OPEN BANKING

PAVING THE WAY TO CANADA'S BANKING FUTURE

The term 'open banking' is a hot topic in financial services. One may wonder why we are calling it 'open,' when it really means giving new financial solution providers or fintechs the opportunity to enrich the customer experience with less friction. It also offers consumers the ability to access their banking data and choose how they bank across providers. Simply put, open banking is placing the decision in the hands of the consumer to decide what products and services will make their individual customer experience exceptional.

The big question for Canada is – should this transformation be regulation or industry-led?

WHY NOW?

1. The old business model of 1:1 consumer to bank relationship is a dying breed

Generation Z will not be loyal to just one financial institution like their parents or grandparents have been in the past. This trend is already evident by the number of relationships they have with different financial services for products, and the large number of Canadians who are also relying on third parties for innovative service offerings. The traditional banking incumbents are facing stiff competition from challenger banks and fintechs, which is evident in the growth rate of fintech adoption and the rise of prominent players such as Wealthsimple. Incumbents can no longer compete on products and rates alone – they must innovate the customer experience and engagement model in order to remain relevant.

2. Innovation is already happening in financial services

Let's face it – fintechs are already building products for consumers and using account aggregators such as Yodlee, Plaid, and Flinks to get financial data from banks, albeit through screen scraping. The smart move for incumbents is to create secure channels for this type of data usage. If the incumbents own the APIs, they can ensure the reliability, accuracy and security of the data that is used to deliver an enhanced customer experience.

3. You have to be in it to play

Change is here, and the pace of change in technology, including fintech, has never been faster with catalysts such as quantum computing, AI and the cloud. The financial industry is morphing and banks must adapt quickly. Look no further than Google Pay and Apple Pay - these apps have made mobile payments easy and convenient in comparison to bank 'wallets.' Facebook's digital currency, Libra, that is backed by tech, telecom and payment giants, is yet another example of how the financial industry is changing towards a new future. Incumbents need to be in it to test and learn, or they will be developing solutions that become outdated before reaching the market.

THE IMPACT

1. New business models

Old-school thinking that promoted building 'walled gardens' will no longer suffice in an era where banks can monetize their infrastructure through Banking-as-a-Service (BaaS) offerings. Incumbents can enable new partners to utilize specific bank features for a fee to build fresh products and experiences while creating an opportunity for themselves to participate in the fintech ecosystem and create new revenue streams. The alternative would be to see their revenues and share of wallet erode, as similar offerings will be developed by challengers. While this may be an uncomfortable thought for the established banks, it will be the cost of doing business in the future.

2. Enhanced customer experience

Some banks claim to be fully digital, but few truly deliver on that promise. Most banks offer a partial digital experience while continuing to rely on a human conversation or an in-person interaction to complete a customer's journey. Imagine being able to complete the entire process of acquiring a mortgage, from application to funding for closing, completely digitally. Or, consider the ability to create a financial plan across all your investments and accounts, regardless of which financial institution holds those accounts.

3. Partnering

The industry dynamic should not be fintechs versus incumbents. CIBC's partnership with Borrowell to provide free credit scores and TD using Moven for MySpend are examples of how some banks are already taking steps towards building a partnership and evolving to adapt to the changing landscape. Open banking makes these integrations with new partners easier and provides an opportunity for all parties to benefit as a result. Incumbents can reimagine new experiences faster and at a lower cost, fintech products will be supported by official and reliable bank services, and consumers will benefit from a competitive industry focused on delivering better products and experiences.

SO, WHAT'S THE PATH TO OPEN BANKING?

1. First, let's rebrand it to something that makes sense for what it truly means to the industry: **modern banking!**
2. The change must be industry-led, not driven by regulations. Regulations will cause an increase in undue complications and expenses. We can't wait another ten years to implement an open banking ecosystem like the EU and PSD2. The financial services community is more than capable of establishing the governance and structure required to make this a success story for Canada.
3. Take the bold step to reimagine the future of banking and develop your API product roadmap based on the prioritization of offerings that generate the most significant impact. Who remembers when credit cards were Chargex, no bells or whistles, points or partnerships? Don't become a part of history that no one can recall.

Change is coming, and the leaders who have a big vision and are willing to challenge the status quo will be the winners. Embrace the change and be part of a new ecosystem that offers superior value and offerings for consumers.

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