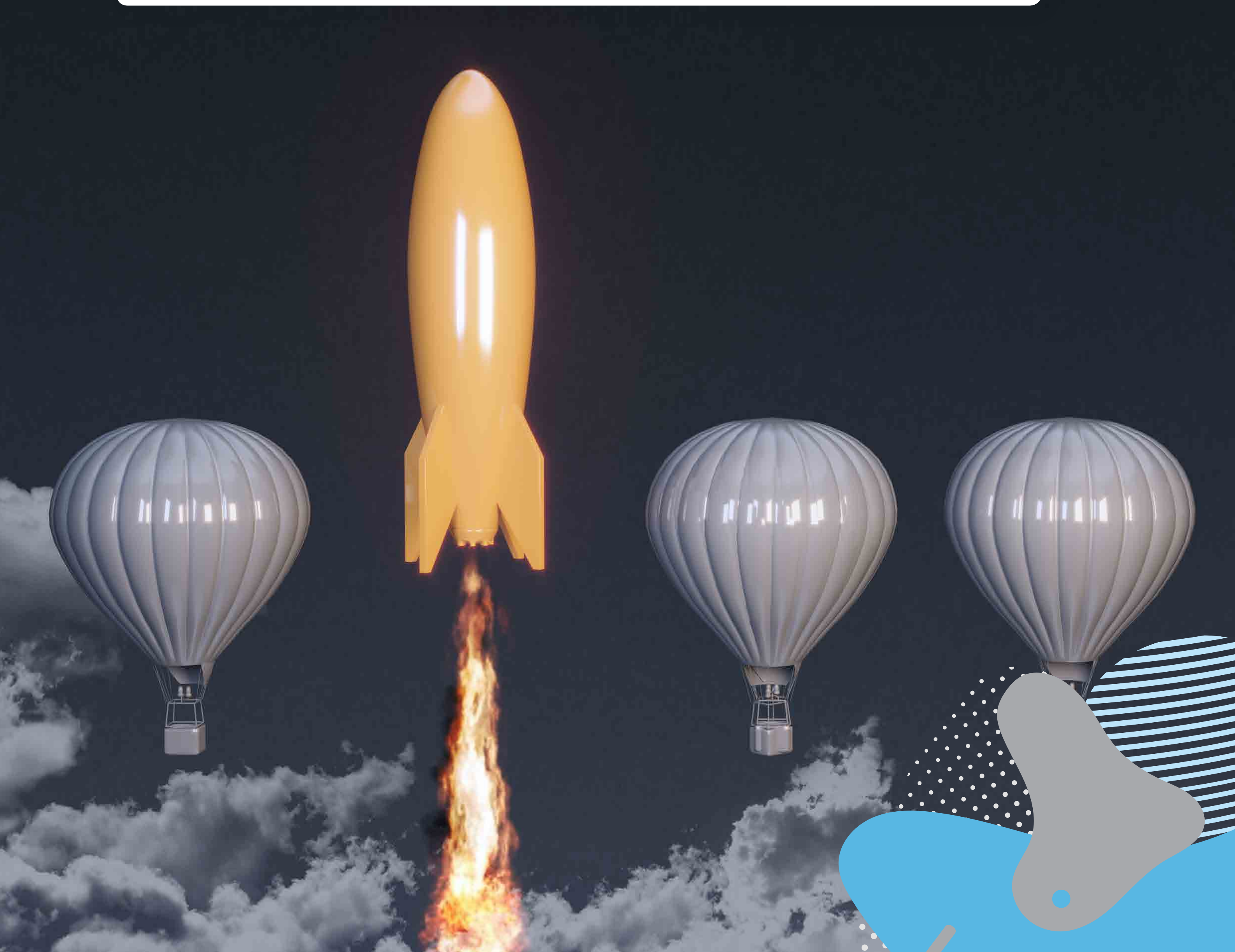
Efma | WAVESTONE

REPORT

Open banking, an opportunity for banks to rethink their business model

Efma & Wavestone 2021 research

November 2021



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Foreword

John Berry:

As CEO of EFMA, I've spent a lot of time over the past few months talking to bank executives from all around the world. One of the topics that keeps coming up is the need to look at the business model going forward. Add to this the Covid pandemic which has had a huge impact on many aspects of our lives and particularly in financial services: it has deeply impacted the business model, cost structure, and digital journey, showing a need to really refocus on how we will conduct business in the future.

At the same time, there is now a huge amount of competition on the market, not just within existing banks but also new banks and of course the big techs and those outside of the traditional banking industry that want a slice of the business that banks undertake today. The reason they are entering the market is because there are shortfalls in the existing banking system that represent an opportunity to really generate revenue and deliver value for customers. The opportunity of the platform environment also enables banks to become part and parcel of a customer's life, being there whenever they're needed, whenever there's a service that actually needs some exchange of value.

I think we have a huge opportunity amid the changes that are taking place in financial services at the moment, and that is why we decided to collaborate with Wavestone to provide a better view of these changes and the ambitions of banks worldwide.

Joël Nadjar:

I fully agree with John that the financial sector is at a turning point in its history, and that open banking is at the heart of this shift. Indeed, the platform economy is pushing banks to reconsider their model and become part of wider ecosystems. This raises the question of what path to take in this open banking journey, which is precisely the subject of the study we carried out with Efma.

This study aims to quantify the level of achievement and ambition of banks in open banking with a focus on the open distribution model. We wanted it to be very quantitative, but also to add value through qualitative insights and feedback from bank executives. In the end, more than 50 banks from all over the world participated and I would like to take this opportunity to thank all participants for their contribution.

For most financial institutions, the open banking approach was initially driven by regulation like PSD2 in Europe. It puts the focus on opening a very specific set of services like account information and payment initiation but may have also limited the rise of other ideas. This is the perfect time to leverage these investments and create new services with a more customer-centric approach.

On this journey, which we are still just beginning, banks will face very exciting challenges:

- Reshaping their business models, taking into consideration other distribution channels
- Changing the organizational mindset to design "open" services from their very inception
- Improving their architecture and delivery models to support these new ideas

I hope you will find in this report all the elements you are looking for!

1

What banks are currently doing to develop open banking services

1.1 All established banks are considering the Bank-as-a-Service model

Open banking is a global movement that is significantly reshaping the banking landscape. Traditional banks have of course already taken steps to open up their financial services and set up partnerships, **but the impact of regulations and the rise of new digital players are leading to a real change of scale.**

For banks, this acceleration goes far beyond the ability to multiply partnerships within the financial sector; they now have to deal with a very wide range of non-banking and tech players. Their main challenge will be to succeed in transforming their front-to-back value chains from a holistic model to a much more modular and collaborative one. This shift can be considered in three ways:

- Firstly, by **integrating technological enablers into existing value chains,** through partnerships with fintechs, regtechs, or other tech companies. This approach allows banks to improve their offering – for example with a better KYC score, advanced PFM capabilities, or AI-based customer data analysis – while keeping the same business model.
- Secondly, by **going to the market with a brand-new platform of banking and non-banking products and services,** to target a specific customer demand. In this model – also known as Bank-as-a-Platform – the bank extends its offering by packaging its own services with those provided by third parties, while keeping the entire customer relationship.
- Finally, by **providing platforms, marketplaces or any distribution player with banking expertise, products or even IT solutions,** positioning them at the heart of new B2B2C value chains. The bank provides its core capabilities, either as a bundled product or as a white label service ready to be integrated into a wider ecosystem. This model is also known as Bank-as-a-Service.

All these approaches bring value and are complementary, but the study confirms that traditional banks intend to play a key role in the third one, in a market that promises to be very competitive. Indeed, **94%** of banks surveyed confirmed that they have initiated projects to develop the Bank-as-a-Service model, or plan to do so within two years.

There are several reasons for this, the main one being that in the current economic context, financial institutions look for development levers that allow them to make their existing assets more profitable:

- Third-party platforms represent a powerful acquisition lever, allowing banks to sell their products and services to audiences that are difficult to reach through their traditional channels.

/ As banks have already invested in their product lines for their direct channels, increasing B2BC partnerships would allow them to spread the fixed costs and significantly reduce the cost per customer.

1.2 We observe a shift from regulation-driven to customer-driven models

For most banks, **the very first driving force behind Bank-as-a-Service transformation was to comply with regulation,** as in Europe with the recent application of the PSD2 directive. However, analyzing this trend with a single regulatory focus would be too reductive, considering the rise of the platform economy and the opportunities for new B2B2C offerings it triggers. The **potential for growth is considerable but come with strong challenges** for banks which need to consider new capabilities to be more competitive on the supply side. We have selected five of them, which we feel are the most representative to measure their Bank-as-a-Service readiness:

/ Think innovative use cases and partnerships based on an open distribution model
/ Change of mindset in new services creation, emphasizing the channel agnostic approach
/ Open services in a secure way and guarantee the protection of customer data
/ Deliver new services quickly by improving the modularity of information systems
/ Ease access to IS assets (API and datasets) so they can be used efficiently by consumers

The graph below illustrates the level of progress of banks in each of these core capabilities. The first observation is that the **"Security" and "API" related categories are the ones in which more banks are fully operational.** These two concerns have long been the subject of regulatory obligations in some geographical areas and are also a prerequisite to modernize digital channels. Banks have therefore invested heavily over the last few years in developing them and the underlying IS capabilities, which explains the higher level of maturity.

Another important insight is that **70%** of banks are either operational or have ongoing projects in all five categories, which confirms the growing interest of banks in customer-oriented approaches, beyond regulation. However, we can observe that for most of them, the open banking journey is just beginning:

/ 33% are either fully or partially operational in at least three capabilities
/ Only 7% consider that they are fully or partially operational in the entire scope ...
/ ... and none is fully operational in more than two capabilities

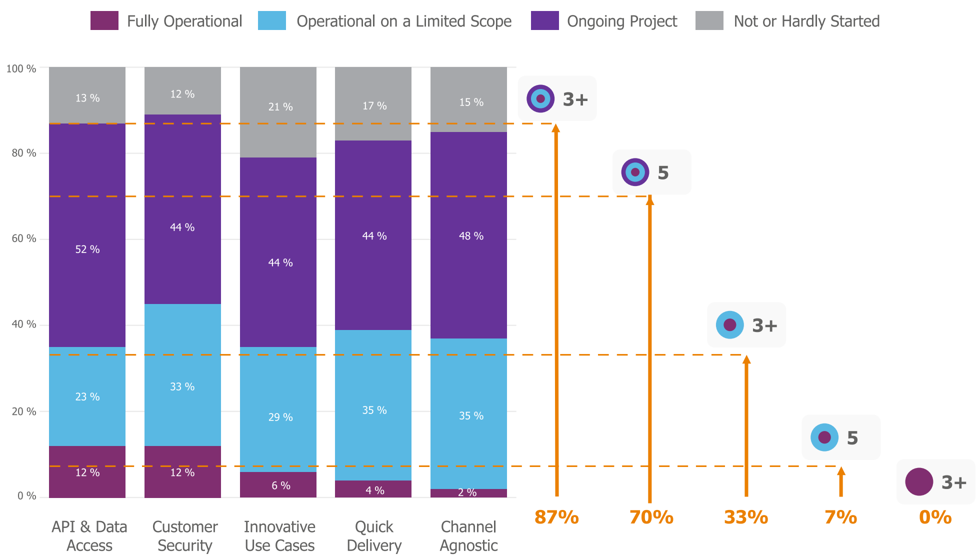


Figure 1: Level of achievement in Bank-as-a-Service capabilities

While these figures reveal that we have only scratched the surface of the Bank-as-a-Service model, they are clearly indicative of the dynamics of the financial sector and point to major transformations over the next two years. The survey also highlights a very clear trend in terms of bank opening strategy: **65%** of banks state that their two main priorities are to reshape their open distribution business model and deliver new services faster.

The second part of the study aims to explore these two dimensions with the use of quantitative data, supplemented by feedback from key players on the open banking scene.

1.3 Opening daily banking services is the trend for the next two years

Another way to look at open banking readiness would be to take a business perspective and analyze how banks go to the B2B2C market – or plan to do so by early 2023 – with ready-to-use products and services.

The graph below represents the level of openness of the traditional banks' offer on the retail market. We can clearly observe three waves:

/ **Payments and onboarding as a standard: 80%** of banks will offer open onboarding and payment services by early 2023. These services are clearly the most popular, and already in production for half the banks surveyed. This trend can be explained by the very strong momentum we are experiencing around payment services, but also by the impact of PSD2 for European banks, which represent half of the panel.

Although the payment area is the most mature, it is still moving forward with an open banking mindset. The United Kingdom has been a precursor in this area and is still demonstrating this with the very recent decision of the Competition and Markets Authority (CMA) to follow the Open Banking Implementation Entity (OBIE) recommendation and adopt Variable Recurring Payments (VRPs) as the only effective method to achieve sweeping.

As for onboarding and KYC services, they have and will continue to evolve out of necessity because they are the very first step in the open banking chain.

/ **Daily products and services in expansion: 60%** of banks will offer open "everyday banking" by early 2023. These essential services of the banking offer have already been the subject of major transformation plans aimed at improving and automating the business processes for the bank's own needs. On the IT side, modernization efforts have made these services more open and modular so they can be easily deployed for third parties.

This represents a doubling – or even a tripling for some services – of the number of banks with daily banking services ready for open distribution, reflecting the growing demand from non-bank players. By integrating these commoditized services, non-bank players can significantly enhance their B2B2C offering in a cost-effective manner, without having to maintain dedicated staff and IS solutions or obtain a banking license.

/ **Tactical offering of complex products and services: 30%** of banks will offer more "sophisticated" open financial products. This third wave expected in the next three to fiveyears will focus on products such as insurance or home loans. The study shows that a large proportion of banks are still in the process of defining their strategy and that it is not possible to identify a clear trend. Defining a strategy for these value chains entails two major decisions:

- **Selecting the best partners on the demand side:** traditional or digital broker networks and non-banking players, but also (neo)banks who may choose not to develop these products themselves and instead leverage the industry leaders

- **Defining the business model, through a combination of three delivery options:**

    - Providing the entire value chain, including middle and back-office workforces, with specific settings for each distributor

    - Marketing a single but very specific expertise – for example credit score or guarantee checking – to be integrated into a more global offer

    - Taking advantage of all the transactions flow captured to provide distributors with high value insights based on data analysis.

Another reason to explain the difference in dynamics with daily services is that for many players, the value chains involved are not yet ready to scale up. They require substantial investments to make them sufficiently modular and configurable, which is an essential requirement before considering the Bank-as-a-Service model.

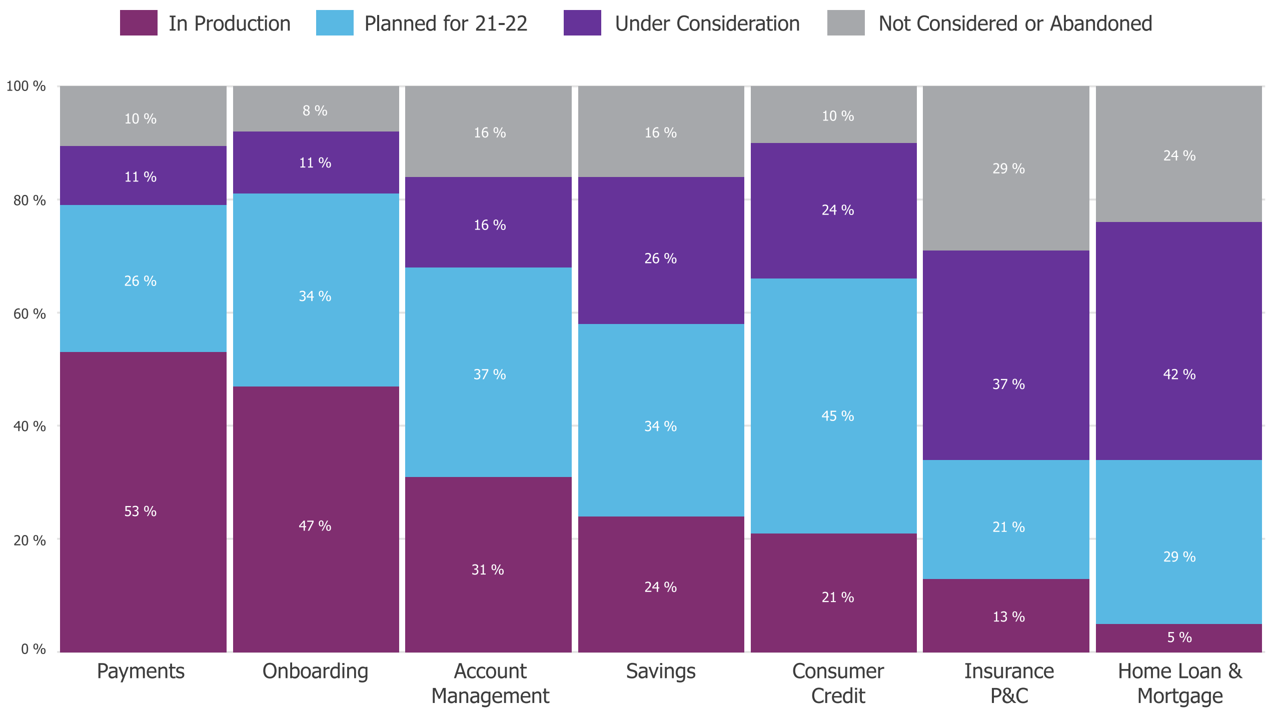


Figure 2: Bank-as-a-Service business landscape and initiatives

Looking more closely at the results of the survey, it should be noted that the position taken by a few players contrasts with this global trend. The main difference is that they consider that deposit products, given the excess liquidity in the banking system, are likely to give way to credit products, even if they are much more complex. This confirms the absolute necessity to consider open banking as a core business, taking into account the bank's strategy, positioning, and global market effects.

2

Business model reshaping: how to beat the competition?

2.1 Think Open Banking as a core business

The Bank-as-a-Service model requires a strong change of mindset for traditional banks, which are used to handling all or most of their service and product value chains. **The platform economy is completely changing the way people use financial services in their daily life** and banks need to understand and embrace this phenomenon as a new growth driver. We are clearly at the beginning of a **new competition era on the supply side,** which will push banks to innovate and propose their best offering to potential B2B2C partners.

To speedup the process and meet these challenges, banks have set up open banking initiatives and teams with a clear focus on the business dimension. Indeed, we observe that **88%** of banks have made identifying business opportunities and relevant use cases one of the top three priorities of their open banking teams.

We also see that only 21% consider market watch as one of their main objectives, which clearly shows the will to **innovate and think different rather than adapting** to their competitors' initiatives.

Open banking is a very exciting but challenging journey, which requires the sharing of a few guidelines to secure the commitment of all teams. Based on feedback from the executives interviewed, we can propose the following manifesto:

- **Go where your customers are and sell them your best product**
- **Don't be afraid of platforms, leverage them as a new channel**
- **Think different and deliver unique solutions to your partners**

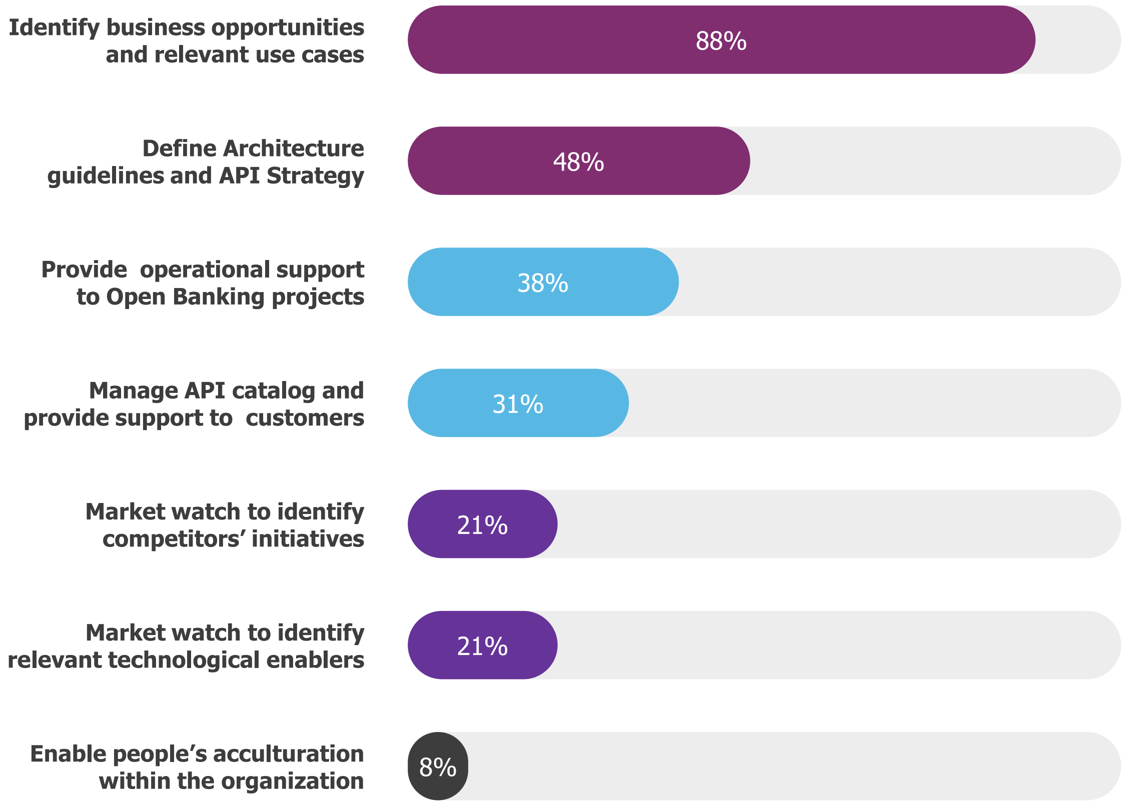


Figure 3: Top 3 priorities of open banking teams.

Yves Blavet
Head of Open Banking
Société Générale

Today, open distribution means opening services to non-clients. Selling your best product to your own clients only means that someone else is going to sell maybe a product that is not as good as yours to the rest of the market. If you have a fantastic product, go global! Not only do you need to sell in your own country to all the potential clients, but you also need to go abroad as well. We really need our business lines and their management to understand that it is also a different IT we are talking about. Legacy systems are not going to help us reach our goals.

Tony Mclaughlin
Global Head of Emerging Payments and Business Development,
Treasury & Trade Solutions, **CITI**

Platforms are eating the world, and they are where our customers wish to transact. As banks, we really need to realize that open banking is much more about being part of this platform economy than it is about complying with regulation. In this new business area, connectivity is entirely driven by APIs, which is quite different from other types of partnerships that banks usually perform.
Also we need to adapt our mindset and see the embedding of our services in platforms not as a disintermediation threat, but as an opportunity for growth.

Jude Schramm
Chief Information Officer
Fifth Third Bank

It's important to understand that creating value doesn't mean just developing APIs – which will soon be commoditized – nor even in the products themselves, which for the most part lack meaningful differentiation. It's in the way these components are brought together. Repackaging otherwise commoditized products into customized solutions that solve customers' needs from endtoend is the real promise of open banking. Those who recognize that, as many fintechs and some leading banks have, are well positioned for the next wave of growth in the industry.

2.2 Consider new services leveraging bank data

Opening up banking products and services is the essence of the Bank-as-a-Service model. However, banks must anticipate the main side effect: sooner or later, the banking products we know and the APIs that provide access to them will become commoditized. **Banks need to explore new ways of value creation to differentiate from their competitors,** by bundling their products and services, and by leveraging the full potential of their data.

As regulated institutions they benefit from a high level of trust over the retail market and have a real opportunity to **become leading and trusted players in the storage and use of customers' data.** It puts them in an ideal position to develop new B2B2C services powered by financial and non-financial data.

The study confirms that banks are willing to take this opportunity with an average **3.5-times increase** in the number of players that will market data services by early 2023. Yet, this remains a challenging path: they must offer the best services while strictly complying with regulations and above all respecting their customers' consent to keep their trust.

Looking more closely at the results, we can distinguish three main steps in the data services proposal:

- 53% of banks will market high value anonymized datasets. Interviews with executives confirm that there is a red line on data monetization, given the relationship of trust they want to keep with their customers which is much more valuable.
- 56% of banks intend to become the ultimate guardian of their customers' valuable data. This universal data vault could be accessed by either the bank or channel partners according to the authorizations granted by the customer.
- Finally, banks will leverage their data to provide innovative services and **offer unique insights to their distribution partners** either by providing them with market analytics – like customer portfolio rating or market share analysis – or by offering them a new way to perform analytics on certified and customer-controlled data. 37% of banks would like to be able to allow third parties to run or train algorithms on their platforms – with customer consent – so they can get valuable insights without having to retrieve raw customer data.

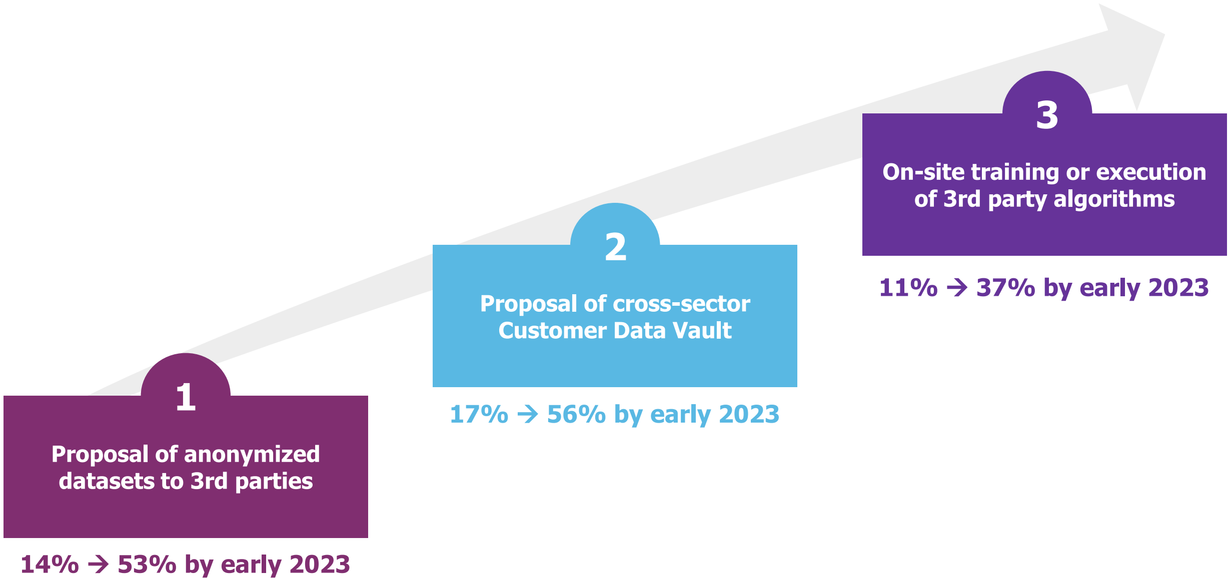


Figure 4: Current state and ambitions around new data services

Manuel Cantalapiedra Astudillo
Chief Innovation Officer
Banco Santander

I think Santander ZOne is a great example of how a bank can leverage its data. Our leading position in merchant acquiring allows us to collect large volumes of payment data and perform advanced analysis on it. By combining this with socio-demographic data, we can provide an intelligent targeting service that predicts the best audience for a given point of sale. This service is part of a fully integrated retail platform aimed at creating value for Santander's individual customers and merchants. Individual customers can access exclusive offers and discounts, while merchants can design and monitor their own campaigns.

Gian Battista Baa'
Head of Digital Payments and Services
Intesa Sanpaolo

Our strategy is to use banking data ourselves, without sharing or monetizing it. As banks, our relationship with the customer is based on trust and I am deeply convinced that trust is more valuable than data. Our first approach was to use digital services like account aggregator to retrieve new data from third parties and use it to provide better services to customers on bank channels. Of course, data analysis contributes to the improvement of our internal processes and thereby to our open banking services, to give at the end the best experience to our customers. We are also keen to take part in the lives of our clients by continually introducing new non-financial services into the daily digital life experience.

2.3 Be the most innovative and easy-to-work-with partner

While it is clear that the open distribution model is a strong growth lever for banks, the study shows that many banking players intend to take part, **making the competition more important.** Given the concentration of players and the limited potential for differentiation of traditional banking products, banks cannot rely solely on the quality of their offer to acquire new partners. They will need to differentiate themselves to **become as attractive as possible to potential distributors,** ensuring the best time-to-market and the highest level of service.

To achieve this ambition, banks will need to demonstrate three strengths:

/ **Be excellent at what they do:** As service providers, banks will endorse solution vendor responsibility towards their partners, meaning they must commit to reliable release plans, strong Service Level Agreements (SLA) and highly professional B2B consumer management.

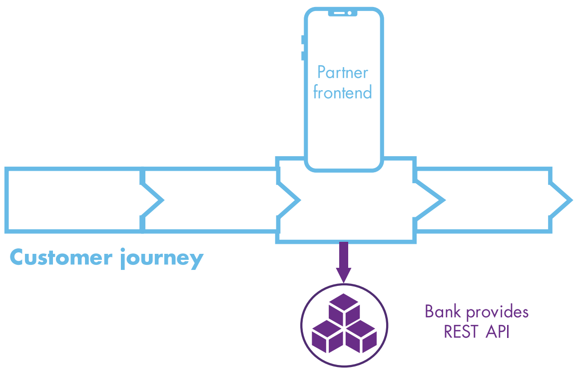
/ **Be agile and easy-to-work-with:** Distribution partners are focused on customer experience so they have neither the time nor the resources to adapt banking services to their needs or perform extensive integration with their systems. They will prefer ready-to-use and versatile solutions.

/ **Be proud of their architecture:** Business partners not only buy a banking product but also the underlying technology and resources – which contribute to their reputation on the market – and are therefore looking for the right balance between innovation, scalability, and stability.

The study clearly shows that banks have become fully aware of their partners' expectations regarding the "easy-to-work-with" capability. This can manifest in many ways, but it is particularly important to note that although open banking is very often tied to the concept of APIs, banks plan to go well beyond and deliver global solutions to their partners.

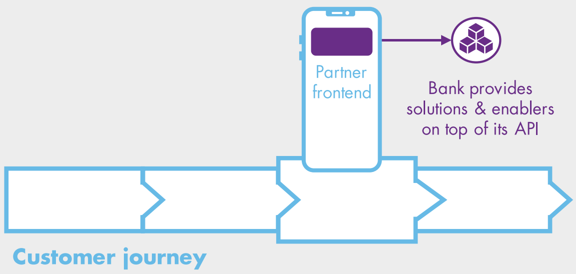
For instance, **three out of four** banks surveyed consider that providing white label frontends or widgets in addition to their API would be a key differentiator to acquire new partners. These components not only facilitate the use of technical APIs, but also speed up the implementation of certain front-ends – like price simulation or product comparison for example – that require a high level of product expertise.

The API way



26 % **consider that an "API only" strategy is sufficient**

74 % **consider that providing white label frontends or widgets would make a difference**



The different way

Yves Blavet
Head of Open Banking
Société Générale

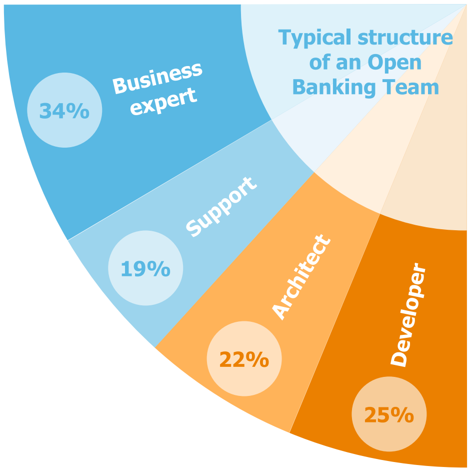
As an innovative partner of choice, Société Générale is providing natively cloud based «plug & play» banking and insurance services to third parties in Europe (neo-banks, fintechs and corporate clients). Our subsidiary Treezor provides account management, KYC, cards, and other payments to partners who need to offer these features to their own clients. Moonshot Insurance provides e-merchants with tailor-made insurance products to support their online sales. Many of our traditional products such as car leases, consumer credit, etc., are now available to third party distributors in an easy-to-implement technology.

3

Deliver excellence: technology matters and people make the difference

3.1 Spread the open banking culture and empower teams

Open banking projects are disrupting current value chains. They imply a profound reshaping of the business model and of the way products and services are designed. The contribution of the business lines is therefore crucial to the success of this transformation and is reflected in the results of the study: when we look at the average composition of open banking project teams, **53%** of the resources are staffed with business skills, which is about twice as much as in a traditional project.



The main challenge for banks is to be able to mobilize these skills while maintaining their daily business and to adapt career paths to the requirements of open banking. The point here is not to create a two-speed bank, but to bring open banking awareness into business and IT teams so that it becomes a natural way of thinking.

Although 40% of respondents consider the training of internal resources to be somewhat easy, they agree that dedicating their best profiles to open banking remains complex because they are already heavily solicited to run the current activity. It is clear that banks will have to scale up their resources by leveraging recruitment, which is considered difficult or rather difficult by **more than 80%** of them. The hiring market is under such pressure that they will have to be very attractive to candidates who are in high demand by large tech companies. On the plus side, the promise of open banking and the way it will become part of our daily lives may well appeal to young talents, who are increasingly interested in using their bank differently.

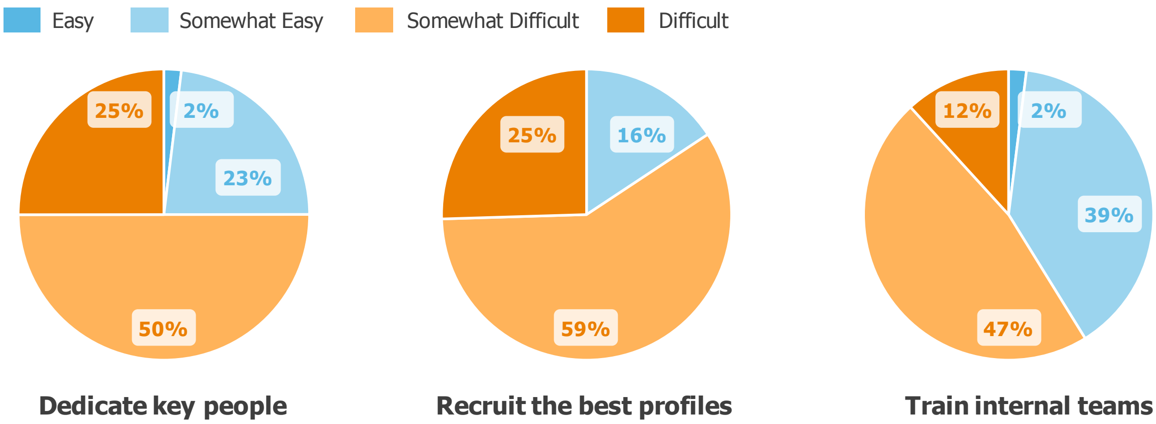


Figure 5: Human resource challenges in supporting open banking ambitions

Lito Villanueva
Executive VP and Chief Innovation & Inclusion Officer
Rizal Commercial Banking Corporation

As a challenger bank, it is essential for us to sustain our momentum in pushing for inclusive banking. Over the next three years, we aim to shift 100% of our clients/users into digital, and fully adopt the open finance system. We believe that open banking will further push digital transformation, broaden our reach, and make our services more accessible and relatable, especially to the new breed of banking clients. Hand-in-hand with these efforts is our continuous promotion of transformation within our teams through up-skilling and acculturation. This includes welcoming more young people and digital natives whose insights will be a key asset in designing new pioneering products.

Gian Battista Baa'
Head of Digital Payments and Services
Intesa Sanpaolo

We have to allow time for acculturation within the bank. Today, we are investing a lot of time to explain and train about open banking, both on the business and IT sides. We really have an objective of educating and opening the minds of our employees so that they are aware of the new possibilities created with open banking. When we start to think of a new product, we must think it open, otherwise it will be complicated in terms of regulatory compliance, or exposure when we decide to go to market. At the moment we have about 250 people involved in our open banking community and we also get insights from external initiatives.

3.2 Reconsider the way to deliver financial services

As competition intensifies on the supply side, banks will have to differentiate themselves not only with their service offering, but also and above all on their ability to deliver it efficiently and quickly. Third party distributors base their business models on their ability to enrich their offerings and customer experience very quickly, and will expect the same speed from their partners in providing the underlying banking services.

The survey confirms that banks are preparing for this, with **57%** of them expecting a two-months delay from idea to market to become the new standard in the next two years. This is already an impressive figure in the context of the financial sector, but the shift it would require from banks is even more remarkable:

- **84%** currently take more than two months to deliver new services, and half this number take more than six months.
- **18%** are even aiming for one month, which is six times more than those achieving that target today.

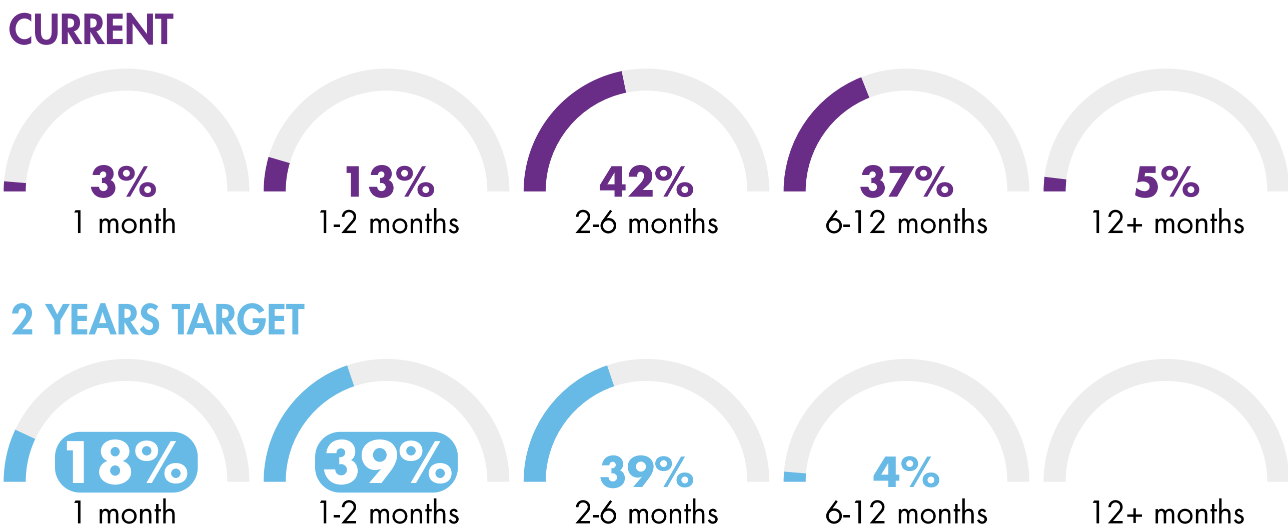


Figure 6: Current and target timescale to deliver new services

For most players, getting the best time-to-market with maximum efficiency implies a strong acceleration in the following prerequisites:

- **Set up a product-oriented organizational model with agile delivery processes**
- **Provide effective support to project teams by ensuring standards and capabilities**
- **Bring modern concepts to IS architecture and delivery chains**
- **Pay great attention to the design of banking services –** making them highly modular and parametric, so they can support a wide range of customer segments and functional requirements from potential distributors, with limited additional development

Christian Wolf
Head of Strategic Partnerships & Ecosystems
Raiffeisen Bank International

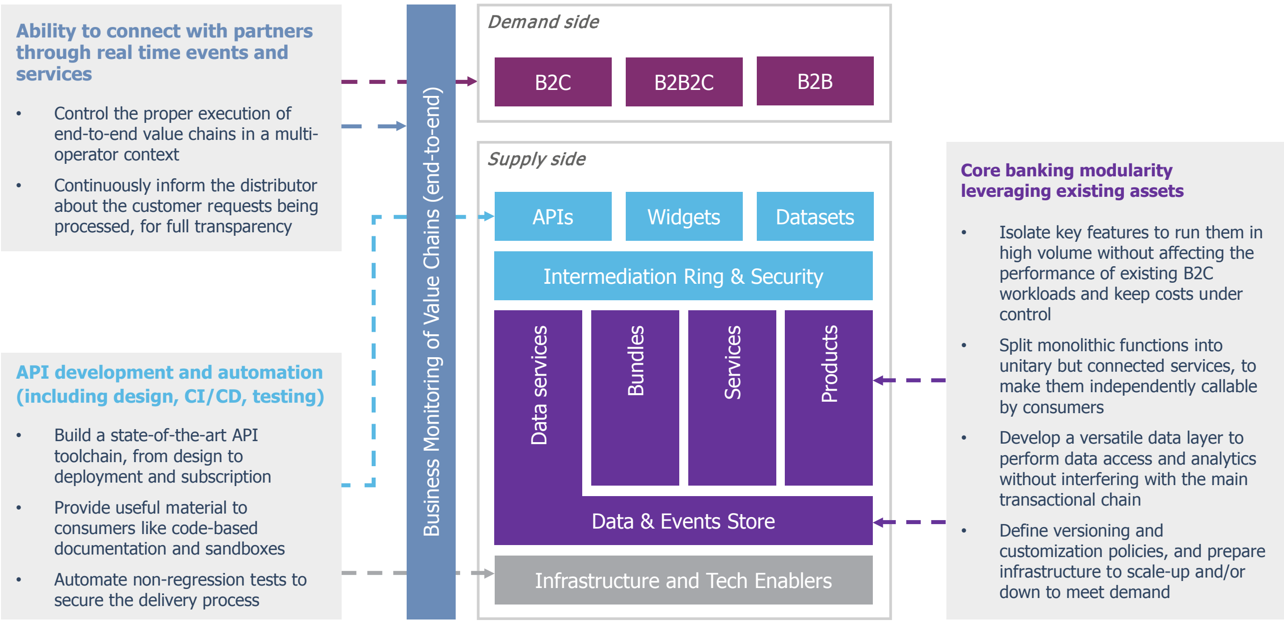
We set up our Open API tribe four years ago to comply with PSD2 regulations, develop new open services, and promote the RBI API Marketplace. This tribe not only provides capabilities but also drives the internal and external API ecosystem in our 13 countries of operations, sharing best practices and organizing community events like hackathons. One of the positive effects is that we are really turning our diverse banking group into a valuable ecosystem partner with one single point of entry. We have also sped up our agile delivery process thanks to our RICE (Real-time Integration Center of Excellence) asset within the IT department. Its role is to set up a high-end infrastructure, identify the best technologies and standards for developing APIs, provide guidance, and train developers.

Ivan Miguel
Director COE Mobile & Open Banking
Caixabank

We are dealing with a very young market and it can be difficult for business teams to decide which product to develop in an open banking way. Our approach is therefore to identify new use cases through cooperation, both with customers and third parties. We give them easy access to our environment, through one-to-one partnerships, so that we can meet all their needs and allow them to build the business model before building the technology. This allows us to be faster in developing new services and to integrate our partners from the very beginning of the project. Our goal now is to scale up these individual partnerships to accelerate the development of new services.

3.3 Improve architecture and integrate external enablers

Banks will expose services on a much larger scale than they have been used to, either in terms of transaction volume or number of partners. For most of them, the existing IS architecture will not be able to meet time-to-market, security or performance requirements and must be redesigned accordingly. Of the many capabilities that should be strengthened, the IT managers surveyed most often mention the three hot topics illustrated below:



To carry out this IS transformation and obtain the first visible results within two years, banks will have to source new expertise in addition to their own resources.

The study highlights that among all possible external contributors, **83%** of banks see fintechs and IT vendors as their preferred partners, which confirms their intention to take a step forward in the technological dimension.

These partnerships go far beyond the purchasing of licenses: they are about establishing the terms of a long-term alliance that commits both parties to the success of the project.

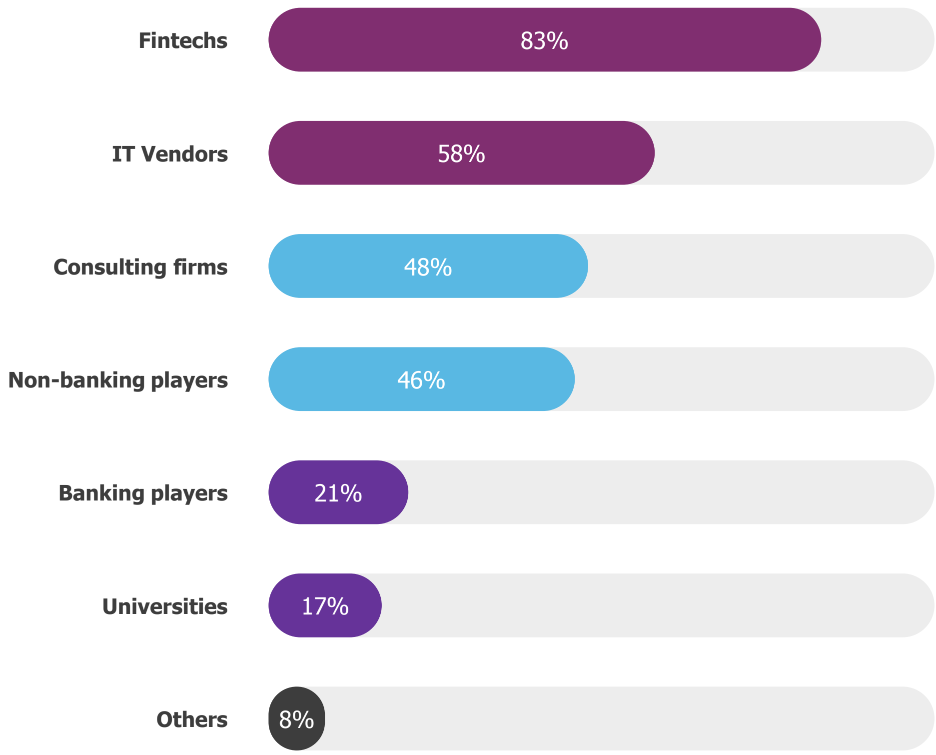


Figure 7: External contributions on which banks plan to rely in the next two years

Christian Wolf
Head of Strategic Partnerships & Ecosystems
Raiffeisen Bank International

Our technology and delivery process allows us to think outside the box and not only helps us to integrate fintech services into our internal processes but also the other way around. For example, in Slovakia we delivered a PSD2-as-a-Service solution that saw great demand from fintechs and customers alike looking to participate in the open banking economy without having a PSD2 licence themselves. More importantly, it shows that even if PSD2 was initially perceived as another regulatory burden for most incumbent banks, taking it as an opportunity opens a completely new world of business opportunities for traditional players as well.

Manuel CantalapiedraAstudillo
Chief Innovation Officer
Banco Santander

We started thinking about open business and open banking five years ago, with the sponsorship of our top management. We had the intuition that innovation would also come from outside and launched a venture capital program to invest in the world of fintechs (more than 20 to date), integrating some of them as partners in our value chain. Furthermore, we always keep in mind that API is only the enabler and that we have to provide digital solutions for our business partners. For example, we have developed an end-to-end underwriting process for SMEs embedded with our partners' cloud accounting solutions.

3.4 Collaborate on a common API standard

The large-scale exposure of banking services inevitably leads to discussions about the need for a standard. At first sight, one might think that a market standard could undermine the need for innovation that is inherent in the open banking approach. Yet as described earlier, the services that will largely constitute the Bank-as-a-Service offering in the next two years are mostly payment and everyday banking, for which banks have a significant common base of features.

It would obviously be counterproductive to try to deploy a 100% common model worldwide, at least to take into account local particularities and allow for innovation. But at the very least, providing an extensible API backbone and guidelines to describe core services would allow banks to join forces and avoid disintermediation by another tech player that would provide a better API to their potential partners. The recent example of PSD2 application is revealing of this situation in two aspects:

- On the one hand, it shows that it is possible to coordinate the action of banks through working groups and significantly reduce the number of different specifications, even without reaching a global consensus.

- On the other hand, it shows the steps to be taken and the importance of the resources to be provided by the banks to deploy the required scope of services – which represents only a fraction of the possibilities of open banking – and confirms the need to pool some resources of the banking industry.

The survey reveals that **84%** of banks are highly interested in defining a financial API standard, but the qualitative results confirm the divergences when it comes to identifying the most appropriate working group to lead the process.

In the absence of new regulations, the financial sector will therefore have to collaborate to meet its own expectations and establish a new standard.

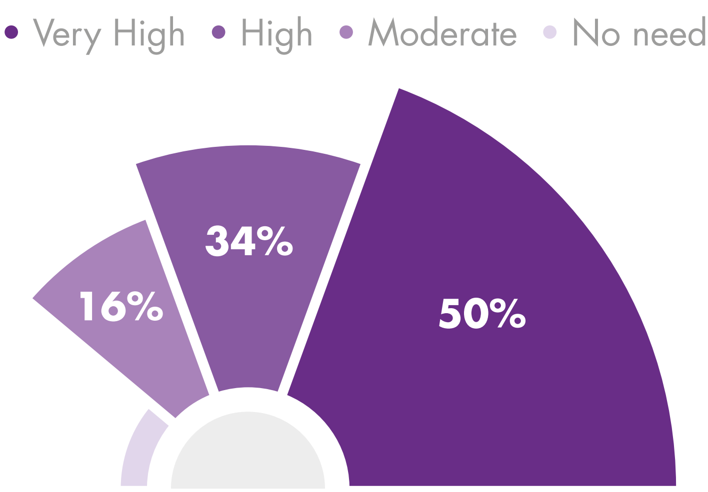


Figure 8: Expectations for a financial services API standard

On the technological level, the Representational State Transfer (REST) architecture is now the standard and will continue to be used for the development of new open banking APIs. Alternatives such as GraphQL – although more flexible and therefore more suitable for some B2B exchanges – are not being studied. In fact, only one bank on the survey panel reported that it was investigating alternatives to the REST model, indicating a commitment to stable and universal connectivity.

Tony Mclaughlin
Global Head of Emerging Payments and Business Development,
Treasury & Trade Solutions, **CITI**

As banks, we need to understand that technology is not a back-office function. Companies that will use our APIs, even big tech, are focused on their core business and have few technical resources to devote to the integration of partner services. They don't want proprietary APIs. We need to come together as a group of regulated financial institutions and think about the common APIs but that effort is completely absent and it's the biggest gap that we have as an industry. If we don't do that the big techs will either develop the financial services themselves or go to a fintech who can deliver them a good API.

Jude Schramm
Chief Information Officer
Fifth Third Bank

A standard API for the banking industry would create greater efficiency for data consumers and suppliers alike, but the portability of that data also would hasten the pace of change. That would put our peers that haven't yet adjusted to the new paradigm at a disadvantage. The most appropriate entity to drive such a standard is the one that has the broadest market support. For now, that's banks on the supply side and fintechs on the demand side. Soon, though, it will become banks as they adapt and deploy open banking technology in their products and services.

4. Conclusion

Open banking is a dynamic journey, which has already started to reshape the banking landscape, driven by regulation and a few leading institutions. **We are only at the very beginning of this movement**– especially with regard to the Bank-as-a-Service model – but the next two years look very promising. Indeed, the results of the survey and the interviews with executives highlight the clear intention of established banks to explore the Bank-as-a-Service model as a new growth opportunity.

It is now up to the banks to extend their efforts to **make it a core business and to federate their teams around this new ambition.** Through this study, we have tried to give an overview of the level of achievement of banks and to reflect their mindset in facing these new challenges, but also to share inspiring thoughts and success stories. As a conclusion, we could suggest four takeaways to define a successfulapproach:

Be pragmatic: deeply assess value chains, focus on their strengths and most valuable data to make a difference on the market.

Commit to excellence towards your partners: adopt a profit-oriented mindset, be the easiest partner to work with and professionalize consumer management.

Listen to customers, business partners, and coworkers: offer them the best assets to empower them, keeping in mind that open banking is not (only) API.

Find the right balance between short-term outcome and architecture sustainability, t**o define a relevant roadmap.**

More broadly, it is the financial industry as a whole that will have to define the right path to open banking and allow its regulated institutions to tackle what could be called the “Bank-as-a-Service paradox”:

/ The need to innovate and create new services to differentiate themselves from their peers and increase their market share…

/ … while collaborating within the financial industry to make it stronger against new non-bank competitors

Open banking, an opportunity for banks to rethink their business model

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