

Winning the Open Banking Race

A Challenger's Path to Entering
the Ecosystem Economy

Foreword



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The open banking movement is gaining traction across the globe. Open banking allows for the secure exchange of information between financial institutions and third parties, thereby giving their customers the ability to take their data anywhere with ease. Open banking is changing the ways financial institutions operate and serve customers, creating new business models and offerings, and the way consumers and businesses interact with their finances. According to research by Accenture¹, the open banking opportunity is worth \$416 billion worldwide.

There are two main models for implementation that various jurisdictions around the world are adopting: regulatory-driven and market-driven. The UK, EU, and Australia are regulatory-driven, while Canada is adopting a hybrid model. The US, so far, has been market-driven, although the Consumer Financial Protection Bureau (CFPB) has made an announcement² in October 2022 on its plans to require financial institutions to set up secure data sharing methods for open banking.



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Despite specific regional guidelines, open banking is not a one size fits all implementation. Each organization needs to choose its own strategy and the implementation path best aligned with its unique strategy. There will be differences between large incumbent financial institutions and challengers. For large financial institutions, the decision will be based on access to new data, providing enhanced competitive offerings to meet the evolving needs of consumers and businesses, preserving market share, creating new revenue streams and an enhanced customer experience. For challengers, the main objective will be about gaining market share, diversifying offerings to reach new customer segments, increasing net promoter score, creating an improved customer experience, and creating new products that drive increased revenue. In addition, challengers will be able to drive a greater ROI by offering a wider suite of financial services to customers with little to no additional investment.

In our experience, we've discovered that there are many commonalities between challenger banks. We believe that challengers are uniquely positioned to capitalize on the open banking opportunity, have the potential for a first-mover advantage due to their ability to make decisions quickly and take on higher risk, and will be launching many industry-first capabilities in the coming years.

Many of the learnings in this whitepaper come from implementations of challenger banks. We've interviewed two Canadian banks about their open banking journeys: EQ Bank - a challenger, and National Bank - an innovator in Canada's open banking space. The intent of this document is to help challengers define where they are in their open banking journey, and create a roadmap to a successful implementation. We hope you find strong value in this whitepaper.

Executive Summary

This whitepaper provides a practical path to adopting open banking at challenger banks. It describes the steps that successful early adopters have taken in the process of forming their open banking strategy and executing on it, while balancing the risks and unknowns in markets where regulatory direction was still being formed. This document covers business and technology strategy, monetization, governance, business models, and ecosystem enablement, and provides recommendations for ways to make progress when clear guidelines are not yet defined.

The intended audience is senior leaders at US and Canadian financial institutions, who are forming their organization's open banking strategy, or have a strategy in place and are in the process of defining the details of its implementation.

Research Highlights

- Participation in open banking is no longer an option—it is a must for challenger banks. Challengers have the biggest opportunity to grow their market share and expand their capabilities to reach new market segments. Delays in taking action could result in declining market share and an existential threat.
- There are five key steps in open banking adoption: Adoption Strategy, Data and Technology Governance, Technology Strategy, Business Model Enablement and Ecosystem Enablement.
- Your choice of a business model, Banking as a Service or Banking as a Platform, will inform the choice of the open banking platform that's best suited for your organization.
- An end-to-end implementation can be achieved before full regulatory requirements are available by investing in a no-regrets solution that leverages your open banking platform's security, accreditation and liability frameworks and industry-dominant standards.
- The path to monetization can be accelerated by taking deliberate, strategic steps to implement your top use case with a Fintech partner.

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The Organization's Open Banking Journey

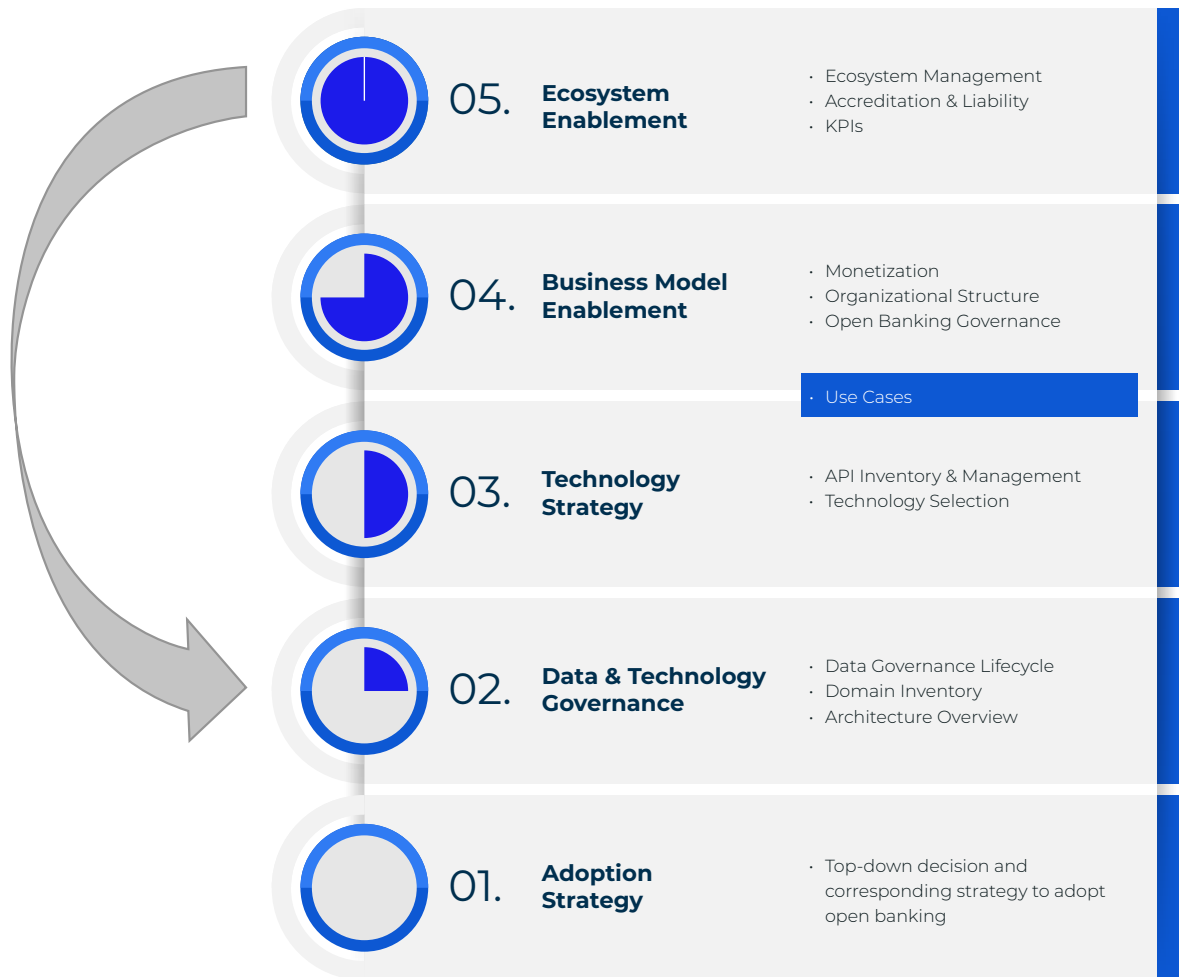


Figure 1: The Open Banking Adoption Journey

Open banking is complex, and there are multiple aspects to be aware of in order to adopt it successfully. It's important to understand where you are in the journey, so that you know what steps to take now, and what steps you'll need to take next. In this section we cover the formula that successful North American challenger banks have followed.

There are five main steps in the journey:

1. **Adoption Strategy:** a commitment made by the CEO and senior leadership for the organization's investment in open banking adoption, its vision, and a high-level strategy to execute it.
2. **Data & Technology Governance:** the groundwork and mechanisms for organizing the organization's data and technology to meet strategic objectives.
3. **Technology Strategy:** vision and roadmap for the organization's ongoing technology development and modernization.
4. **Business Model Enablement:** business objectives, organizational structure, and governance.
5. **Ecosystem Enablement:** managing and growing a thriving partner ecosystem.

Technology

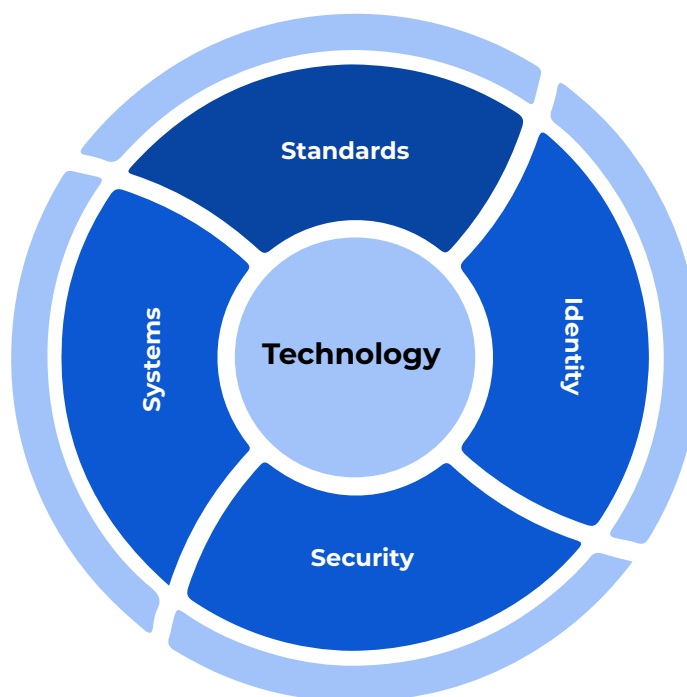


Figure 3: Open Banking Technology

Technology is at the core of open banking enablement for any organization. The technology decisions you make are crucial to the successful implementation of an open banking program. In this section, we examine four technology pillars: Standards, Systems, Security, and Identity, and how financial institutions can implement no-regrets solutions that address each pillar.

Standards

The choice of an open banking standard is highly dependent on the jurisdiction in which your organization operates. In regulatory-driven jurisdictions, standards are mandated by the regulator, and therefore the choice of a standard to implement is clear. For example, Open Banking⁹ in the UK, Payments Services Directive 2¹⁰ (PSD2) in the EU, and Consumer Data Right¹¹ (CDR) in Australia. In the US and Canada, open banking began as a market-driven initiative, where participants have made significant investments in the Financial Data Exchange (FDX)

standard. At the time of writing, FDX reports 42 million consumer accounts are connected to the FDX API¹², making it the dominant standard in North America. However, the CFPB and the Department of Finance Canada are yet to announce their official decisions on industry standards. In order to hedge the risk of the standard changing, US and Canada-based organizations can partner with an open banking platform provider that will integrate with their systems and will provide an external gateway in the industry standard. If a new standard is mandated by the regulator, the open banking platform provider will update their implementation.

Systems

Integration of internal systems with an open banking platform can be challenging, especially when legacy systems are involved. Leading organizations have created middleware layers, which communicate with legacy systems and expose their data via modern REST APIs. This

About Us



Altitude Consulting is a business and technology consultancy dedicated to the adoption of open banking. Headquartered in Toronto, Canada, Altitude enables global and local banks gain competitive advantage and become leaders in the open finance economy. We do this through strategy and product workshops, business model and use case selection to differentiate and drive ROI, product roadmaps that include Fintech partnerships, and setting up organizational structures to support new modes of operation.

Altitude's team has deep expertise in C-suite strategic advisory, product launch, business model implementation, technical delivery, and executing bank-Fintech partnerships.

To learn more about how Altitude Consulting accelerates open banking adoption, visit achievealtitude.com.

BLANC LABS

Blanc Labs enables the financial future of tomorrow. We innovate, advise, and execute technology solutions that prepare enterprises for the future. To help companies rapidly deliver on their digital initiatives, Blanc Labs has developed expertise, technology accelerators, and bespoke solutions in a wide variety of applications, including financial services, enterprise productivity, and customer experience.

Blanc Labs also offers technology advisory services in open banking through readiness workshops, technology strategy and roadmaps, and an Integration Centre of Excellence. These services help our clients take full advantage of opportunities such as Banking as a Service, Banking as a Platform, open APIs, and ecosystem integration.

Blanc Labs serves the Americas through operations in Toronto, New York, Bogota, and Buenos Aires. To learn more about how Blanc Labs is building a better future, visit blanclabs.com.

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