency, reduces costs, and improves consumer accessibility. Open banking facilitates access to rich financial data, which can be leveraged for advanced analytics and AI-driven insights. Banks and fintechs use data analytics to offer predictive financial advice, optimize risk management, and enhance fraud detection capabilities.

Consumer Expectations for Personalization

Consumer expectations for personalization is a powerful driver influencing the evolution of the United States open banking market. As technology advances and customer preferences shift towards personalized experiences, banks and fintech companies are leveraging open banking principles to meet these expectations. Open banking enables banks and fintechs to access consumer financial data with consent, allowing for personalized recommendations based on individual spending habits, financial goals, and lifestyle preferences. It includes tailored investment advice, budgeting tips, and product recommendations. Consumers expect intuitive budgeting tools that analyze transaction data to provide insights into spending patterns and savings opportunities. Open banking APIs facilitate real-time access to account information, empowering consumers to make informed financial decisions. Consumers expect instant payment capabilities that leverage open banking infrastructure for fast and secure transactions. Open banking facilitates real-time payment initiation directly from bank accounts, eliminating the need for traditional payment methods.

Future Market Scenario (2024 - 2031F)

□□Data privacy and security remain top priorities in global open banking market. Financial institutions are implementing robust security measures, including encryption, tokenization, and secure authentication protocols, to protect customer data and comply with regulatory requirements. The market will witness many market players who will further act and adopt technologies to protect data.

□□The adoption of open banking APIs will continue to expand, facilitating secure data sharing and interoperability among financial institutions, fintech, and third-party providers. An increasing number of developers will leverage APIs to build innovative financial products and services.

□□Regulatory frameworks governing open banking will evolve to support innovation while ensuring data privacy and security. Increased collaboration between industry stakeholders and regulators will foster a conducive environment for open banking initiatives.

Key Players Landscape and Outlook

The outlook for the United States open banking market is highly positive, it is expected that the market will continue to grow and expand in the coming years. The market outlook for the United States open banking sector presents a dynamic landscape shaped by technological innovation, regulatory developments, and evolving consumer behaviors. As open banking gains traction, several key factors are driving the market outlook and shaping the future direction of the industry.

As stakeholders navigate opportunities and challenges, the industry is poised for continued growth, driven by technological advancements and consumer-driven demand for personalized financial services. The future of open banking in the United States promises enhanced customer experiences, expanded market reach, and increased financial inclusion, shaping the future of banking and finance in the digital age.

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*Companies mentioned above DO NOT hold any order as per market share and can be changed as per information available during research work

14. Strategic Recommendations

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