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The Global Open Banking Snapshot

Covering: Australia, Canada, Japan, Mexico, New Zealand, Singapore and the USA.

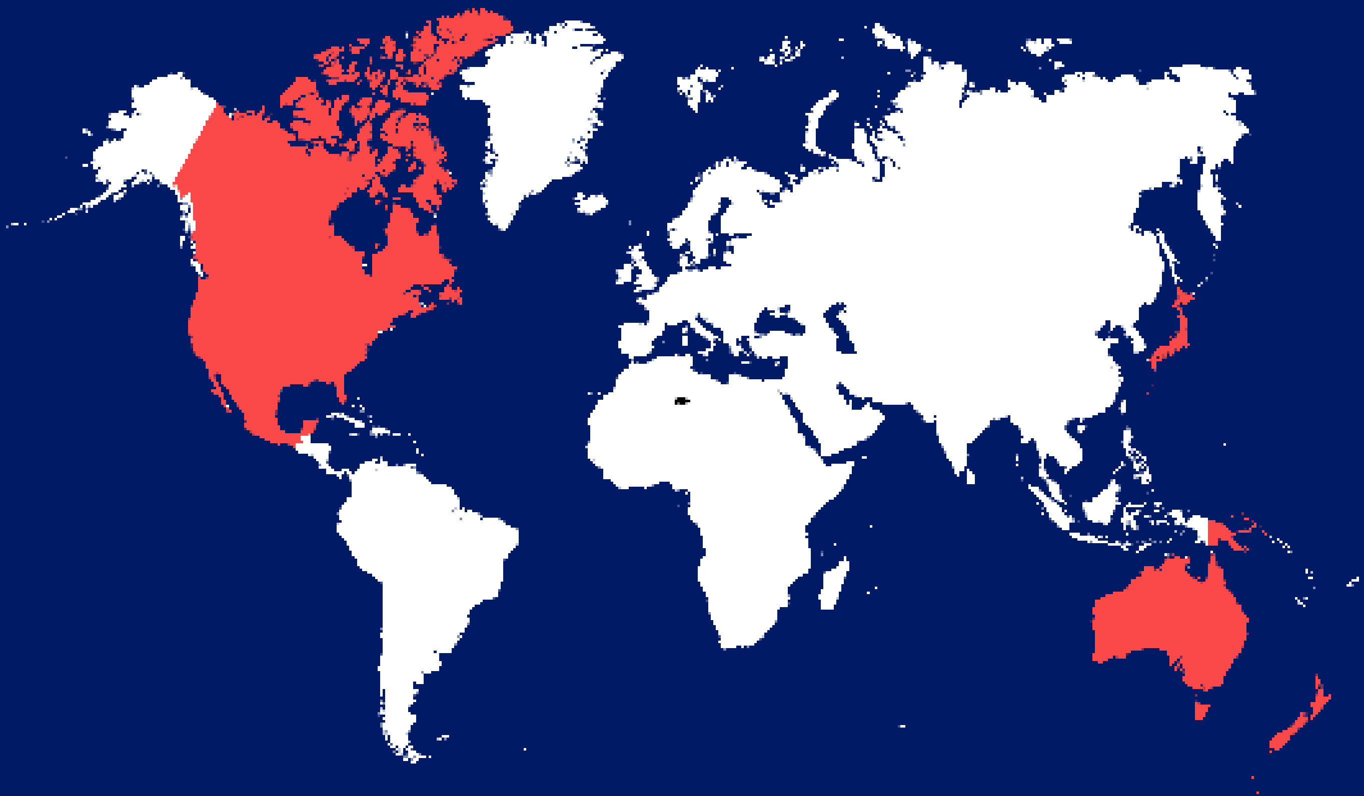
Introduction

The aspirations of giving customers more freedom, increasing security and opening up opportunities for competition in the financial services sector are all perfectly captured in the words ‘Open Banking’.

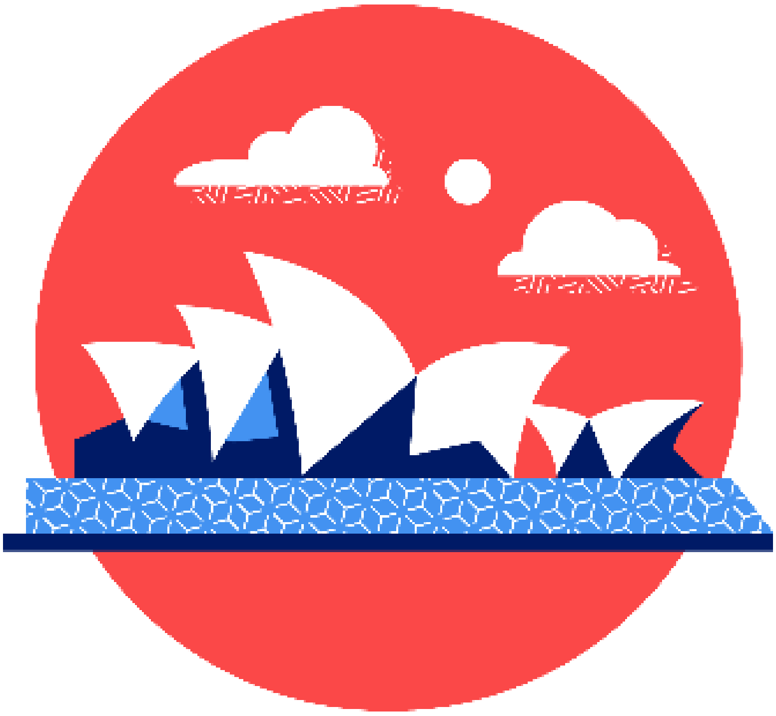
Arguably, this initiative started ten years ago with the first aggregation services gaining popularity. Customers were using their bank credentials to bring together all their accounts to see their data in a new way. Fast forward ten years things have kicked off in a pretty big way.

European regulation, PSD2, enables bank customers to use companies that aren’t their bank to manage their finances. At the customer’s request it obligates banks to provide the selected company with access to the customer’s data through APIs, primarily for the purposes of: letting people check their account balances and to make payments. The UK has been the first country to set a standard and create an implementation body, whose sole provision is to smooth the transition with discussions, technological leadership, lobbying efforts and a lot of hard work. Getting nine banks to agree on a set standard within a year and a half’s time frame is no easy feat, but it has been a long overdue process. Across the world, people are wising up to the fact that their data is valuable and that if someone is going to the main benefactor of that value it should be them. Regulators and banks are not blind to this and are making their own moves to get out ahead of the changes that are coming. Their approaches are fascinatingly varied and shed new light on our own experience here in the UK.

This report offers an outline of the ways in which the global financial sector is reacting to local changes and offers insight from some of the people at the heart of it all.



Australia



The recent announcement of a Fintech Bridge between the UK and Australia is just the latest in a series of policy (and sentimental) links that are bringing the two countries closer together in the financial services space. Another is Australia's attitude to open banking. This is a significant step for the country who wants open banking to be the poster child of the new Consumer Data Right (sort of like GDPR), as they aim to create 'an economy-wide consumer-directed data transfer system'. What is cool, and quite possibly, unique, about their approach is that it is being built with 'interoperability between sectors in mind - such as energy and telecommunications'.

The Australian Treasury published a report listing out all of their recommendations titled: 'Open Banking Customers Choice Convenience Confidence' - no prizes to guess what it focuses on.

The legislation will be regulated by the ACCC (competition and consumer issues and standards-setting) which is similar to the CMA that mandated open banking in the

UK and the data standards body will set the technical standards which is a good move that ladders up to the overall aspiration of the Consumer Data Right.

The differences between the UK's model and the Australian model is quite drastic. Firstly, Australia will adopt a read-only mandate, so payments are not included (at least not yet) but product data is. Secondly, the account services will be tiered depending on the data responsibility a company needs. For instance: some companies will develop products that operate or need raw transactional data from a bank, these companies will be heavily regulated to make sure they adhere to the highest levels of data security and standards. However, other companies may only need insights based on raw data, not the raw data itself. These companies will have a much lower bar to provide services to their customers because the data risk is much lower.

The summary even highlights: "The idea of 'passporting' accredited participants from systems in other jurisdictions may be considered, once open banking systems become more established locally and overseas." - very exciting.
We spoke with Jade Clarke, Business Development from Westpac to understand how the banks locally saw the developments, and we were really encouraged:

"Access to, and the use of, data will ultimately power the relationships we have with our customers in the future. We consider that open banking will accelerate innovation in the delivery of products and services within banking and other industries. The "winners" are likely to be those organisations that can effectively utilise the transformative power of data analytics, machine learning and artificial intelligence to provide a seamless and personalised customer experience around the distribution of financial products. We are at the very beginning stages of the formation of a data industry in Australia, and open banking, and open data across the economy more broadly, will help the industry's development.

"No one really knows the full potential of opportunities that may be realised, but we do know that for organisations to remain competitive and succeed in this new world it's a race towards service based on data enrichment, personalisation, empowering customers and ultimately making our customers' lives easier. The stakes are real. Open banking is likely to reduce the barriers to switching. If incumbents do not deliver the services customers expect, customers will ultimately vote with their feet. Ongoing innovation in banking and financial services only serves to continue to raise the bar on customer expectations."

"The Westpac Group has supported a model of open innovation and a recognition of the importance of partnering. We continue to actively support the development of the fintech ecosystem and create new partnerships. For example, we recently established FuelD - Australia's first data focussed accelerator designed to rapidly advance eight data-based start-up companies. These companies were able to test and refine their concepts by experimenting with aggregated and anonymised Westpac transaction data."

Canada

While the sentiment around open banking in Canada is positive: the government said open banking has the potential to increase innovation and competition in the banking sector. But it also gives rise to concerns over privacy and data security, so a final decision has not yet been made. But... Canada is a country similar to the UK in that the majority of the market is owned by a few large players, arguably open banking would be a great move for the country, but more is needed to understand all the moving parts.

The Royal Bank of Canada has recently opened up a developer portal saying: "By providing external developers, industry innovators and clients with access to select RBC APIs, we have the opportunity to increase connectivity, create new tools and experiences for clients, and enable open and innovative collaboration to improve the future of banking." It seems, developments and sentiment are trending towards open banking. More to come.

Japan

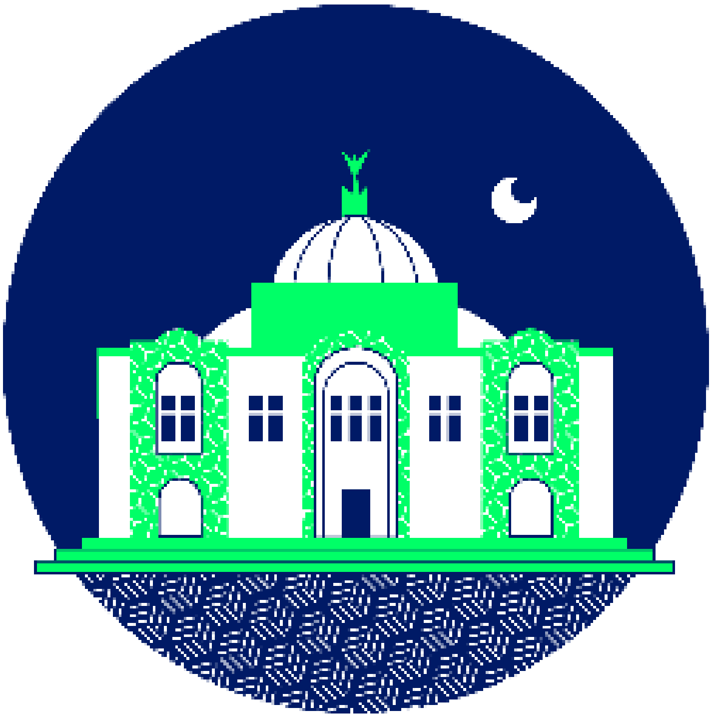
Japan has established the 'Revised Banking Law' in May, 2017. It specifies that the banks should take reasonable endeavors to develop an Open API structure. Which means that locally, banks should be cooperating with electronic payment agencies.

According to the law, banks in Japan have to have policies in place regarding how they cooperate with these agencies, as well as their timelines on APIs. In the policies, the banks clarify their stance re: whether they would introduce an Open API, and if so, when they will do it. The law also requires the banks to adheer to contractual standards with these third parties.

This new law will start being enforced in June, though most banks are already compliant.

With regard to Fintech business, KPIs have been set, one if which is: "to aim to introduce Open APIs with more than 80 banks in 3 years." Plenty of time to get proof of concepts off the ground and trails to be

Mexico



run. Wait and see...
In March of this Year, Mexico's lower house of Congress approved a bill to regulate the financial technology sector that is picking up the pace in Latin America. The law will give fintech companies more regulatory certainty around business models like crowdfunding and crypto, but it also bakes the legality of the sharing of user information by financial institutions through public APIs into the system.

The President of the association Fintech Mexico, Francisco Mere, said: "Open banking recognises that the information in the hands of the financial institutions is the property of the user, not the institution's and that it can be brought to other financial intermediaries."

We caught up with Jorgé Ortiz, the founder of The Fintech Hub in Mexico to get his views:

"The difference with the UK I think is huge - of course you started this three years ago; In the UK what came into effect in January was one product - current accounts - and the nine biggest banks. In Mexico it is going to be open to all of the products and the entire financial ecosystem, all financial entities will have to comply with this!"

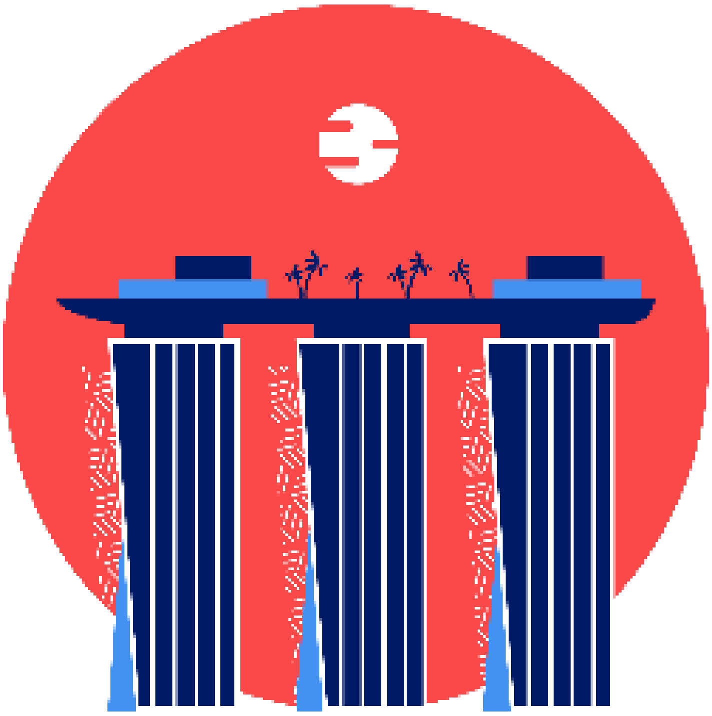
Ana Laura Villanueva, a representative of the Ministry of Finance in Mexico, shared with me some of her favourite things about this new law:

"One of our favourite things about the Fintech Law is, of course, the provision for mandatory API data sharing for all financial institutions. We believe this will give consumers opportunities for better services with their information. We hope we can have increased competition in financial services and more innovation that will benefit consumers. Not only will people have access for the first time to financial products, but also they will have better access and increased use of financial services."

We asked Jorgé to follow up with a real, local market example that shows the potential knock-on effects open banking can have:

"Here is one example: A lot of people receive their payroll on a debit card in Mexico, but they withdraw all their cash on payday... So if you understand better their needs and offer them appealing products you can create "Economic Inclusion". For me, that creates a better use of their financial products."

Singapore



Singapore's drive to implement open banking-style features seems to be at odds with how the banking economy works there. MAS, the regulator in Singapore, is aligned to a clear vision: Innovation that creates resilience in the banking system, and so 'disruption' from open banking might be a way off.

MAS's way of doing things is slightly different to the FCA in the UK - normally the MAS will create a new system that banks and other FS companies could use, but they don't mandate companies to use them. Examples include the KYC facility 'MyInfo' or the new real time global settlement standard 'Fast' - this is a markedly different approach to the UK as increasing competition isn't the main driver for regulatory pressure.

It might be that the Monetary Association of Singapore creates API recommendations that the banks can choose to use or not.

New Zealand

New Zealand is doing things a little differently. The local banks, having seen the advantages of open banking in other markets, have all come together to instil open banking practices without the regulator stepping in. This pilot that includes account information and payments (the same as the UK) will be executed under the guidance of 17 ‘participant and member organisations’ identified as the working group.

A subset of that working group, around six companies are piloting the framework: ASB, BNZ, Datacom, Paymark, Trade Me and Westpac.

The development and testing of these new API specifications will be over a five-phase process that is largely based on the UK’s open banking API standards. Payments NZ, the governance body that is pushing most of the forward action into open banking in New Zealand, has outlined the reasons behind their enthusiasm for open banking in a statement by Steve Wiggins, CEO of Payments NZ:

“The drivers for our work reflect our high level of interoperability and track record of industry collaboration. Specifically, the drivers are to enhance simplification and consistency of delivery; increase the speed to market for new tools and offerings; enhance services; and provide easier partnerships.

“A shared API framework, that is ‘right-sized’ for the New Zealand market, will significantly increase efficiencies and enable new innovations to get to market faster. It is vitally important the safety, security and integrity of the system is maintained as the industry advances this work.”

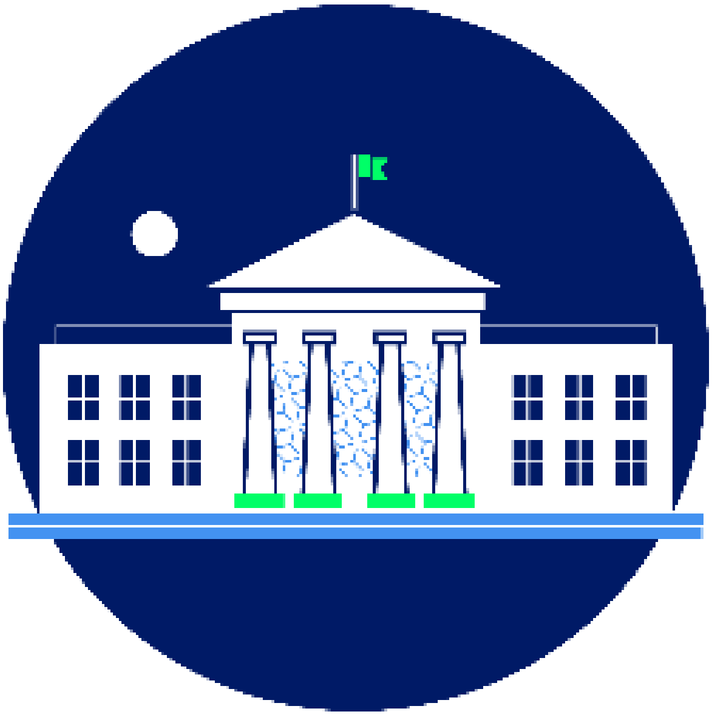
Conrad Morgan, CIO at Paymark, one of the companies piloting the framework, said:

“New Zealand has a successful history of electronic payments and digital banking. New Zealand was one of the earliest adopters of electronic payments and Kiwis took to their EFTPOS (Electronic Funds Transfer at Point of Sale) cards in a huge way. Kiwis love technology and have taken to all forms of digital banking over the years.

“Today, we’re taking the learnings from those early successes and working on an all-of-industry approach to deliver the next wave of digital banking and payments with banking standards. The banks and other industry participants are building the API standards and interfaces that enable banking in New Zealand.”

Interestingly open banking is just one of six new initiatives the country’s regulators are looking into as well as 365-day service availability, proxy identifiers, speeding up payments, request to pay, and the ISO 20022 payments messaging format. These six initiatives will likely lay the foundations of an incredibly versatile, interoperable system that increases innovation and competitiveness in the market.

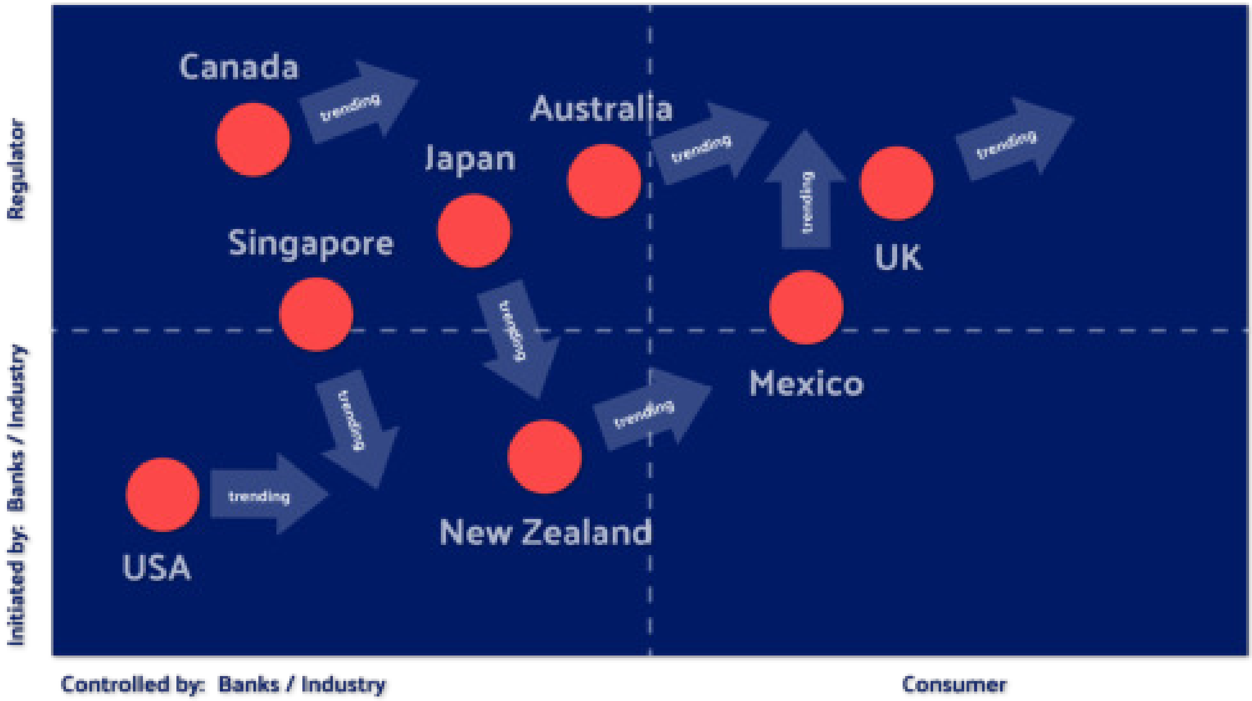
United States



One of the largest markets in the world and arguably the market with the largest penetration of open banking-style products such as Mint, an early aggregator that was acquired by Intuit for $170m in November 2009. But the United States are yet to reach a consensus on what an official open banking regulation might look like. As they have traditionally been market lead and not regulation lead in innovation, we would assume that open banking, or a version of it, would have to be spearheaded by the banks and not the regulator to stick. How likely that is to happen any time soon, we're not sure.

Summary

Fig.1



Open banking has many different forms and can be implemented in many different ways. From the interviews we have conducted and conversations we have had there seems to be a simple formula that leads to open banking being taken up.

Cloud computing capability. As open banking requires a level of technical standard, cloud computing is a first indicator of these features coming to life.
Better privacy powers. Allowing customers to have more control over who and where their financial data is put to use is a data empowerment agenda not a financial services agenda. It's an important stepping-stone for open banking and one that can't really be missed out.
The need to increase competition. In countries where there are a small number of banking providers dealing with the majority of the population's banking services it is important to keep them competitive.

Open banking seems to have differing instigation and control models around the world. In the UK it is instigated by the regulator but controlled by the user, in New Zealand the banks have instigated the move. This is summed up neatly in Fig. 1.

Speaking with Gavin Littlejohn, CEO of FData, it was clear that he had an optimistic view of the global future of open banking:

“One of the more interesting developments is the dawning realisation that the market will be more robust and competitive if we deliver open banking in a standardised way, allowing firms to compete in the business models and not in the plumbing. The risks and costs grow exponentially the more variations we add. There is a very real conversation going on now amongst markets about sharing best practice and working towards a global standard and standards process in open banking.”

Whatever the reason for starting, who the ongoing control will benefit and what the standards will be enforced, we have seen no evidence during the process of compiling this that open banking isn’t here to stay. It is fair to say that the early practical developments in a regulator-mandated environment will probably take place here in the UK. It is also likely that these developments will take place with at least one eye on the chinese experience (more on this in another version of this report).

Meanwhile, if you want more information on how Bud is using open banking services to help bank customers and customers of other large institutions, please get in touch.

P.S.
Other countries to keep an eye out for on the open banking circuit are India, Russia, Brazil, Columbia, China, Malaysia and a few Central and Eastern European Countries. We’re working on it & will keep you posted.

This report is the first in a series.
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