What new business models does Open Banking enable?
With you today

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What are the factors driving open banking?

**Global landscape**

- **Customers**
  - 41% of customers would not hesitate to change financial service providers if offered a **better digital experience or service**.\(^1\)
  - 79% of customers would like their information to be seamlessly integrated across all points of contact.\(^1\)

- **Competition**
  - Adoption of FinTech products continues to **rise**.\(^2\)
  - 40% - 60% of banks are investing in API architectures or open platforms and will increase investments over the next three years.\(^3\)

**Canadian landscape**

- Canadian customers are growing **increasingly aware of FinTech services**.\(^2\)
- 51% in 2015 vs 78% in 2017

- 3 out of 10 Canadian customers report **decreased dependence on their bank** as their primary financial services provider.\(^4\)
What is open banking?

Open banking is a framework whereby consumers can authorize third-party financial service providers to access their personal bank account data, using secure online channels, to gain access to a wider range of financial products and services.
Open banking empowers consumers to integrate digital banking into their everyday lives.

**Traditional banking**

**CURRENT**
- Banks control end-to-end value chain, interfacing directly with the customer.

**CLOSED MODEL**
- Customer
- Proprietary bank channel
- Bank
- Data

**FUTURE**
- Banks will open their platforms to external third parties enabling access to account and data portability.

**OPEN BANKING**
- Customer
- Proprietary bank channel
- Bank
- Data
- Data aggregators, other TPPs
- FinTechs
Open banking has the potential to jeopardize traditional banks’ revenue sources and encourage customers to switch.

Data aggregation use case
Sandy is tired of overdraft charges and would like a little help with her budgeting. Sandy downloads a third-party app to manage her monthly budgets instead of coming to a branch or talking to a financial advisor.

**SANDY’S MONTHLY BUDGETING JOURNEY**

1. Sandy searches for a third-party app that can help her with monthly budgeting and chooses Mint Money Manager.
2. Sandy authorizes her bank to share her current account information with Mint Money Manager – replaces screen scraping currently used.
3. Sandy’s bank provides Mint with a history of her current account spending and income.
4. Mint App offers Sandy spending advice and suggests other current accounts with better overdraft terms. Sandy decides to switch her bank account.

**ILLUSTRATIVE**
How could open banking benefit consumers?

**Customer empowerment and access to better technology and innovation:** Open banking will provide consumers with greater options in financial products and services, and drive greater competition among financial institutions.

**Personalization:** Open banking will give FIs insights from consumer data to enable them to proactively provide targeted and relevant offerings that address consumer needs at every life stage (e.g., buying a new home).

**Better pricing for products and services through enhanced competition:** Open banking will enable third-party providers and challenger banks to offer more competitive products and services through access to data.

**Data aggregation:** Open banking will enable consumers to have a single, consolidated view of their financial position and activity.
How could open banking benefit FIs?

**Holistic view of the customer:** Open banking will give FIs a holistic view of the customer to deliver the right products. This can be achieved through the financial institutions’ own products or through new partner relationships.

**Better understanding of the customer’s risk profile:** Open banking will enable FIs to generate a more comprehensive risk profile as a direct result of data sharing among FIs in an open banking environment.

**Enable new business models and expand market share:** Open banking will further enable new business models to expand market share through non-traditional product offerings, data sharing and data commercialization.

**Enhanced fraud prevention and more efficient consumer identity management:** Open banking will enable enhanced fraud prevention and more efficient consumer identity management.
How could open banking benefit the economy?

Due to the increase in commercial and consumer activities, open banking is likely to have a positive impact on the financial services industry and overall GDP.

For example, according to a study by the Centre of Economics and Business Research in the UK, open banking can contribute more than £1b annually to the UK economy and support the creation of 17,000 jobs.
Consumers must be comfortable that the risks associated with open banking have been considered and effectively mitigated

<table>
<thead>
<tr>
<th>Risks</th>
<th>Mitigations</th>
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<tbody>
<tr>
<td>New <strong>security concerns</strong> due to data sharing through new mechanisms among banks and third parties</td>
<td>Establish controls and protocols and train/educate employees and customers on leading practice scenario responses</td>
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<tr>
<td><strong>Increased fraud</strong> due to an increase in the number of participants in the ecosystem</td>
<td>Create a mechanism to establish trust within the system such as verification and authentication protocols/mechanisms</td>
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<tr>
<td>New <strong>privacy and misuse of data concerns</strong> due to an increase in data and in the amount shared</td>
<td>Ensure a robust data privacy policy is in place (i.e., PIPEDA closer to GDPR) and educate participants</td>
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<tr>
<td>Potential <strong>increase in digital and financial exclusion</strong> for consumers who are less digitally inclined</td>
<td>Educate consumers around the benefits of open banking and data sharing, while reassuring them that their data is secure</td>
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</table>
Open banking will have material impacts on the way banks operate and make money

### Anticipated trends initiated by Open Banking:

<table>
<thead>
<tr>
<th>Feature</th>
<th>Description</th>
<th>Key Implication</th>
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<tbody>
<tr>
<td><strong>User experience as stand-alone</strong></td>
<td>Players specializing in user experience to emerge; catering to “tribes”/affinity groups</td>
<td>Distribution model</td>
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<tr>
<td><strong>Distributed functionality</strong></td>
<td>Functionality to proliferate across providers, particularly among organizations adopting API-first strategies</td>
<td>New revenue</td>
</tr>
<tr>
<td><strong>Unbundling propositions</strong></td>
<td>Point solutions will erode traditional banking propositions</td>
<td>Revenue threat</td>
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<tr>
<td><strong>Account commoditization</strong></td>
<td>Enhanced price comparison and automated sweeping to reduce “stickiness” and erode margins</td>
<td>Revenue threat</td>
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<tr>
<td><strong>Personalization</strong></td>
<td>Segmentation becomes more precise, leveraging additional data to refine propositions, more access for underbanked</td>
<td>CX &amp; new revenue</td>
</tr>
<tr>
<td><strong>Increased efficiency</strong></td>
<td>Increased digital information feeding operations, reducing turnaround time and staffing requirements</td>
<td>Operations</td>
</tr>
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</table>
How will you capture the value of open banking?

The value enabled by open banking exponentially increases through participation, and banks must decide how they will participate. Banks such as Starling Bank and DBS Bank offer banking-as-a-service and platform banking respectively. These banks have embedded non-financial products into the ecosystem.

The level of participation by players in a platform banking ecosystem is a strategic choice, and can vary by journey.

**Platform leader**
- Acts as the face of the platform service for the customer
- Comprehensive ownership of the end-to-end seamless customer experience
- Designs and coordinates the mix of proprietary and partner services

**Platform participant**
- Provides a component of an end-to-end experience, primarily focused on core proprietary financial products or services
- Fills gaps in partner’s ecosystem lineup
- Can more rapidly scale product or service features on the basis of market demand or expectations and for competitive differentiation

**Utility provider**
- Provides utility-based products or services on the basis of operational excellence (e.g., payment backbone, underwriting expertise)
- Invisibly powers the platform (e.g., white label services)
- Has the ability to scale products or services across multiple ecosystem relationships
A prescriptive approach that would better promote adoption and ensure more stringent alignment to the key guiding principles

- Ensure Canadian industry standards are prescriptive in nature
- Prescribe open access to data
- Clearly define roles in the open banking ecosystem
- Educate consumers and provide mechanisms for dispute resolution
- Create trust in the ecosystem by authorizing TPPs
- Manage consent and authorization between parties
As open banking progresses, banks must be proactive, promoting innovation and encouraging customer adoption.

Canada - open banking opportunity index ranking

<table>
<thead>
<tr>
<th>Overall</th>
<th>Regulatory environment</th>
<th>Consumer adoption</th>
<th>Consumer sentiment</th>
<th>Innovation environment</th>
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<td>10</td>
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<td>5</td>
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Source: EY Open Banking Opportunity Index ranking.
Implementation of open banking is at diverse stages globally

Four years*

*4-year timeline trend as indicated by analysis of regulated adoption timelines in the UK and Australian markets

Public opinion
- Market investigations and independent reviews conducted
- No official government acknowledgement received or action taken

Reviews and government response
- Continued reviews and official government response
- Often includes funding updates and timelines

Research and development
- Both banks and FinTechs experiment with APIs
- Combination of private and publicly released APIs

Enactment
- Established regulations and bodies responsible for enforcement
- Focused on establishing standards and technical requirements (frameworks often produced as guidelines)

Implementation
- Enhanced services and access to data by more banks releasing APIs and third parties implementing APIs

Four years*
Canada lags behind the UK, Europe, Australia and Hong Kong which have mandated standardized open banking, with phased delivery over 2019-21

**UK**
- 01/18 - UK open banking launches; largest banks undertake phased roll-out of AIS and PIS services
- 09/18 - UK open banking Release 2 completes/ extends product coverage, e.g., savings, credit cards...
- 03/19 - UK open banking Release 3 deadline - will include extended payment functionality (e.g., confirmation of funds, international payments)
- 09/19 - UK open banking Release 4 deadline - will include new authentication models and further payment functionality

**Europe**
- 01/18 - PSD2 came into effect, mandating XS2A but delaying implementation of solutions until RTS “go-live”
- 11/17 - Australian government announces open banking plans as part of the wider Consumer Data Right initiative
- 08/18 - Australia government released exposure draft legislation to introduce the CDR and open banking
- 07/19 - Australia open banking Release 1 will focus on data from credit and debit cards, deposit and transaction accounts
- 02/20 - Australia open banking Release 2 will make data from mortgages available
- 2020-21 - Deadline for all banks (beyond major banks) to implement open banking

**Australia**
- 11/17 - Australian government announces open banking plans as part of the wider Consumer Data Right initiative
- 07/18 - Hong Kong Monetary Authority published its Open API Framework setting out process and timetable for open banking
- c. 01/19 - Hong Kong open banking Phase 1 to conclude covering product and service information
- c. 2019-20 - Hong Kong open banking Phase 2 to conclude new account and product applications
- c. 2020-21 - Hong Kong open banking Phases 3 & 4 to be developed covering account information and payment initiation

**Hong Kong**
- 07/18 - Hong Kong Monetary Authority published its Open API Framework setting out process and timetable for open banking
- 09/18 - Canadian government establishes an Advisory Committee on Open Banking
- 01/19 - Canadian government issues consultation document into the merits of Open Banking

**Canada**
- 2018-2021 - Deadline for all banks (beyond major banks) to implement open banking

**Major US banks experimenting with commercial open banking platforms**
- Major banks in the US seeking to migrate away from screen-scraping preferring bilateral arrangements
- Many “tier 1” banks are building out “commercial” API models, potentially moving into the “middleware” banking market
Open banking will require a thoughtful approach across five critical operating model components

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Customer</th>
<th>Data</th>
<th>Technology</th>
<th>Risk &amp; compliance</th>
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</thead>
<tbody>
<tr>
<td>• Platform strategy</td>
<td>• Customer segmentation</td>
<td>• Data strategy</td>
<td>• Technology architecture</td>
<td>• Security and fraud prevention</td>
</tr>
<tr>
<td>• Customer strategy</td>
<td>• Customer insights</td>
<td>• Data architecture</td>
<td>• Core banking platform</td>
<td>• Data privacy and compliance</td>
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<tr>
<td>• Distribution and omni-channel strategy</td>
<td>• Customer acquisition and retention strategy</td>
<td>• Data aggregation tools</td>
<td>• API standards</td>
<td>• PII Protection</td>
</tr>
<tr>
<td>• Innovation model</td>
<td>• Customer experience</td>
<td>• Data sourcing</td>
<td>• API architecture</td>
<td>• Customer I&amp;AM</td>
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<tr>
<td>• Ecosystem and partnership model</td>
<td>• Onboarding and fulfilment</td>
<td>• X-system data mapping</td>
<td>• API dev portal</td>
<td>• TPP I&amp;AM</td>
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<tr>
<td>• API monetization</td>
<td>• Adoption management</td>
<td>• Data and analytics</td>
<td>• External API management and portal</td>
<td>• KYC/AML</td>
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<tr>
<td>• Organizational design</td>
<td>• Communication</td>
<td>• Artificial intelligence</td>
<td>• Consent management tools</td>
<td>• Cyber security</td>
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<tr>
<td>• Talent strategy</td>
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<td>• Development sandbox</td>
<td>• Liability and legal framework</td>
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<td>• Change management</td>
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<td>• Marketplace portal</td>
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<tr>
<td>• Branding &amp; marketing</td>
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Open banking use case examples

**BBVA**
Open banking platform
Open platform allows third parties that pass security and compliance checks to access, through APIs, a range of the bank's services.

Companies simply plug into a core digital platform and then access APIs including Move Money, Identity Verification, Account Origination, and Card Issuance services.

**Citi**
Citi Corporate in UK open banking
Citibank is to join the UK's open banking framework to provide an aggregated payments collection service for its business clients, tapping the APIs of the country's largest nine banks.

Citi is taking advantage of the framework to streamline the business of collecting and making payments on behalf of its business customers.

**DBS**
DBS Developers API developers hub
DBS Bank has over 155 APIs across 20+ categories and has already onboarded more than 50 companies to develop solutions for consumers.

Top categories of partnership are in peer-to-peer lending, payments, and financial aggregators.

DBS Bank has also built a robust data infrastructure that allows it to accelerate development of applications based on changing market requirements and conditions.

**Barclays**
Multiple account view in core banking app
Barclays has opted to embrace open banking through its core mobile banking app by releasing multiple account views as a feature.

It allows customers to view their balances and transactions for other personal or business current accounts with Lloyds, Halifax, Bank of Scotland, PBS, NatWest, etc., once integrated through the new open banking APIs.

**Emirates NBD**
API Sandbox
Emirates NBD (ENBD) has enabled open banking collaboration with its API Sandbox.

The platform consists of over 200 APIs and 900 end points covering retail, corporate and SMEs. Developers also have access to over three million simulated customer transactions based on the BIAN (Banking Industry Architecture Network) model.

**Starling Bank**
Banking-as-a-Service and Payment Services
By opening up its APIs, businesses can develop and scale new financial products quickly and efficiently without the need for long development lead-times and complex legal arrangements.

Depending on a client's needs, they can pick and choose components, or product features, from Starling and as they are using Starling's banking license, they do not need to become a regulated entity.

**Canadian FinTechs**
- Illustrative -
FinTechs are bringing to market products and services based on enhanced customer experience and are positioning themselves to take advantage of open banking by leveraging customer data.
We are developing EY Canada’s offerings across four pillars to provide end-to-end client support

### Strategy and Customer
- FinTech and partner strategy
- Customer experience and user journey
- Capabilities (revenue model)
- Opportunity and readiness assessments

### Technology and Architecture
- Solution definition and technology architecture enablement
- Security standards
- API bank channel strategy
- Account aggregation
- Global customer information file

### Digital
- FinTech experience
- Customer digital experience
- Use case ideation
- Digital identity and entitlements

### Risk and Compliance
- Security and cyber readiness
- Privacy, consent and entitlements
- Risk and controls assessment
- Dispute resolution
- Risk-based pricing

Get in touch

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<td>Click here</td>
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<tr>
<td>Will open banking be the key to unlocking financial gains?</td>
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<td>How new open banking opportunities can thrive in Canada</td>
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<td>EY Open Banking Opportunity Index: where open banking is set to thrive</td>
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Upcoming publication!