What does Open Banking mean for you?

Harnessing opportunities and learning from global experiences

Although open banking has not officially arrived in Canada, it is no longer a theoretical notion. Along with many other jurisdictions around the world, Canada has started making the regulatory changes and developing the technical infrastructure to support an open banking framework.

In a nutshell, open banking initiatives aim to reshape financial ecosystems to make them more customer-centric and to welcome more entrants into the sector. They give customers power over their financial information and create mechanisms for them to choose to share their data beyond their primary banks. Opting-in to data sharing gives them access to a wide range of innovative and tailored financial products and services.

Though it's still early days, open banking in other regions is already sparking innovation. For financial services organizations, customer financial data is providing new insights and inspiring new product and service offerings. Many are partnering with financial technology (fintech) start-ups to streamline, diversify, and reach new audiences. At the same time, open banking relies on heightened consumer data protection regulations, with new compliance and reporting obligations for organizations.

While the world is shifting incrementally toward open banking, every jurisdiction takes its own journey. As Canada contemplates its open banking future, it should take the pulse of developments elsewhere. We've gathered key insights to spell out what this changing ecosystem means for different stakeholders – from banks, to financial technology companies, and end consumers.

Open Banking is not "one-size-fits-all"

While the implementation of open banking is further along in some countries than others, it's clear that the overall tempo of change is accelerating.

In Canada, open banking is in process, but not yet implemented. As such, data sharing is still screen-scraping-based. In this scenario, customers give consent to third parties to use their credentials to gain access to their financial data. From a data privacy perspective, the approach isn't optimal for consumer data sharing and isn't a viable solution over the long-term.

Customers and businesses are ready for change. Many jurisdictions have already adopted ISO 20022, an open global standard for financial information which serves as an important foundation for open banking innovation. The standard will create better interoperability of transactions, share more granular data with transactions, and provide more transparency for consumers.

Many markets, including the United Kingdom (UK), Australia, and Brazil, have moved beyond screen-scraping to digital Application Program Interfaces (APIs) that let customers grant consent to third parties to securely access their financial data.

In Australia, these are “read-access” APIs, used purely for data access, aggregation, and analysis, not payment initiation services. Transaction data is being leveraged to create a financial services and banking environment focused on individual customers.

The UK and Brazil deployed APIs with “read-write” capabilities, which support both data use cases and payments use cases. The “write” function allows financial institutions (FIs) and third-party organizations to initiate actions such as, to open accounts, make payments, or purchase products and services.

What makes a successful open banking implementation?

Canada is known around the world as having a secure and stable financial system thanks to strong regulation, supervision, and financial sector policy. For Canadian consumers and businesses, moving forward with open banking means keeping the financial ecosystem safe and sound while empowering consumers with more choice.

A successful implementation in Canada will need to balance innovation with regulation. The following are emerging as hallmarks of success in other jurisdictions and can help inform a Canadian-made template for success.

1. Determine priority uses cases first

To develop good regulations for open banking, clear use cases need to be identified. The goal may be to level the playing field in banking and enable new entrants access to the field, such as in Brazil. Alternatively, it may be to build and facilitate a trust network for open data exchange, as was the case in Australia. Or it may be to give customers more choice and more innovative financial tools and services, which was a key objective in the UK. Clear priorities should be stated and agreed upon by all stakeholders to establish momentum and help achieve regulatory consensus moving forward.

Global snapshots:

- **The UK:** The UK launched its Open Banking standard in 2018 and many jurisdictions around the world consider it the standard to emulate[1]. The main driver was to open financial data held by Financial Institutions (FIs) to third parties to provide better financial services and information to customers from all walks of life. A centralized body – Open Banking Implementation Entity (OBIE) – was funded by the top nine banks in the UK (the “CMA9”). It provided the governance model, defined the technical standards, and created the data models for open banking’s first implementation.

  The UK started with read-only APIs that provided limited information and progressed to APIs with “read-write" capabilities. With customer consent, third-party banks and fintechs can initiate payments or direct variable recurring payments, such as utility bills, with different amounts each month, on behalf of customers. Over 7 million retail customers have adopted open banking over the last two years and the UK has plans to evolve the ecosystem further into open finance.
- **Brazil:** the goal was to spur more competition in the financial market (six banks served 75-80% of the nation’s customers). The Brazilian Central Bank (BCB) mobilized the major financial organizations to become mandatory participants in the innovation agenda. With regulatory guidance from the BCB, those institutions led and paid for the building and implementation of a free, instant payment system called “Pix.”

[1] https://www.openbanking.org.uk/wp-content/uploads/OB_MediaPDF_FINAL.pdf

The system is now the most used payment method in Brazil and performs over 123 million daily transactions. Building on that success, Brazil is advancing into open finance. The major financial institutions are again working with the BCB to create the roadmap and API standards for data and transactions involving investments and insurance-related projects. Already 18 million consumers have consented to data sharing for open finance.

2. Connect consent to the customer experience

The extent to which consumers participate and share data is key to the initiative working well and must be under the end user's control. Consumer consent is therefore at the heart of open banking. It's critical for consumer buy-in. Experience shows that regulators should focus on how consent fits into the customer experience as they develop their standards and regulations.

While the UK is no longer part of the European Union (EU), its consent standards mirror those across Europe. It adopted the provisions of the EU's General Data Protection Regulation (GDPR), now called the UK GDPR. This framework requires FIs and third parties to be transparent about the purposes for collecting data and they must revalidate consent if that purpose changes.

However, when open banking regulations were first implemented, they required customers to provide consent every 90 days. This had a dampening effect on consumer adoption and the method for renewing consent has since been simplified.

Australia has adopted stricter customer consent parameters and accreditation requirements than the UK. The "Consumer Data Right" allows banking customers to give access to their data to different levels of accredited organizations for purposes of product and service customization.

Brazil adopted a local GDPR and the BCB focused considerable attention to evaluating and updating its regulatory and consent framework to ensure consistency and reliability in the payment rail implementations. Those efforts were correlated with a major awareness campaign to encourage adoption and customers have been keen to share their financial data with FIs.

Open banking changes the customer experience. Consumers encounter new and unfamiliar brands in their open banking journeys, some that are not typically associated with banking. FIs need to go beyond their focus on consent. They need to consider customer-centricity and test the customer journey to ensure it's a smooth experience.

As Canada devises its consent framework, it should support customer choice and flexibility while meeting customer expectations and deepening trust.

3. Adopt proven risk reduction strategies

Financial services organizations already have strong mechanisms in place for risk mitigation with respect to fraud, data and identity theft, cybercrime, money laundering, and tax avoidance. Open banking innovations may shift these compliance requirements in new directions, as consumer data is shared with more parties and passes through different digital touchpoints. A combination of strong regulation, internal policies, and advanced compliance tools can help maintain customer trust and continue to mitigate business risks as open banking rolls out. As the experience of Canada's global counterparts demonstrates, the following mechanisms help lay a sturdy foundation:

- **Regulatory model and directory services:** Strong regulations and standards need to be defined and enforced using a centralized or decentralized model. The UK, Australia, and Brazil employ a centralized model. Other regions, such as Europe, the Middle East, and Africa, are pursuing decentralized models, where industry bodies come together to create the regulatory environment.

In either model, risk can emerge around how third parties are regulated, accredited, and given licenses. Directories – the centralized databases where identities of third parties and their authorization status is stored – need to be well funded and well maintained.

- **Funding:** Sufficient funding is a prerequisite for a stable system with reduced risk. Jurisdictions need to decide where financial support will come from, and whether a centrally funded model is the right one. In the UK, funding was provided by the CMA9. In Brazil, the major FIs paid to set up the Pix payments system.
- **Secure APIs:** Open banking APIs need to be fully secure and API frameworks need to manage and store consent given to third-parties and notify end customers about renewing or withdrawing consent when necessary. In this respect, Canadian FIs benefit from being later to the game in terms of open banking implementation as newer technologies and cloud capabilities for identity and access management are now readily available.
- **Customer authentication:** By-products of open banking, such as the "Confirmation of Payee" name-checking service in the UK, which ensures money moves to the right individuals and accounts, can help reduce instances of push payment and other fraud.
- **End-to-end journey:** To mitigate risk, support adoption and improve reporting, an open banking framework should focus on the end-to-end journey of all intermediaries. It starts with customers, but includes Third Party Providers (TPPs), banks, and regulatory bodies themselves.

  As an example, the UK's tax authority, the HMRC, has explored the possibility of calculating taxes on people's behalf adjacent to open banking implementation. The point to remember when weighing the benefits and compliance responsibilities for any new open banking regulation is that they're based on consent and not mandated policies. Customers and organizations choose whether or not to use or adopt open banking services.

4. Take one step at a time

The experiences of other jurisdictions show it's crucial not to move too fast. Use cases should be introduced step by step, moving from information use cases to payments use cases for single immediate payments, and advancing to variable recurring payments. Bulk payments and cross-border payments will come in time, but the basics need to be established first.

That gradual and phased approach should be supported by consumer education and awareness programs, as well as continuous monitoring and evaluation.

5. See the big picture

Global experience shows that kickstarting an open banking ecosystem through a regulatory mandate is key. That departure point is critical for standardizing and safekeeping the customer experience. However, banks and FIs should avoid thinking about open banking as primarily a compliance exercise. They also need to think beyond monetization use cases and the customer value proposition, as those often end up being siloed product verticals.

In other words, open banking represents a fundamental structural shift. It's a horizontal platform that provides the technological underpinning to enable an organization's broader digital transformation goals. Accordingly, it demands a new outlook. FIs that want to fully engage it to create value and drive revenue need to adopt a new mind-set. Whether they want to understand customers better, enhance operational efficiency, reduce risk, or reach more customers, they should view open banking as an indispensable problem-solving tool in their larger toolkit.

In the short term, the most sizeable disruption in open banking will come from retailers and large corporations in those product verticals. Both will leverage data to enhance loyalty or develop customized offerings or offer more payment options.

Over the longer term, however, open banking will enable new levels of connectivity and infrastructure that encompass new areas and move into adjacent industries, like healthcare, telecommunications, and even media. In fact, some jurisdictions are already expanding the scope of open banking to other use cases. In Australia, for instance, data sharing extends beyond currency accounts to loans and mortgages, and beyond the financial services sector into telecommunications and utilities. In Brazil, there are plans to extend open banking into the insurance sector.

There is potential to build a full trust framework where the digital consent framework of sharing data, verifying identities, and initiating payments and actions enables embedded finance.

From this perspective, open banking builds and enables a financial ecosystem that can be driven not only FIs, but by consumers and businesses themselves.

A Canadian-made template for open banking

Despite differing use cases, implementations, and frameworks around the world, shared success factors have emerged. Four essentials for Canadian stakeholders to consider include:

- **Standardization:** create common rules for industry participants, accreditation, and processes to allow third parties to adopt the technical specifications; ensure consistent adherence to central standards so there's no discrepancy in customer experiences in the market
- **Data quality:** for customers to want to adopt open banking, the data framework needs to be resilient and work reliably
- **Guidance by a central body:** achieve consensus on what needs changing in the financial ecosystem and mandate participation from key organizations to drive that change
- **Stakeholder perspectives:** as in any industry transformation, stakeholders need to be involved in the regulatory process

How KPMG can help

Open banking is coming to Canada. Your organization will need to tailor its approach to align with incoming frameworks and adapt to meet your unique business goals. To get the latest on open banking policy and regulations, technological developments, and innovation opportunities in Canada and globally, contact one of our financial services sector leaders. Our experienced leadership team can help you navigate the changing financial services industry and develop business models and compliance strategies that reflect your business priorities and vison.

To get a full picture of the insights presented here from KPMG global specialists, watch a replay of our webinar, "Open banking is coming: What does this mean for you?" and contact one of our financial services specialists kickstart your process and get you prepared for the future of finance.

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