

# *Open Banking*

*A Perspective for Financial Institutions*

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**Presented by:**

**Ankit Sharma, [ankit.x.sharma@pwc.com](mailto:ankit.x.sharma@pwc.com)  
Manager, Strategy&, part of the PwC network  
Mexico FS Advisory**

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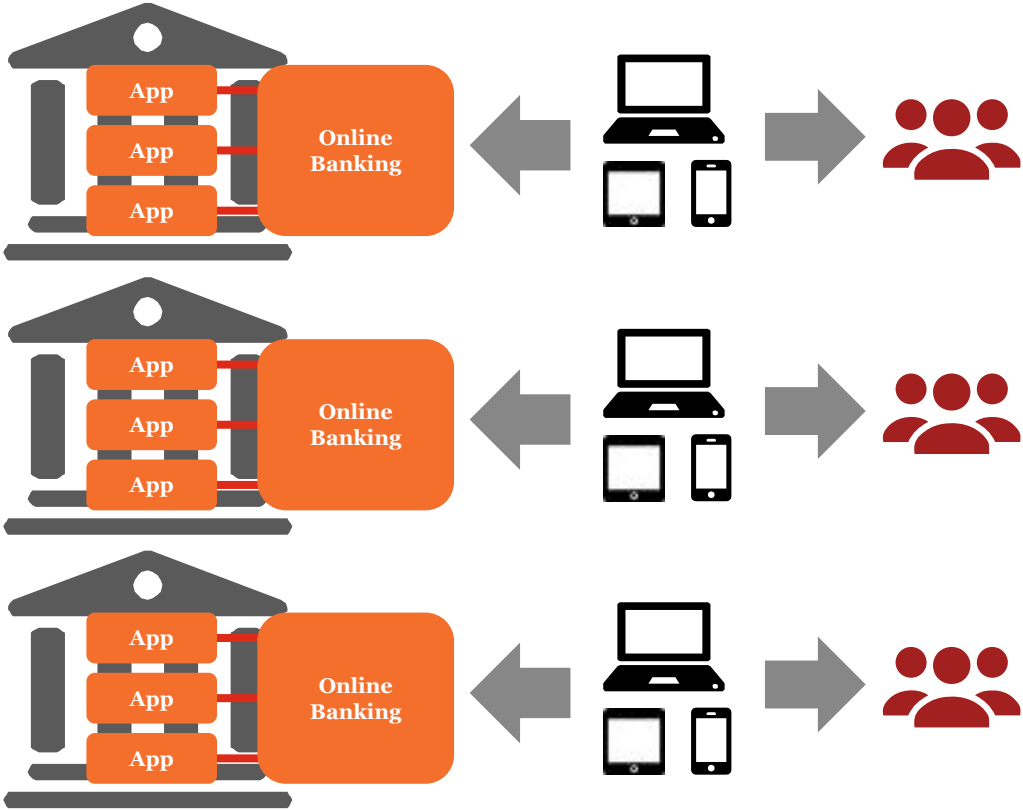
# Open Banking

## Setting the scene



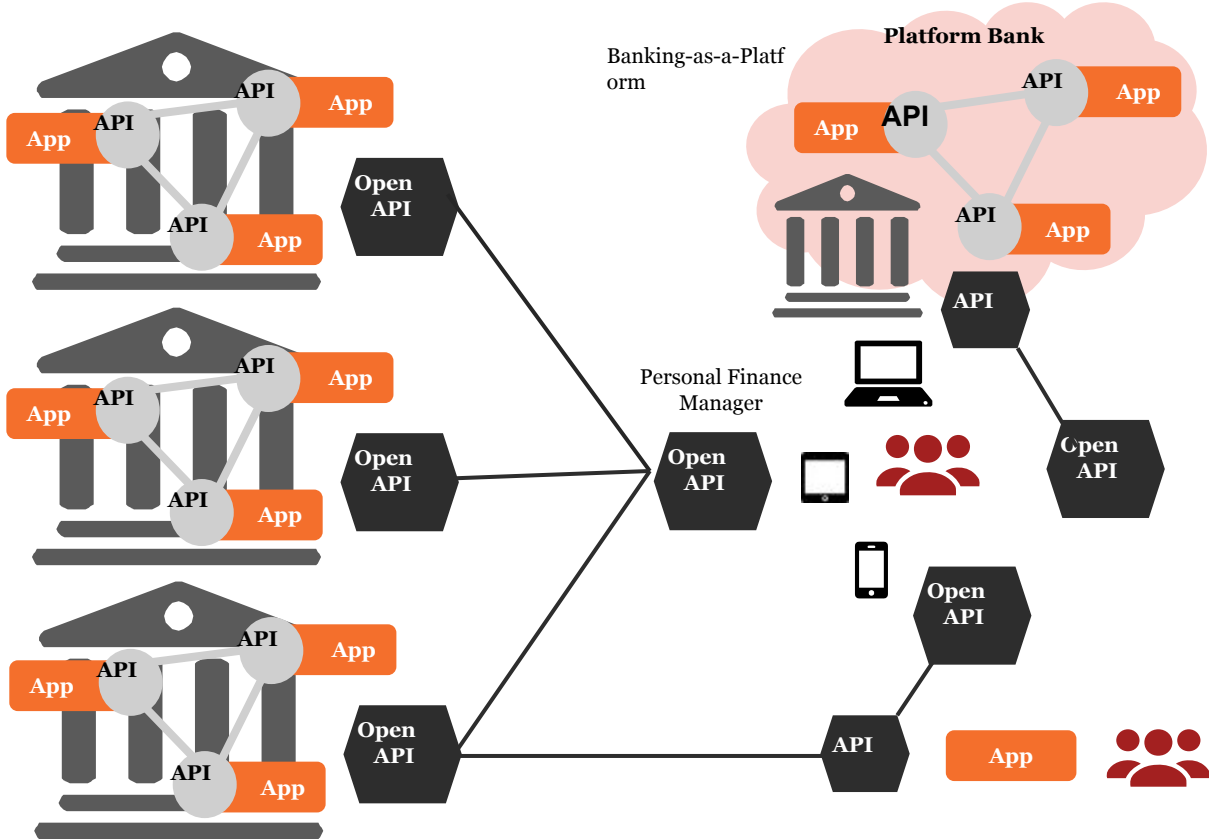
# Open Banking will change the way clients, banks and Fintechs operate in the financial ecosystem developing new business models...

## Without Open Banking...



- Different applications and user experience for each bank
- User connections are straight, dedicated and closed

## With Open Banking...

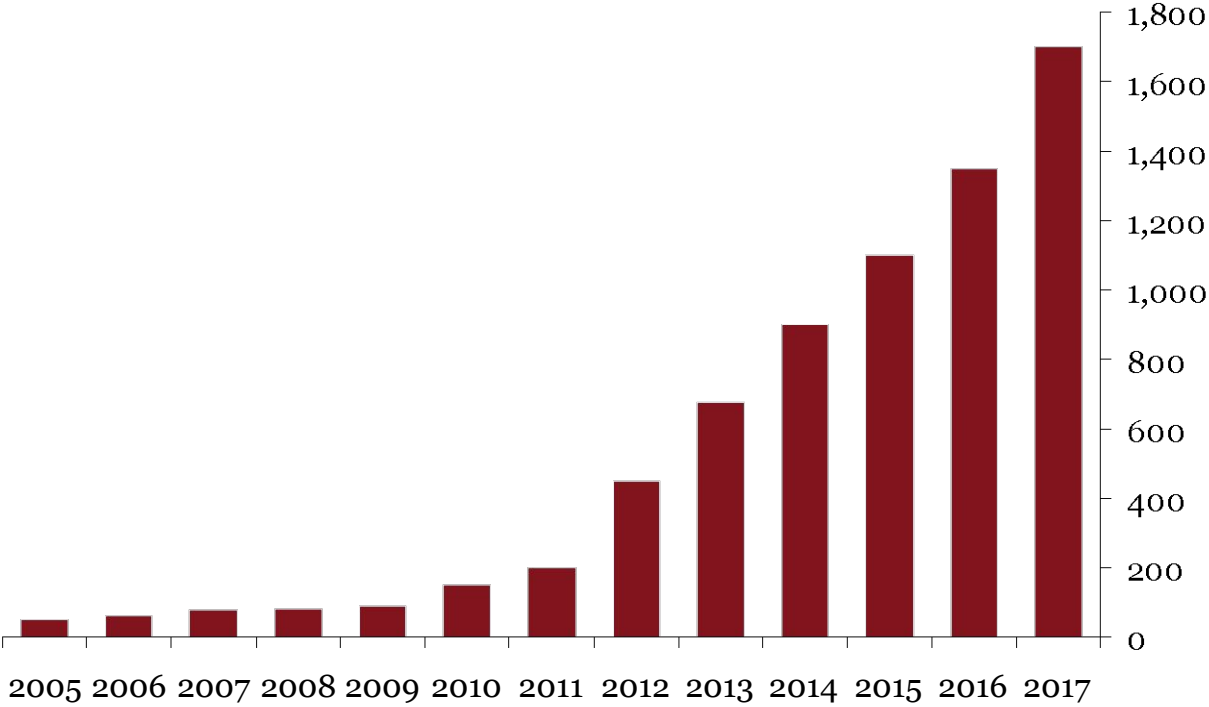
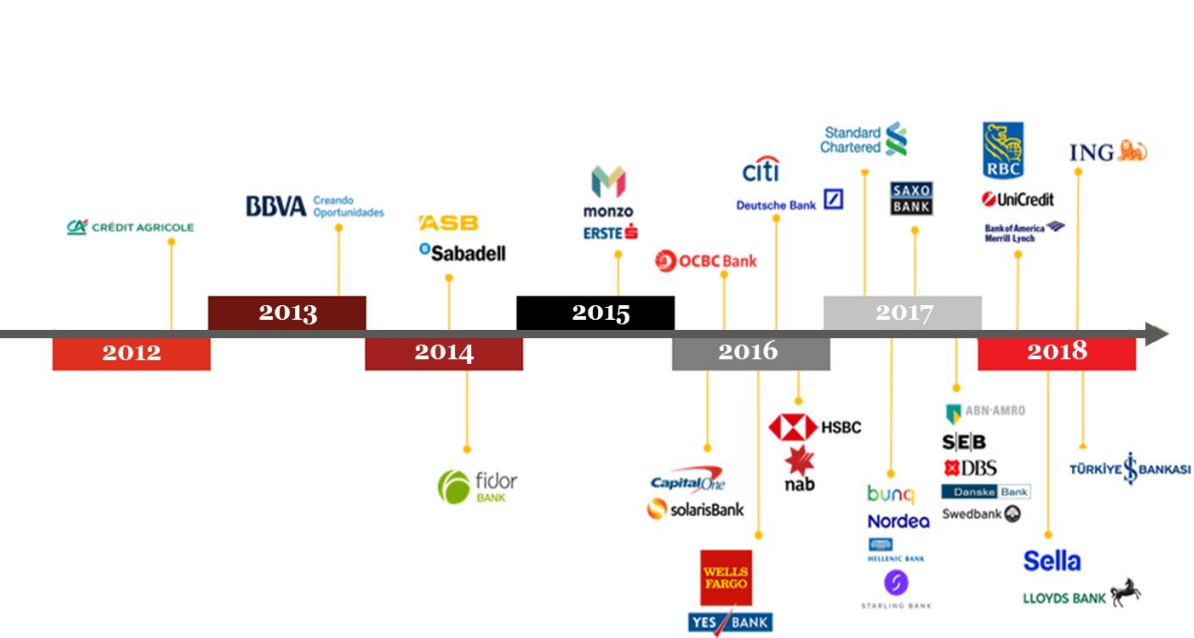


- Disruption in traditional relationship between bank and their clients
- Interoperability for external consumers through APIs

*... and these open banking trends go back to 2012, however the use of APIs in banking has shown an exponential increase in the recent years...*

*Every year more banks and financial institutions have started using APIs and improving their Open Banking capacities...*

*...and the number of public APIs available in the financial industry has exponentially grown in the past decade.*



...with different countries using different approaches for Open Banking; however almost all have a block a set of common elements.

	United Kingdom	PSD2 (EU)	NACHA (USA)	Mexico	Hong Kong	Singapur	Australia	New Zealand
<b>Payment initiation</b>	X	X	X	X	X	X		X
<b>Payment Status</b>	X	X	X	X	X	X		X
<b>Payment account information</b>	X	X	X	X	X	X	X	X
<b>Product information</b>	X			X	X	X	X	
<b>Product Opening</b>				X	X		X	
<b>Fraud &amp; Risk reduction</b>			X	X				
<b>Customer Insights</b>				X			X	
<b>Credit Scoring</b>			X	X		X	X	
<b>Other deposit accounts</b>	X	X	X	X	X	X	X	X
<b>Loans</b>	X		X	X	X	X	X	
<b>Insurance</b>				X	X	X	X	

**Payments and accounts** are the central part of initial phases of open banking and the main **objective of traditional open banking regulations**

*Open Banking provide greater competition, improves efficiency, and remove friction for all players from big traditional banks to start-ups and consumers...*

	Implications for Banking Market Participants			
Open Banking Models	Banks	FinTech Startups	Small and Medium Enterprises (SMEs)	Consumers
<b>New services</b> – Access data from other financial institutions.	Easier account history porting from previous banks	Increased accuracy and speed of credit assessment through direct data access	Faster credit assessment allowing businesses to secure loans faster	Authorizing personal data access so providers can offer expanded set of financial products
<b>New channels</b> – Accessing third party audiences by placing the service within another’s context	Enhanced channel experiences with additional data		Lender integrations with accounting software to easily submit loan applications	
<b>New utilities</b> – Providing a new utility to enable others	Streamlined digital sign-up and identity verification across accounts and applications	Enhanced fraud detection by monitoring patterns across multiple accounts.	Leverage APIs from account providers to streamline payment reconciliation instead of manual input	
<b>New platforms</b> – Enable third parties to connect with Banks and other services and innovate	Access to additional customer transaction data instead of buying data from credit bureaus to determine risk levels.	Access to consumer data from Banks to deliver personalized products		Customization and bundling of product offerings from different Banks or FinTech startups

# Open Banking

## Implications - Financial Industry





*Each bank layer has a critical role to play in the Open banking era to help transform financial services, open banking is not just the task of the technology layer...*



### *Customer relationship layer*

- Understand unmet customer needs
- Identify opportunities through new channels, or new services through own channels
- Translate implications for customer journeys



### *Product & Delivery layer*

- Develop / product service syndication strategy
- Cultivate required partnerships and channels for collaboration to satisfy unmet customer needs identified above



### *Operations layer*

- Identify opportunities enabled by Open Banking to syndicate key services through new channels, or new services through own channels
- Meet security, privacy and other requirements and expectations



### *Technology layer*

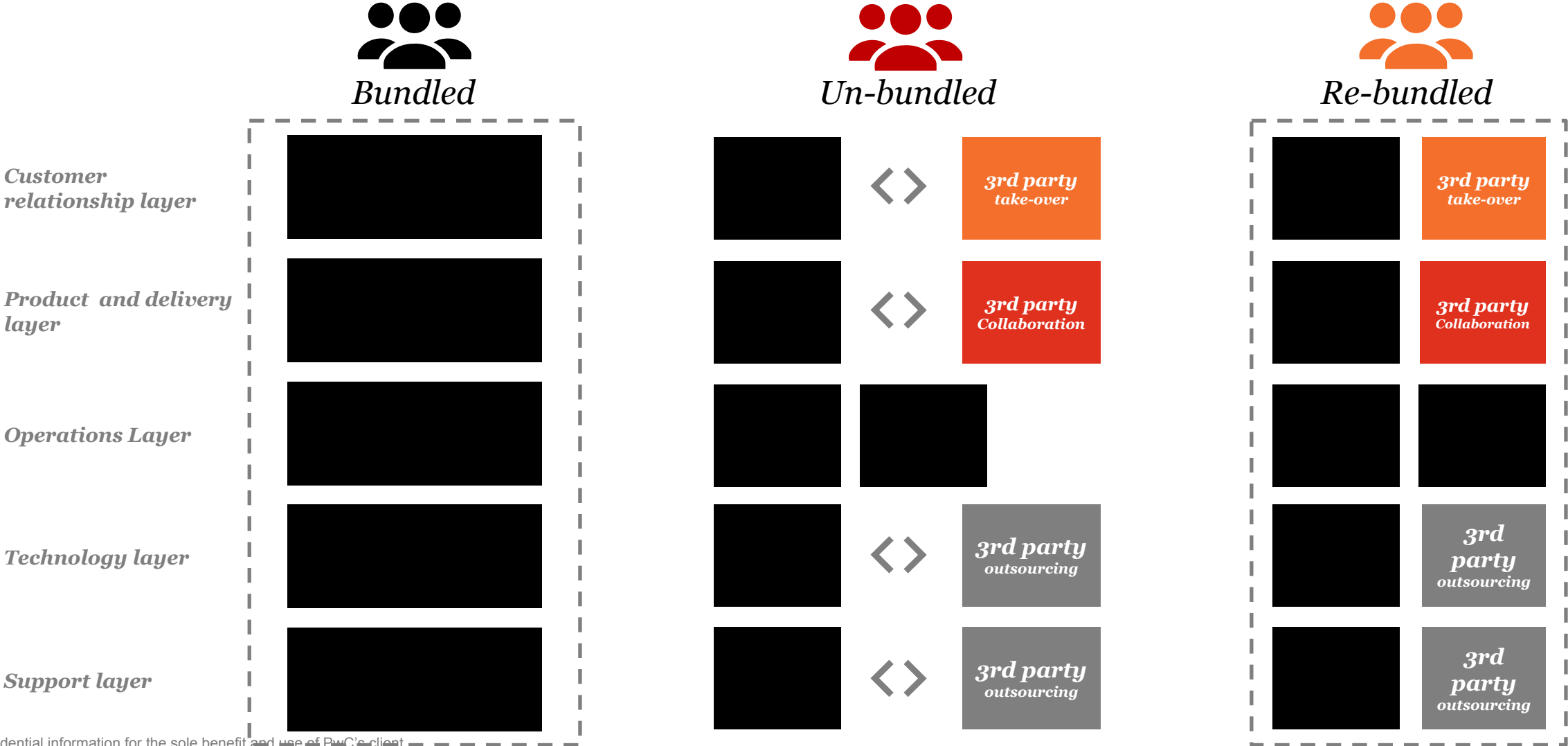
- Develop and maintain APIs and SDKs
- Develop and maintain rails into third-party service platforms
- Meet security, privacy and other requirements and expectations



### *Support layer*

- Risk: Re-orient risk and compliance frameworks
- Strategy: guide choices about value proposition and way to play
- Human Capital: ensure required skill mix
- Legal: align contractual arrangements to new risks and opportunities

...and the interaction between these layers is being transformed; vertically through value chains and horizontally through customer interaction...



# Open Banking

## The way forward - Incumbent Banks

*Substantial work is required just to comply with minimum requirements but compliance alone is not enough, banks must prepare for Open Banking now...*

## Wait and see

*Complying with requirements as they emerge*

- PSD2, GDPR, and future rules
- Generally staying abreast of developments
- E.g. strategy or digital teams present regular updates to ELT
- Otherwise making no unnecessary commitments

## Walk, Run, Fly

*Disciplined, intentional and practical steps*

- Ensuring compliance with all global requirements with margin of safety
- Staying sufficiently ahead of mi requirements that no change in regulation will be a surprise.
- Taking active 'no regrets' steps today even if not yet necessary
- Readyng the digital and data engine
- Strengthening security and governance mechanisms
- Clarifying strategic opportunities and pathways for growth

## Euphoria

*Actively preparing to compete in an 'unbundled' banking*

Exposing as much product and data as possible

- Customer accounts
- Transaction information
- Product

Where possible, making choices based towards openness

- E.g. APIs with write as well as read access
- Open rather than closed APIs
- Noting that in each case significant security and privacy considerations and requirements come into play



*...and banks must make strategic decisions and select the most appropriate model depending on their capabilities, strategy and focus...*



- Incumbent banks are currently all in the top-right quadrant – integrated providers of banking and financial services.
- In a world of Open Banking, many will migrate to other areas of the strategic matrix.
- Many executive teams and boards especially of smaller banks are already thinking about how to create a future differentiated and strategically defensible position.

*...to opt for Customer experience, incumbent banks must begin with a particular unmet need or business proposition in mind and be open to evaluate buy/build/partner decisions...*

**Customer relationship layer**

HNW	Mass Affluent	Mass Branches / Contact Center	Micro / SB	Business / Business Centers	Institutional
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**Product and delivery layer**

Consumer credit and services	Business credit and services	Payments and transaction services	Savings and investments	Markets	Insurance and risk transfer
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**Operations Layer**

Mailings, cash, cards and logistics	Payments and transaction services	Lending services	Markets operations	Security, AML and protection from financial crime	Property, procurement and other
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**Technology layer**

Customer solutions & applications (CRM enablement platforms)	ERP	Data	Transaction and origination engine(s)	Core calculation engines (capital, risk, ftp, etc)	Common registries (GL, asset and core banking)
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**Support layer**

Risk	Finance	Strategy	Human Capital	Outreach and communication	Legal and other commercial services
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**Customer Experience Master**

*Players with distinct customer value proposition aligned to specific segments.*

- Often adjacent to banking and seeking to grow value proposition*
- Orchestrate ‘bundle’ of services to deliver digitally*
- E.g. Bud, Buddybank, Alipay, Quicken, Treefin etc.*

*...to opt for infrastructure master, banks must consider playing the role of financial services aggregators and consider offering competitors' financial services and products...*

### **Customer relationship layer**

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## **Infrastructure master**

*Players with distinct technology or operations capabilities that can be digitally enabled*

- *Often leveraging or seeking to leverage global or super-regional scale*
- *E.g. FIS, Fidor, PEXA, Mambu*

*...to opt for Product master, banks must consider partnerships and acquisition of specialized FinTech players to re-bundle their existing offerings with innovative products...*

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**Support layer**

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**Product master**

*Players with distinct capabilities that can be digitally distributed via other Banks*

- *As with utilities, often leveraging or seeking to leverage global or super-regional scale*
- *E.g. Insurance companies, Digital payment/Wallet providers*



*...or opt to continue being the traditional integrated player, as the future for integrated players is not necessarily untenable, however it won't be an appropriate strategy for everyone*

**Customer relationship layer**

HNW	Mass Affluent	Mass Branches / Contact Center	Micro / SB	Business / Business Centers	Institutional
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*Traditional (integrated)*

*Traditional banks seeking to retain control of end-to-end value chain*

**Product and delivery layer**

Consumer credit and services	Business credit and services	Payments and transaction services	Savings and investments	Markets	Insurance and risk transfer
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*We expect to see large successful players surviving and thriving in the upper-right quadrant for a very long time.*

**Operations Layer**

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# Open Banking

What the future holds?



# Complying Regulations: *Navigating through Open Banking Regulations*

2019

## 1 *Open Data*



Available public information about banks and their value offerings

- ✓ Better understanding of the current FS sector landscape

## 2 *Aggregated Data*



Statistical information about product use and consumers

- ✓ Identification of opportunities for better financial products & services

Next steps<sup>1</sup>

## 3 *Transactional Data*



Your personal financial information

- ✓ Personalization of financial services and products

*..and banks can start preparing for the commencement of Open Banking now even without knowing the exact nature and timing of the compliance that will be formally required..*

## **1 Clarifying strategic opportunities and pathways for growth and in the meantime...**

- a. Identify the appropriate *ways to play* in the new landscape, and the capabilities, assets, experiences, business models and partners needed to do so

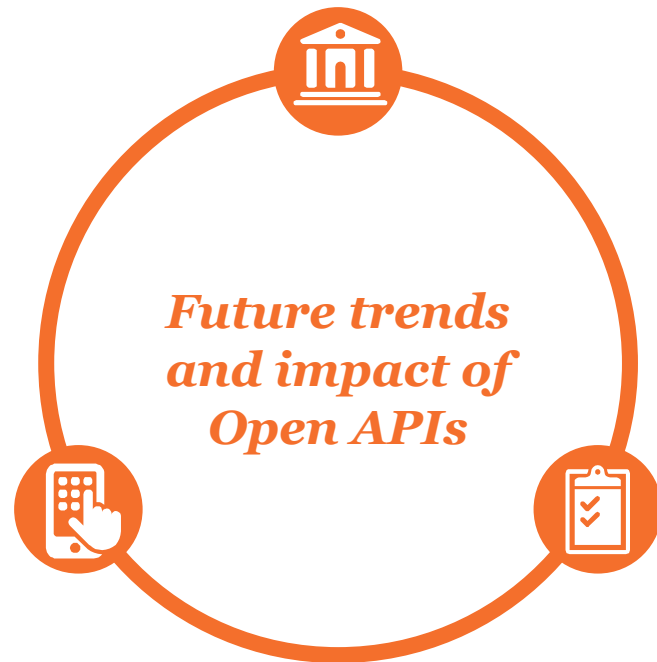
## **2 Readyng their digital and data engine and...**

- a. Define architecture of core API libraries and data objects
- b. Identify and establish access to third party data and other capabilities

## **3 Strengthening their security and governance mechanisms...**

- a. Define security, access and architecture strategy
- b. Develop strategy to deal with potentially commercially sensitive information
- c. Onboarding, audit and complaints
- d. Enhancing data governance, security, third party oversight in Open Banking world

*Open Banking puts customers at the center helping create new experiences and must be seen as one more milestones in direction of openness, digitisation and partnership with Fintechs...*



- 1** Greater push from regulatory authorities for open API frameworks to create open and integrated ecosystems across geographies
- 2** Increase in the number of banks offering open APIs driven by the need for increased rate of innovation
- 3** Increased partnerships between FinTech startups and banks to provide open APIs collaboratively
- 4** Rise in number of FinTech startups fueled by easier access to financial data from Banks provided by open APIs
- 5** Banks and FinTech startup APIs to be monetized by creating tailored solutions, targeting different customer segments and banking services based on a collaborative model

# Thank you!

**Ankit Sharma, Manager, Strategy&, Mexico FS Advisory**

ankit.x.sharma@pwc.com

+52 1 55 8070 2655

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