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# OPEN BANKING: TRENDS AND OPPORTUNITIES



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- An **independent global research and advisory firm** offering unbiased information and advice on financial services technology
- A division of **Oliver Wyman**, the leading global management consultancy, and part of **Marsh McLennan**, a global professional services firm



## Our clients

- The entire **financial services ecosystem**: financial institutions, their technology and service providers, consultants, investors
- **Technology and strategy leaders**, including CIOs, IT architects, heads of lines of business, strategy, innovation, and more



## Their needs

- Make **faster and more informed technology decisions** and respond to emerging IT trends



## How we help

- **Research and advisory**: best practice case studies, technology primers, IT spending, trends analysis, vendor solution evaluation, analyst access
- Extensive databases of **best practice technology initiatives** and **vendor solutions**
- **Consulting**: bespoke advisory, speaking engagements



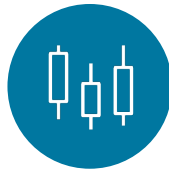
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# KEY TAKE-AWAYS OF THIS SESSION

## Open Banking Trends and Opportunities

The financial services **ecosystem** is becoming increasingly **open**. Each institution needs to determine what **role** they want to play within that ecosystem - and what the **right strategy** is for them.

Open banking and open finance are not going away – but the models will morph



Data is the under-appreciated asset



Choose partners carefully

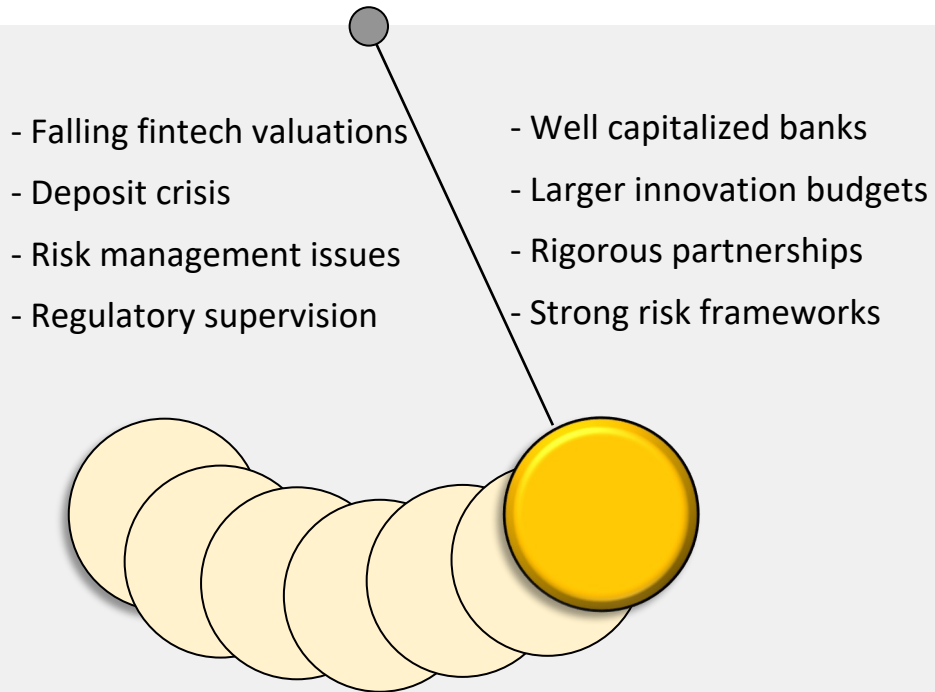


The buck stops with banks – always



# FUTURE SUCCESS IN BANKING RESTS ON **FASTER, SAFER, SMARTER INNOVATION**

## The innovation pendulum is swinging



**75%**

of banks say that  
“it is more  
challenging to win  
and retain customers  
than it was 12  
months ago”

**62%**

of banks say  
“the competitive  
threat from fintechs  
is increasing”

**57%**

Of banks rank  
“increased speed  
and agility as the  
top technology spend  
driver”

Base: All Retail Banking respondents (sample: 228)  
Source: Celent Technology Insight and Strategy Survey 2023



# A TALE OF TWO CONTINENTS THE GENESIS OPEN BANKING AND FINANCE

**Regulation in Europe provided banks and vendors with an opportunity to innovate**

## North America is Market-Driven

Provides opportunities and challenges!

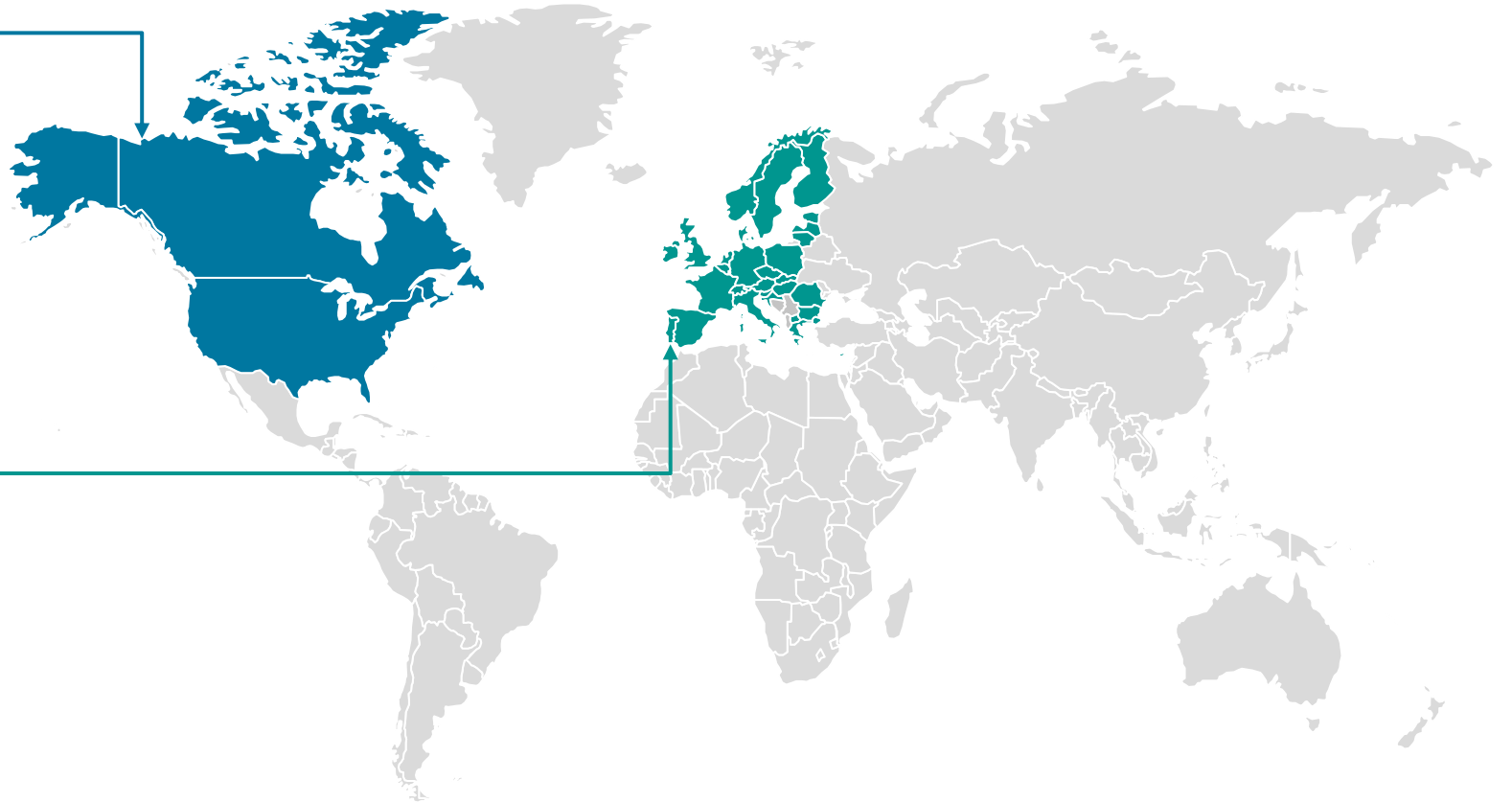
- Innovative use cases vs ambiguity
- Risk considerations are increasing
- “1033” will drive more consistency
- Influence of major transaction banks

## Europe is Regulatory-Driven












PSD2 and Open Banking.

Philosophical choice when considering the use of API-enabled capabilities.

- Most banks opted for minimum compliance, only basic API services in regulated regions
- Few saw opportunity for growth to deliver new solutions and services



# MANY OF THE LARGEST BANKS ARE NOW LIVE WITH OPEN BANKING PROPOSITIONS

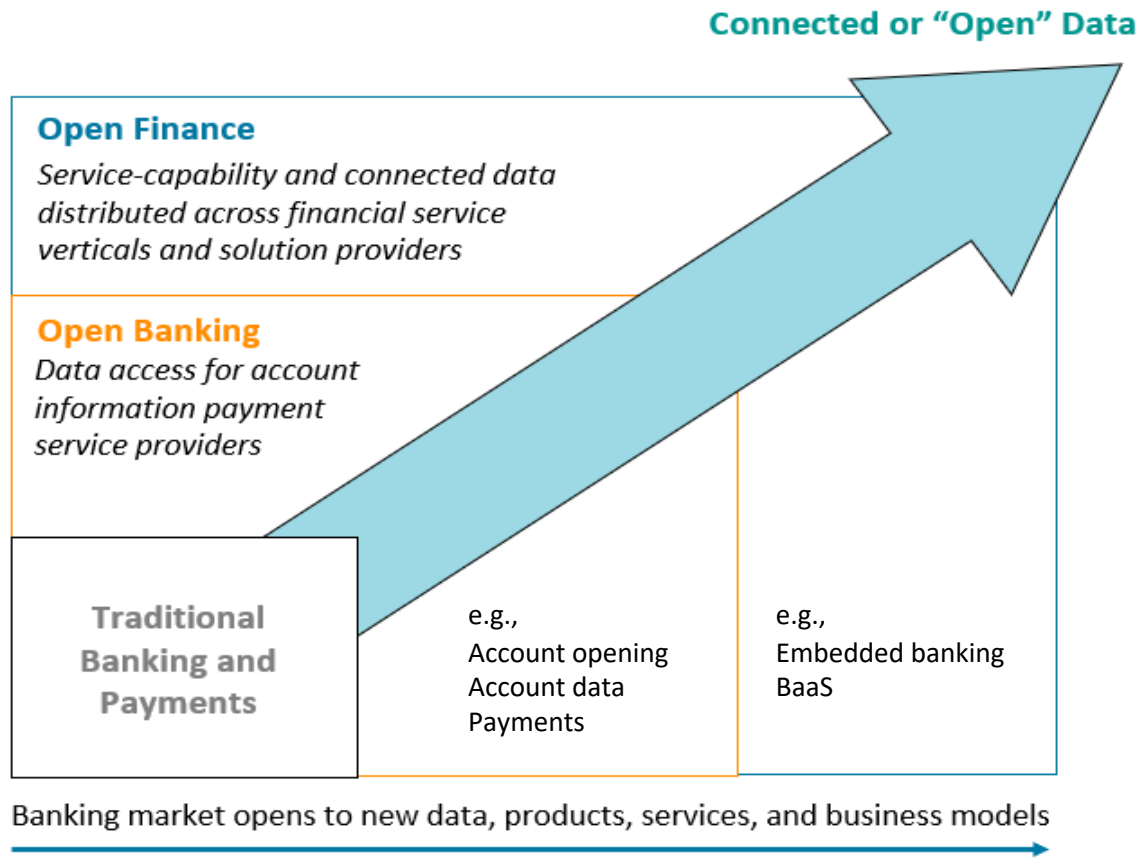
Selected Use Cases	Example banks with live products/services		Example propositions	
Digital banking (Retail and SME)	 ABN-AMRO	 NatWest	<ul style="list-style-type: none"> <li>• Account aggregation</li> <li>• PFM/financial insights</li> </ul>	
Customer onboarding	 AMERICAN EXPRESS	 mastercard	<ul style="list-style-type: none"> <li>• Customer and account verification</li> <li>• Digital verification of account history (removes need for document upload)</li> </ul>	
Invoice and bill payments	 NatWest	J.P.Morgan	<ul style="list-style-type: none"> <li>• Bill payments via ACH/other domestic payment infrastructure</li> <li>• Invoice workflow for business customers</li> </ul>	
B2C/B2B payments		SYNOVUS®	 HSBC	<ul style="list-style-type: none"> <li>• Payment acceptance services for digital or physical merchants</li> <li>• Payment products embedded in Oracle NetSuite ERP</li> </ul>
Lending and credit	 Rabobank	 Santander	<ul style="list-style-type: none"> <li>• Digital loan applications</li> <li>• Credit risk or affordability assessments</li> </ul>	
Business and Corporate Banking/Transaction Services	 citi	BANK OF AMERICA	 PNC	<ul style="list-style-type: none"> <li>• Balances, reporting, payments</li> <li>• API Developer portals</li> <li>• Apps Stores/Marketplaces</li> </ul>

Source: Celent

# THE OPEN ECOSYSTEM IS ULTIMATELY ABOUT “OPEN DATA”

Banking has always relied on strategic ecosystems to deliver value to its customers.

The novelty today is the **fragmentation of the value chain**



Beyond the use of APIs to access banking services, open banking and open finance implicitly requires a connected data strategy and highly-available data capability at scale.

In other words...

- Product strategy requires a **data strategy and technical capability**
- The API is the glue – **the data service is the value**
- But remember - **your data also becomes monetizable by others**



# WHY CONSIDER OPEN BANKING (AND BAAS)?

Competitive differentiation will be driven in part by an ecosystem strategy

**2/3**

of consumers in the U.S. have used a digital bank

**84%**

of millennials and Gen Z have used **FinTech banking services**

Sources:

Pymnts.com and Treasury Prime survey of 2,124 US consumers for the "How Consumers Use Digital Banks" report.

<sup>1</sup> S&P Global.

Celent research.

## Do community banks have a choice?



### Growth Options

- Deposit share falls for banks <\$10 BN <sup>1</sup>
- BaaS banks out-pace peers in deposit growth <sup>1</sup>

### Competition

- Big banks have already waded into Open Banking and BaaS
- Exacerbates competition for deposits

## They certainly have an opportunity!



believe that **"integrating 3<sup>rd</sup> party services is a significant opportunity"**

### Data-led services

- Account aggregation, insights and PFM, personalization

### Efficiency

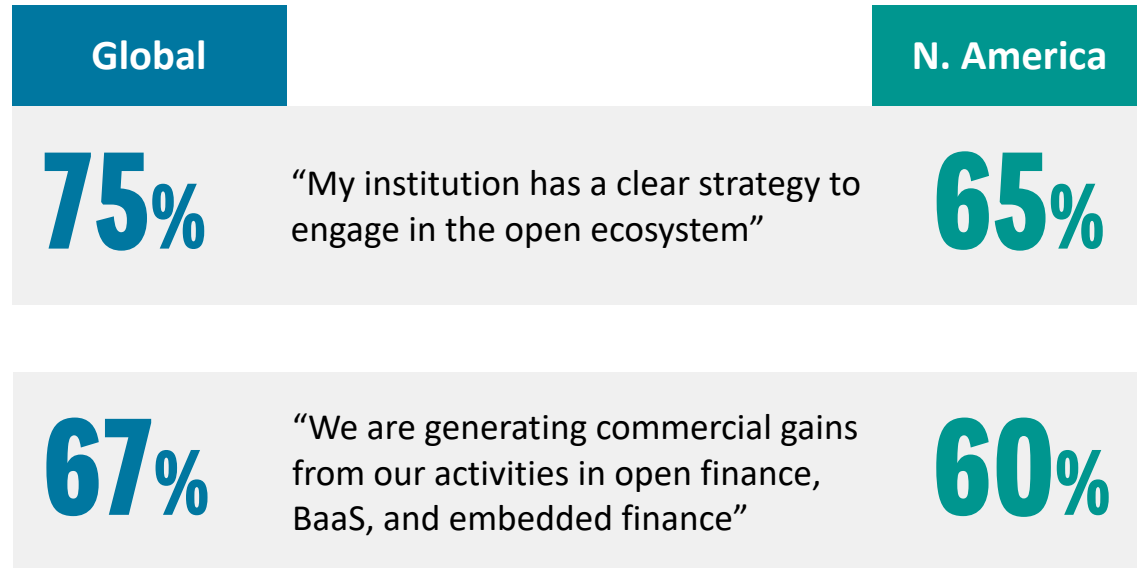
- A/C opening, loan origination, risk/credit scoring

### New products & markets

- Payments, small business services, loyalty and rewards

# BARRIERS TO ADOPTION OF OPEN BANKING AND FINANCE

The industry is moving from strategy to execution, but monetization challenges persist



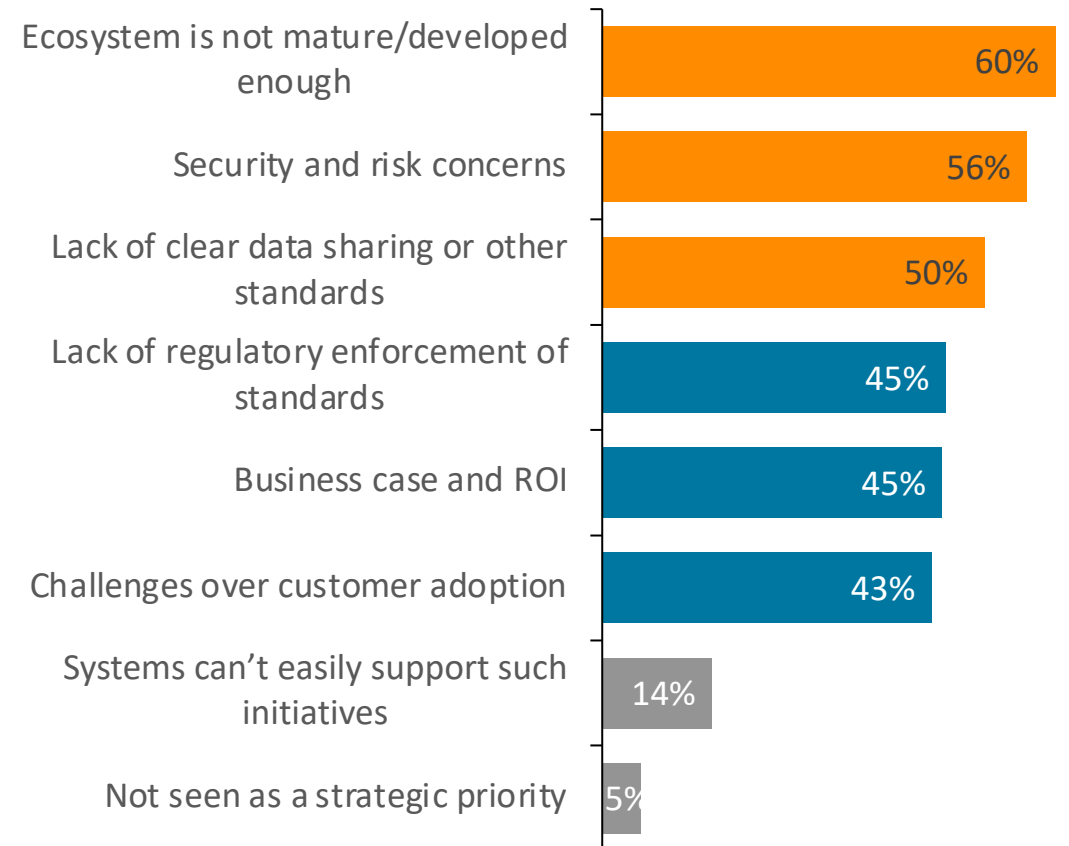
- Regulatory clarity vs amorphous entrepreneurship
- An ecosystem is only as good as its participants!
- However, the open ecosystem—and the technology investment to get there—is a long game to be played

Base: All Retail Banking respondents (sample: 228)

Question: Which of the following are your leading investment priorities in the next 18 months from a product perspective?

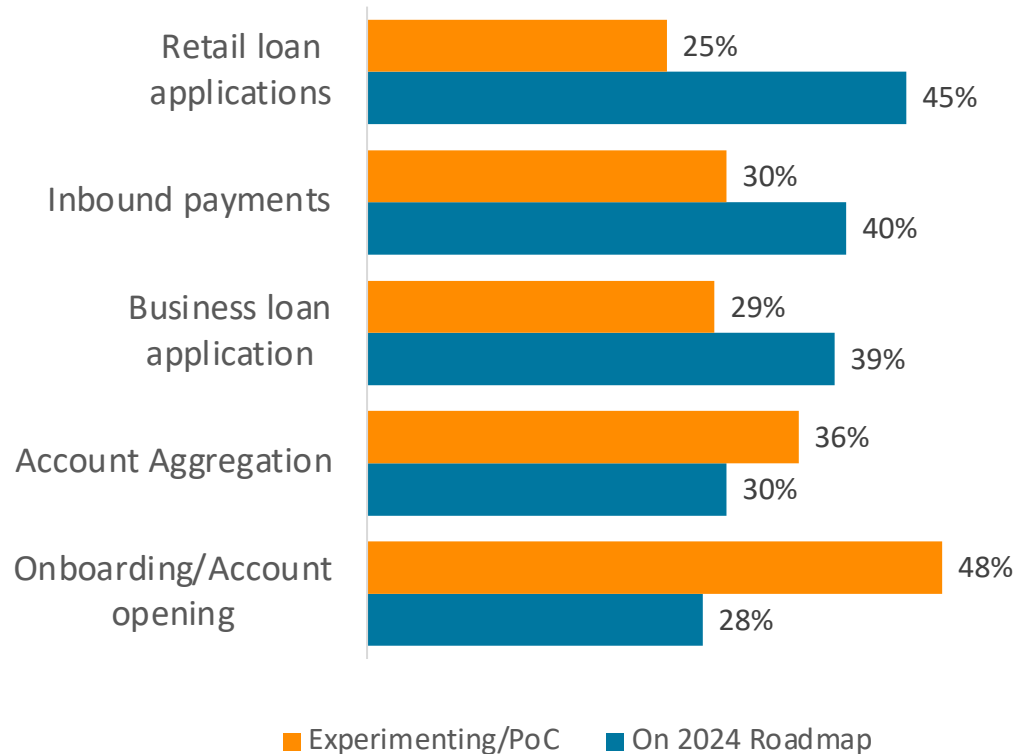
Source: Celent Technology Insight and Strategy Survey 2023

## Barriers to Open Banking and Finance



# THE INDUSTRY PLANS TO INNOVATE ACROSS A RANGE OF USE CASES IN 2024/2025

## Use Cases and Product Development relating to Open Banking and Finance



### Key priorities in 2024 – Lending and Payments

**>40%** of banks plans to bring enhancements to areas such as loan origination and payment processes

### Areas to watch in 2024/25 – Customer Acquisition

**~50%** are exploring use cases around customer onboarding and digital account opening processes

**36%** are looking at payment acceptance services for businesses

Base: All Retail Banking respondents (sample: 228)

Question: Which of the following best describes your thinking or activity around use cases for open banking/finance?

Source: Celent Technology Insight and Strategy Survey 2023

# ENABLING TECHNOLOGY

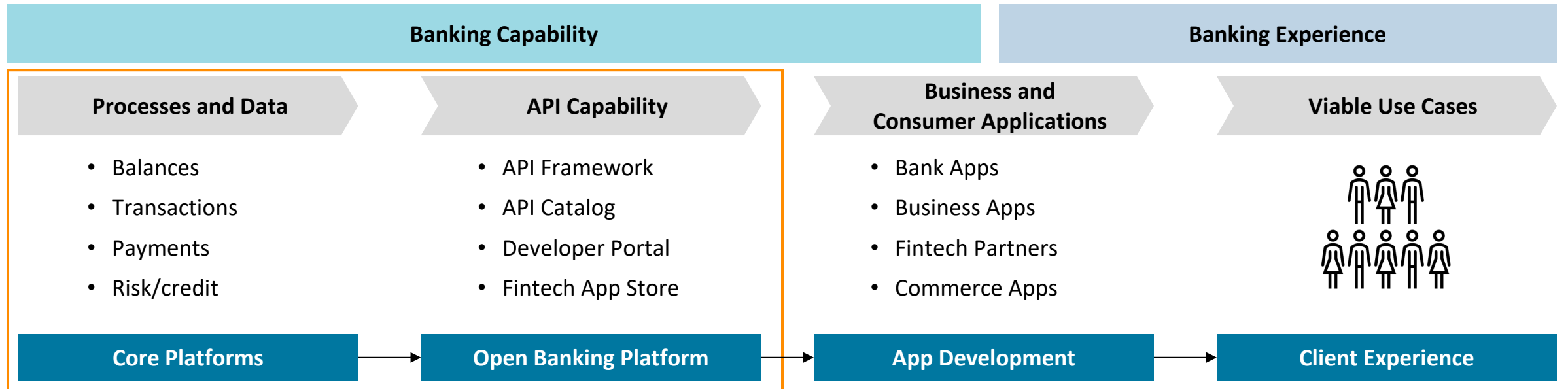
What can be learned from corporate use cases?

## API - always on, business process integration

- Fast
- On-demand
- Precise function

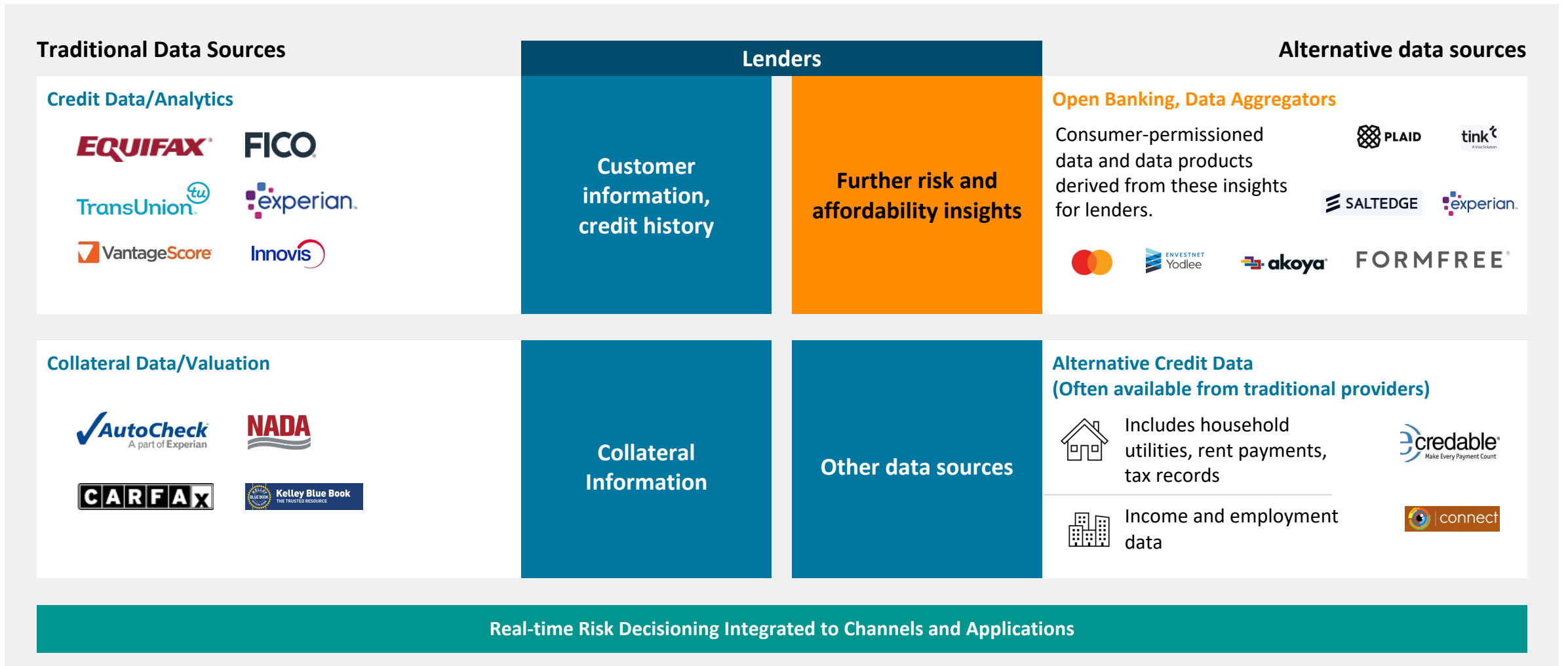
## Balance and transaction inquiry leads the pack for API use\*

- 56% - For connecting to banks balances/transaction detail
- 37% - For connecting to banks for payments
- 19% - To connect to information/data providers



Source: [\\*Treasury Technology Survey Report](#), Strategic Treasurer, Celent research

# ALTERNATIVE DATA LANDSCAPE FOR CONSUMER PERMISSIONED DATA IN LENDING AND INTEGRATED REAL-TIME RISK DECISIONING



Real-time Risk Decisioning Integrated to Channels and Applications

# IMPACT OF OPEN MARKET, THEN SUPERVISION, NOW POLICY

Regulators catch up to market-driven ecosystem innovation

## Regulators looking over the shoulders of U.S. banks

- **September 2022** – OCC “[Office of Innovation](#)” to ensure that ecosystem innovation occurs within a framework overseen by the OCC
- **August 2023** – The Federal Reserve announced the [Novel Activities Supervision Program](#) - includes “complex, technology-driven partnerships with non-banks....”



*By expanding our aperture, engaging more substantively with nonbank technology firms, and mapping out bank–fintech relationships and risks, we can help ensure that banking remains trusted and safe, sound, and fair as the system evolves.”*

Michael Hsu, Acting Comptroller, OCC, 2022<sup>1</sup>

<sup>1</sup>Michael Hsu, “Safeguarding Trust in Banking: An Update,” September 2022

## Personal Financial Data Right

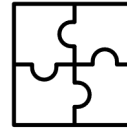


Commonly referred to as “**1033**”

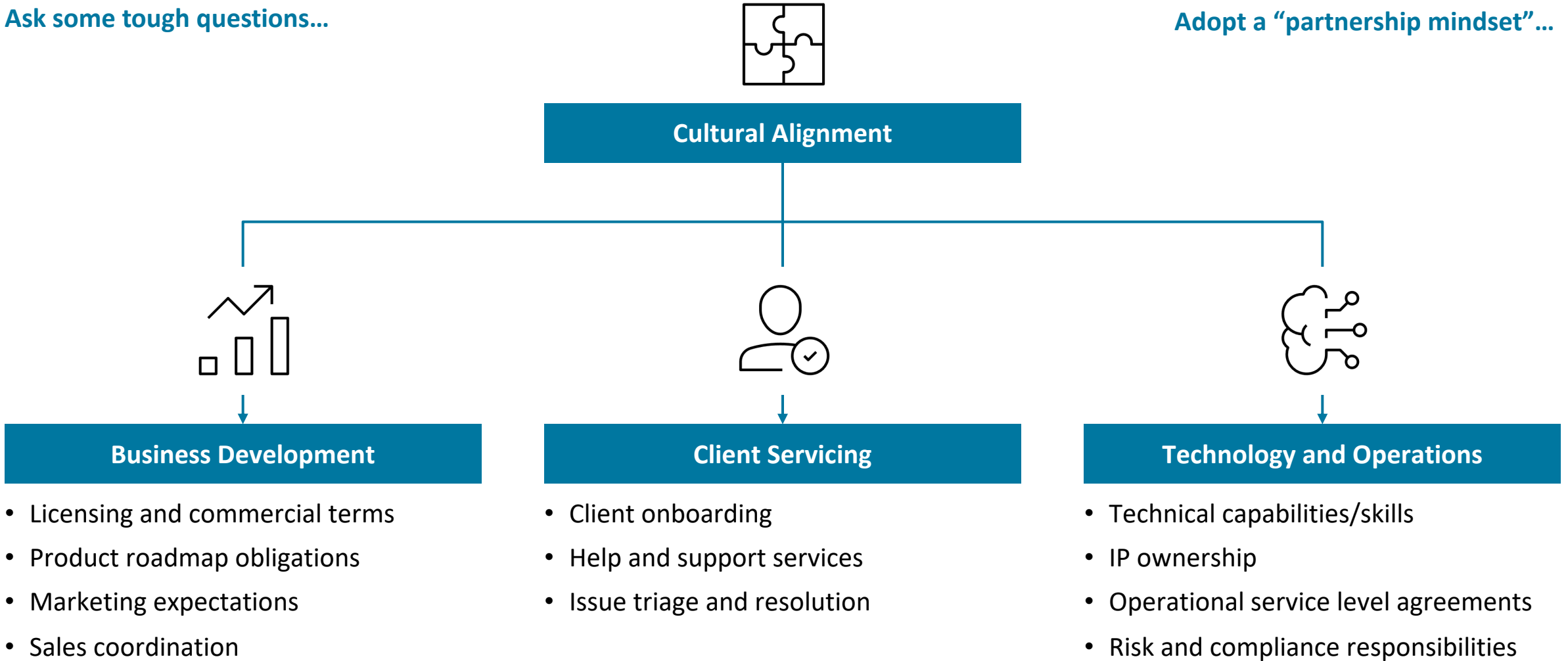
- Deliver a mandatory framework for open banking in the U.S.
- Require **fee-free** access to a range of data fields
- Focus fintech solutions on new “open banking” standards – intended to benefit smaller banks
- Big banks are pushing back – asking for tighter data standards for fintechs

# CULTURAL CONSIDERATIONS IN A FINTECH PARTNERSHIP PRODUCT MANAGERS MUST ALSO BE PARTNER MANAGERS

Ask some tough questions...



Adopt a “partnership mindset”...



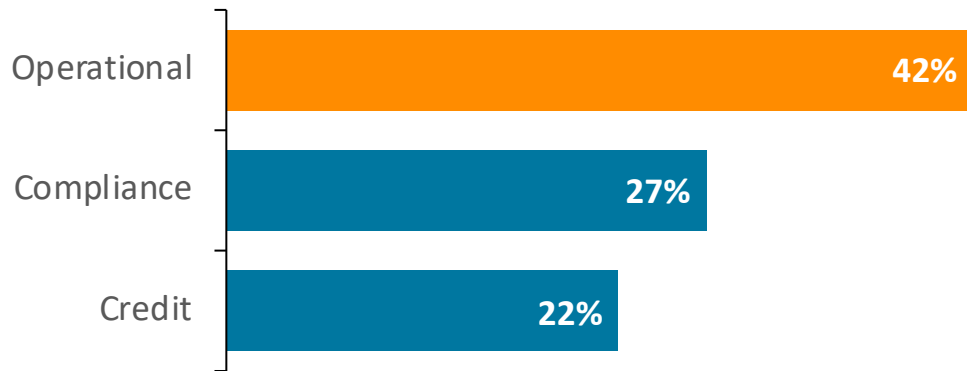
Source: Celent

# BANKS NEED TO REMAIN **DILIGENT** IN APPROACHING FINTECH PARTNERSHIPS...

The OCC highlights the need for increased risk management across open banking operations:

- Cybersecurity
- Innovation
- Third Party Risk

## Top three categories of MRA (Q3 2023)



Source: Celent analysis, OCC Semi-annual Risk Perspective, Fall 2023

## Strengthening fintech partner strategies:

New risks have emerged in addition to a continued high-scrutiny regulatory backdrop

<b>Risks</b>	Fintechs come and go, bought and sold	Fintech partner concentration risk	Partnerships vs. vendor management
<b>Best Practices</b>	Inspection of funding, cash horizon, growth, path to profit	Regularly model an unwind event to evaluate client impact	Support risk partners with knowledge and benefit-focus

Source: Celent's Navigating Turbulence Symposium, conversations with three tier-1 banks, May 2023

Fintech-related questions are taking up a greater share of auditor focus than many other risk categories now. For smaller FIs, fintech partnership questions could be a greater focus than interest rate risk.



# FASTER, SAFER, SMARTER

Four keys to open banking innovation



## Banking technology has changed – perhaps forever

The ecosystem is becoming increasingly open. Each bank needs to determine what role they want to play, and what the **right strategy** is for them.

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## Connected data is a competitive advantage

APIs are the connective glue. Enhance data richness, quality, and accessibility to maximize data value and use of AI.

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## Use cases and partnerships

Identify priority use cases and choose partners carefully. Cultural fit and soundness matter.

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## Banks must still behave like banks!

Third party partnerships extend banking capability – but do not replace operational and compliance accountability.

# Q&A



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Banking Technology

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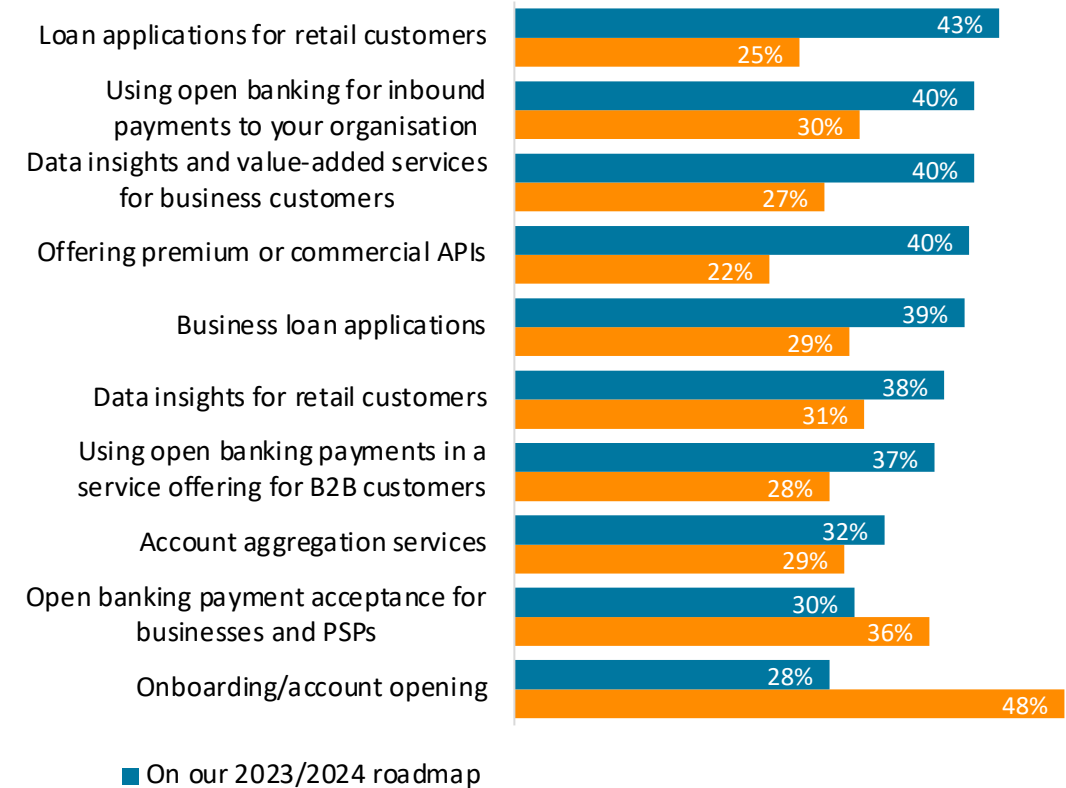
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# RETAIL BANKS WILL INNOVATE ACROSS A RANGE OF USE CASES IN 2023-24



Example banks with live products/services	Example propositions
	<ul style="list-style-type: none"> <li>Account aggregation</li> <li>PFM/financial insights</li> </ul>
	<ul style="list-style-type: none"> <li>Customer and account verification</li> <li>Digital verification of account history</li> </ul>
	<ul style="list-style-type: none"> <li>Bill payments via ACH/ domestic payment infra</li> <li>Invoice workflow for business clients</li> </ul>
	<ul style="list-style-type: none"> <li>Payment acceptance for digital or physical merchants</li> </ul>
	<ul style="list-style-type: none"> <li>Digital loan applications</li> <li>Credit risk or affordability assessments</li> </ul>
	<ul style="list-style-type: none"> <li>Capabilities for partners to embed bank services</li> <li>Full partnership model/capabilities</li> </ul>

## Emerging Use Cases for Open Banking/Finance





Base: All Retail Banking respondents (sample: 228)  
 Question: Which of the following best describes your thinking or activity around use cases for open banking/finance?  
 Source: Celent Technology Insight and Strategy Survey 2023

# THE EVOLUTION OF CORPORATE BANKING APIS

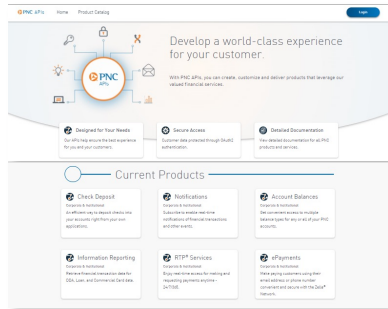


Across the industry, IR and balance inquiry lead adoption

 **56%** For connecting to banks for IR/balances

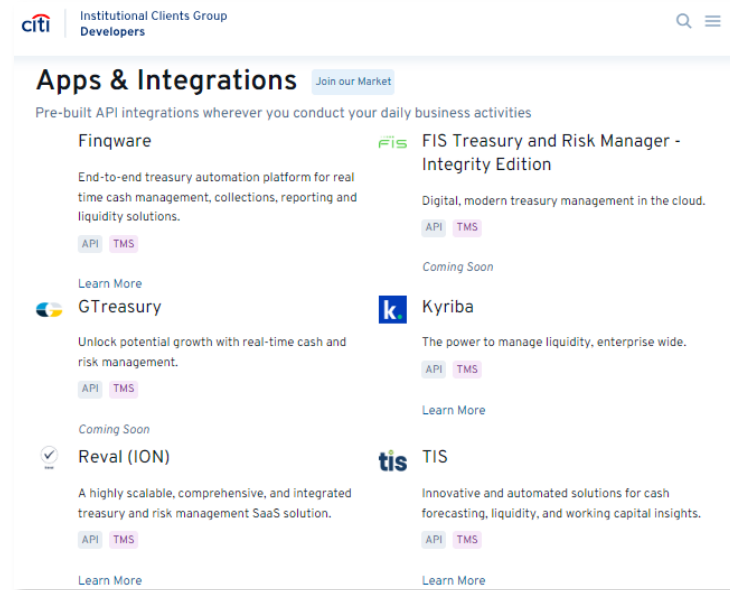
 **37%** For connecting to banks for payments

Source: [2021 Treasury Technology Survey Report](#), Strategic Treasurer

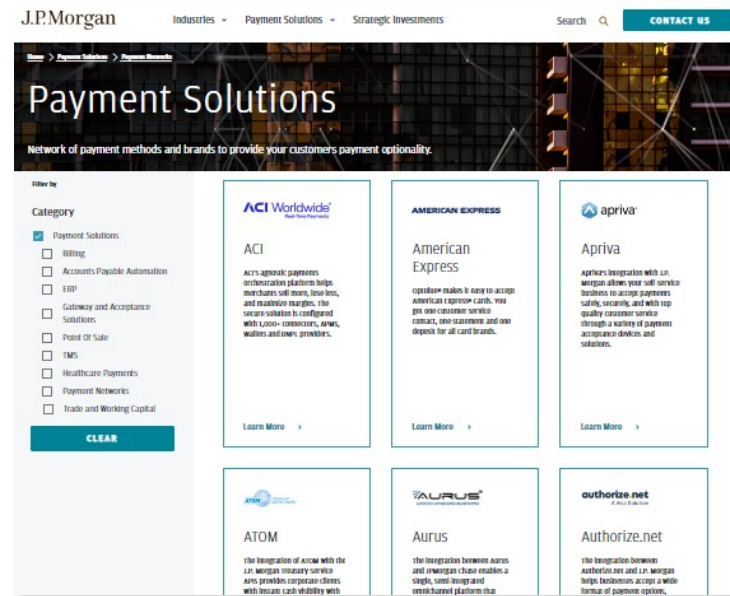


## Dedicated Commercial Banking Open API Developer Portals

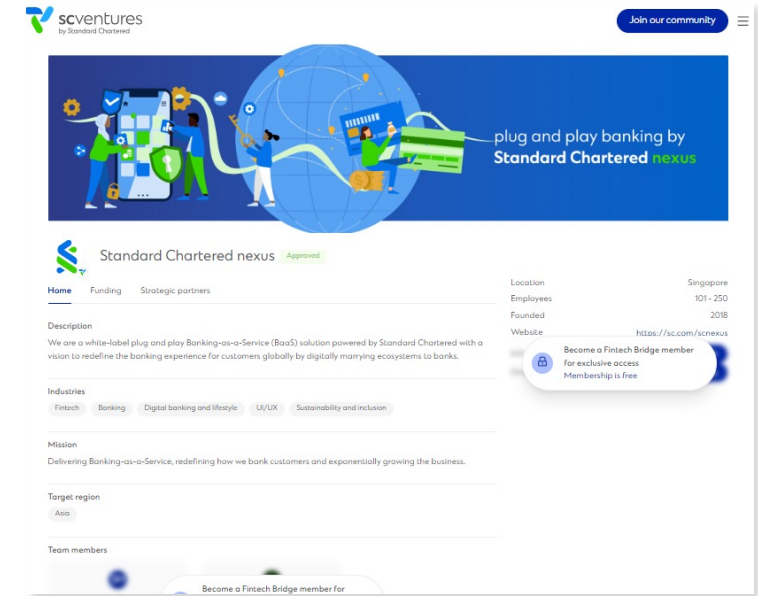
### For Corporate Clients: Prebuilt ERP/TMS Integration



### For Partners: Third Party App Store



### For Marketplaces: B2B2C Banking as a Service

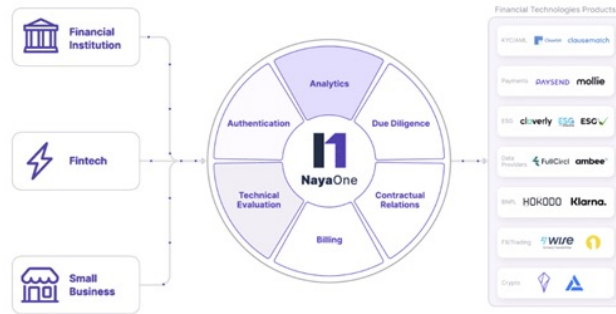




# ... AND SHOULD EXPLORE A GROWING RANGE OF SOLUTIONS AIMED AT HELPING SCALE EMBEDDED FINANCE

## NayaOne

- Digital transformation platform
- Discover – fintech marketplace
- Evaluate – digital sandbox to try out APIs
- Scale – connect once to access multiple capabilities



## weavr

- Embedded finance cloud: unified orchestration platform to support multiple programs between banks and brands
- Financial plug-ins for “embedders”, “compliance-as-a-service”

Embedded Finance Cloud

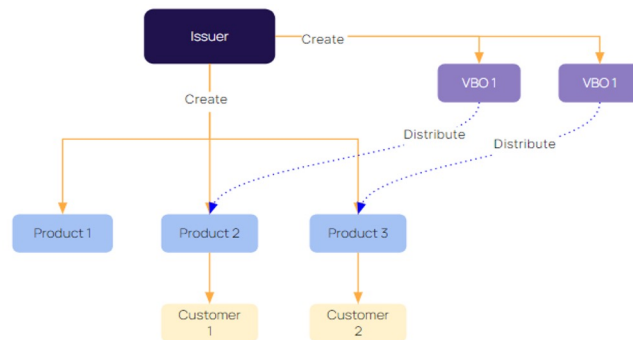
Supercharge your bank's digital distribution



Our proven embedded finance technology for banks offers product and innovation teams controlled access to new markets. With a safe and transparent platform, your financial institution can create embeddable financial products for any digital business to deploy.

## zeta

- Zeta Tachyon offers multi-level, multi-tenant construct called Virtual Bank Operators (VBOs)
- Issuers can assign a pre-configured product to a VBO and enable them to distribute and embed this product within their apps and experiences



## VESTIGO CARDS & PAYMENTS

- Configurable system enabling customization of partnership relationships
- New partner can be onboarded within hours
- Automated handling of commercial relationship with partners, e.g., revenue sharing

### Core products

- Revolving credit card
- Debit card
- Prepaid card
- BNPL
- Consumer loan
- Bank account product
- Account-to-account payments
- ...

### Partner-level configurations (Roles & Responsibilities)

Partner Group and sub-partner structure  
Core products in scope and their configuration if required (fees, interest, etc.)  
Commercials between bank and partner: ...  
Key partnership contract terms + reminders: ...  
Onboarding process:  
• KYC (performed by bank or partner)  
• Risk assessment (bank or partner)  
• Risk allocation (partner guarantee)  
• ...  
Servicing process:  
• Contact management (bank or partner)  
• Managing customer contract details (bank or partner)  
• ...  
Outbound communication: ...  
Partner employees (commission plan, user rights, etc.): ...  
Integration model (APIs): ...

Source: company websites, Celent research