

# Development of Open Banking for Rural Commercial Banks in China

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## Abstract

**In recent years, the concept and development model of open banking have gradually emerged, and international banks have successively implemented them. Rural commercial banks are the main force in rural financial services and the main body of community financial services. Therefore, it is of great significance to explore the coupled development of rural commercial banks and open banking. This article analyzes the advantages and disadvantages of the rural commercial bank's development of open banking, and puts forward suggestions in terms of development strategy, development steps, resource linkage, business focus, risk management, and talent construction.**

## Keywords

**Rural Commercial Bank; Open Banking; Application Programming Interface.**

## 1. Introduction

In recent years, open banking based on API (Application Programming Interface) has been gradually becoming an important direction for the technological innovation of commercial banks worldwide. The European Union, the United Kingdom, Australia, Mexico, Singapore and other countries have successively promoted the development of open banking. In 2018, Shanghai Pudong Development Bank took the lead in launching API Unbounded Open Banking in China. Subsequently, China Construction Bank, China Merchants Bank, Ping A Bank, China CITIC Bank, Industrial and Commercial Bank of China had also actively explored the development of open banking. So how can rural commercial banks, as small and medium-sized banks, embrace open banking? This is a question worth exploring. We will discuss the coupling development of rural commercial banks and open banking from the concept of open banking and the conditions for rural commercial banks to develop open banking. Finally, we will put forward relevant suggestions.

## 2. The Concept of Open Banking

The concept of open banking originated in the United Kingdom. In 2016, the UK Competition and Market Commission (CMA) issued a report stating that the proportion of bank users changing banks is very low, traditional and large commercial banks are not fully competitive, while small and medium-sized banks are difficult to develop. To solve this dilemma, the concept of open banking was proposed.[1]. Therefore, the original intention of implementing open banking was to break the monopoly of big banks through data openness.

The core of the open banking mode is that through open cooperation with third-party partners, banks can quickly embed financial products and services into external scenarios and ecosystems by using standardized or customized methods, as well as sharing data, algorithms, transactions, processes and other business functions, so as to achieve network-wide customer acquisition and retention [2]. In this financial ecosystem, banks, partners and bank customers

are included. Through openness and sharing, banks can improve the industrial ecological chain and connect online-offline financial services, and actively build digital and full-scene unbounded financial services mode. Banks are at the back end of the entire service chain and open their own financial service interfaces to third-party platforms. For example, e-commerce platforms hope that banks can provide customers with services such as account inquiry, payment, consumer loans, etc. and banks open related financial service interfaces when the platform is called, so customers can directly obtain relevant banking services online from the platform. For example, Shanghai Pudong Development Bank's API Bank embeds the bank's own products and services into the cooperated platform through the API platform.

Open banking can be seen as a platform for win-win cooperation. The lower layer of this platform is the bank, the upper layer is the business ecosystem, and the middle layer is the third-party platform. For small and medium-sized banks, due to their own limited technological capabilities and other constraints, they need to rely on third-party platforms to establish open banking platforms and service models. The open banking platform standardizes the financial services of small and medium-sized banks and transforms them into a business paradigm that can be called by the upper-level business ecosystem, thereby solving the problem that small and medium-sized banks cannot build a business ecosystem directly connecting with the upper-level business ecosystem [3].

### **3. Conditions for Rural Commercial Banks to Develop Open Banking**

#### **3.1. Advantageous Conditions**

First, the rural commercial bank has a good local customer base. Rural commercial bank is a local bank, focusing on serving farmers and small and micro enterprises, and has a good customer base in the local areas. In urban areas, cooperation channels can be established with local merchants, shopping malls and various e-commerce platforms to serve the community efficiently and conveniently; in rural areas, cooperation channels can be established with local village cooperatives, leading agricultural enterprises, and rural e-commerce platforms to open up rural digital scenarios.

Second, the rural commercial bank has a certain foundation for developing Internet scene business. In recent years, many rural commercial banks have begun to pay attention to the impact of e-commerce platforms and the digital economy, strengthen their cooperation with e-commerce platforms and third-party platforms, and actively apply Internet scenarios for marketing. For example, the "Xiantehui" platform built by the Guangdong Rural Credit Union takes advantage of the multi-faceted agricultural cooperative institutions and its roots in rural areas. The platform takes high-quality rural e-commerce as the entry point, uses e-commerce business to build a brand and acquires customer groups, thus striving to build a comprehensive platform that fully covers life and realizes multiple financial scenarios.

Third, the rural commercial bank has a sound policy foundation. In recent years, China has implemented big data strategy to accelerate the construction of a digital China, and relevant departments have issued a series of policy documents to increase support for the digital construction of rural areas, and regard digital villages as an important aspect of the construction of digital China, accelerating the development of informatization and promoting the modernization of rural areas as a whole. This provides a good policy basis for rural commercial banks to develop open banking and serve rural commercial ecosystems.

#### **3.2. Adverse Conditions**

First, the rural commercial bank has no scale advantage. On the one hand, rural commercial banks are small in scale, low in bargaining power, and customers are concentrated in the local area. Therefore, it is difficult for them to directly connect with large third-party institutions in

technology. On the other hand, under the secondary corporate legal person system of the rural credit system, the rural commercial banks still rely more on the provincial rural credit union in terms of technology development, business management. This poses a challenge to the technological development and innovation capabilities of the provincial rural credit union [4]. Second, rural commercial banks have a weak foundation for online financial development. Compared with state-owned banks or national joint-stock banks, rural commercial banks have relatively weak financial technology capabilities, and online financial services are still at a disadvantage. Rural commercial banks have a low ability to acquire and retain customers in the open banking competition of virtualized scenes. In addition, rural commercial banks also lack professional talents in terms of new retail finance and financial technology.

Third, rural commercial banks need to effectively integrate development strategies. In recent years, concepts such as online banking, mobile banking, direct banking, and transaction banking have emerged one after another, and rural commercial banks are struggling to deal with them. If these business concepts and their connection with open banking are not properly understood, this will result in improper business integration or improper absorption, which may bring strategic risks to rural commercial banks.

#### **4. Relevant Suggestions for Developing Open Banking in Rural Commercial Banks**

Open banking is a new thing, and it has certain requirements for banks' data management capabilities, scenario integration capabilities, and financial technology capabilities. The construction of open banking by domestic commercial banks is more reflected in the actual operation of exporting banking services, acquiring customers and expanding business boundaries through scenario cooperation. At the current stage, it may be difficult for rural commercial banks to completely copy the open banking model of large banks. It is suggested that rural commercial banks can learn from the concept and service model of open banking, further promote the integration of financial technology and business, reorganize traditional banking services, and embed partner scenarios to achieve online customer acquisition and intermediary business development. This promotes the transformation and development of rural commercial banks in digital banking.

First, focus on strategic integration. Open banking represents the development direction of digital banks. In the future, it may become an important channel for banks to acquire customers online. It needs high requirements for banks' data management capabilities and business provision capabilities. Therefore, the development of a bank must take into account the bank's own business development and do what is within its power. Under immature conditions, it can be carried out partially, and for more mature conditions, it can be carried out more deeply. It is necessary to focus on strategic integration with online banking and mobile banking to achieve coordinated development. At the same time, the rural commercial bank may also consider cooperating with e-commerce giants that are accelerating the deployment of the rural market, to achieve multi-party collaborative and win-win development.

Second, carry out it step by step. In view of the rural commercial banks' own conditions, it can be explored to advance the implementation in stages. For example, in the initial stage, the rural commercial bank can support the gradual opening of IT systems and businesses, through direct bank-enterprise connection, online banking, SDK, API, etc. to achieve banking services access to third-party platforms. With mature technical conditions and compliance with existing regulatory requirements, rural commercial banks can gradually explore the opening of the data level to further promote the integration of business and Internet scenarios.

Third, strengthen the linkage between top and bottom. We can make full use of the scale development advantages of provincial rural credit unions in financial technology to promote

the establishment of open banking platform foundation at the provincial level. At the same time, we can combine the actual conditions of rural commercial banks in various regions to design characteristic sections and businesses that meet the development of each region. We can establish a data and business sharing mechanism between provincial rural credit unions and rural commercial banks, and effectively integrate resources to better realize the openness of data and business.

Fourth, tap business potential. Open banking needs the support of banking business scenarios. Therefore, whether the banking business can be well integrated with the scenarios is the key to the development of open banking. Embedding banking products and services in the scene cannot be "embedded" in the simple way in the past. This requires the rural commercial bank to follow the demand-driven concept, combine its own business and customer needs, continue to dig deeper into the service model of business and scene integration. Rural commercial banks also need to keep pushing technological innovation, updating products and services, thus creating seamless services that cover the entire life cycle of customer finance.

Fifth, do a good job in risk management. The development of open banking involves many issues such as business cooperation, data management, and third-party platform management. Therefore, to explore the development of open banking, rural commercial banks must attach great importance to business compliance and technical risk prevention and control. Rural commercial banks must establish a sound financial information security governance structure, clarify policies, objectives, measures, and related work responsibilities. At the same time, they must improve internal control mechanisms and establish necessary procedures and systems, to identify, measure, monitor, and manage various risks arising from banks.

Sixth, strengthen the construction of talents. The implementation of open banking requires a group of professionals who understand banking business and how to achieve customer acquisition on the Internet, as well as a group of practitioners with relevant professional knowledge and skills such as big data, cloud computing, and blockchain. In this regard, on the one hand, it can be gradually cultivated from within the bank; on the other hand, it can also be recruited and introduced from the external market. The head office must formulate a strategy for cultivating financial technology talents that meets its own development needs, and create a good talent training environment.

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