OPEN BANKING IN CANADA: OPPORTUNITY KNOCKS
THE ADVENT OF OPEN BANKING HAS PEOPLE IN MANY NATIONS WARY, AND CANADA IS NO EXCEPTION:

Our survey shows that while three-quarters of Canadians are not interested in it at this early stage, **NINE IN TEN** are concerned about the privacy of their financial data, and most do not trust large tech companies with that information.
At the same time, most Canadians do trust their banks. Given that Open Banking is coming, Canada’s banks have a **golden opportunity** on their hands. But they need to seize it.

### KEY FINDINGS

**Canada’s banks are widely trusted**, in part thanks to their prudent approach to risk that saw them weather the 2008-09 global financial crisis. They should use this trust element to leverage Open Banking’s opportunities.

When it comes to Open Banking – which is predominantly about sharing financial data – **caution can work against banks’ interests**, which is why adopting an innovative mentality could be their biggest challenge.

Although **nine in ten Canadians** say concerns over the privacy of their financial data make them wary of Open Banking, 71 percent say better security measures would help to address those issues.

The survey also shows **younger Canadians** are more interested in Open Banking, with **one-in-three respondents** indicating they would allow third-party providers (TPPs) to **access their financial data** if it meant they received a better deal or other benefits. A similar proportion are prepared to let non-financial firms manage or access that information.

**To succeed, banks must work with fintech providers and others** to develop **Open Banking ecosystems** that will see them become central hubs in their customers’ lives. If banks don’t, others will – and banks will run the risk of losing that critical customer stickiness and loyalty.
TO THAT END CANADA’S BANKS SHOULD:

1. DEVELOP an Open Banking strategy.

2. DETERMINE where they want to be in the ecosystem: do they want to be the central hub that people come to, and through which they access a range of connected services, or do they want to be utility players with a role in a greater ecosystem run by third parties?

3. DECIDE which APIs they need, how they are going to govern and control these APIs, and determine which partners they should work with in order to use these APIs.

The good news for banks is that **59 percent** of their customers trust only them with their financial data. This gives banks a significant advantage, which they should use to drive Open Banking to their benefit.
OPEN BANKING IS COMING TO CANADA

In January 2019, the Canadian government launched an Open Banking consultation to measure the public’s appetite for sharing financial data with third-party providers (TPPs). The committee running the consultation is expected to issue its report later this year.

THE AREAS THE COMMITTEE WILL ADDRESS INCLUDE:

- **How Open Banking** will help Canadians;
- **How risks** should be managed;
- **How much** regulatory input the government should have.

The committee’s recommendations will largely determine the form Open Banking will take, with the Department of Finance to decide on the final shape of regulations or guidelines.

Despite the concerns of the banking sector over allowing TPPs to access customer data, Open Banking is on its way. The key questions facing banks are what to do and when to do it.

WHAT IS OPEN BANKING?

At its heart, Open Banking is about data. It is a process in which customers authorise their banks to share their financial data with registered TPPs, and also – for multi-banked customers – amongst banks.

Ecosystems can be built on this data through application programming interfaces (APIs) – the software that connects banks with TPPs – and bring together financial and non-financial services on new platforms.

Banks are mistaken if they believe Open Banking isn’t for them or feel they have too much on their plate to prepare for it. Ignoring Open Banking’s pending arrival is no solution, and neither is viewing it solely as a threat. Indeed, in an era of increased competition and declining traditional revenue streams, Open Banking provides an opportunity to generate new revenues that put banks’ services at the heart of their customers’ lives. Those that move first have the potential to reap the rewards.
HIGH POTENTIAL DESPITE LOW AWARENESS

On a global basis, Canada’s banks are well-regarded. They are trusted and generally liked, and their prudent (some would say conservative) approach to risk meant they weathered the global financial crisis.

But this traditionally cautious mindset does not suit the brave new world of Open Banking. Why? Because challenger banks and fintech firms will emerge seeking to take market share with cutting-edge products, tailored to specific product or customer niches. If banks fail to move first – or at least fail to be prepared from the outset – they could soon find themselves left behind. In the worst-case scenario, banks will be the holders of a range of funding accounts, with customers transacting and accessing their financial information elsewhere.

In our view, therefore, the most significant challenge for Canada’s Big Five banks will not be whether they get to grips with the technology or regulatory requirements that underpin Open Banking; it will be whether they can adopt an innovative mentality to ensure that what they offer matches what their customers want – and meets or betters what their competitors bring to the table.

That brings the conversation around to customers. Open Banking is ultimately about satisfying their evolving demands in an era of always-on, hyper-relevant services. So far, expectations around banking have not changed at the same pace they have in other sectors, such as retail or telecommunications.

Our survey on Canadian customers’ attitudes shows three-quarters of respondents say they are not interested in Open Banking, with 91 percent citing concerns about the privacy of their financial data.

Those numbers might cause some banks to think that they can ignore Open Banking. That would be a mistake.

This perceived lack of customer interest is similar to that seen in other parts of the world and reflects a lack of awareness of Open Banking as a concept – not surprising given its novelty.
DELVING DEEPER INTO THE SURVEY’S FINDINGS SHOWS THIS WILL CHANGE:

ALTHOUGH...

89% had at least one concern over Open Banking,

71% said additional security measures (such as authentication passwords, biometric technology or real-time analysis of payments) would help to address those concerns.

ONE-IN-FIVE

would share bank account data with non-banking third parties if it meant they would get a better deal or other benefits – with men about twice as likely as women to do so.

Younger respondents were far more receptive than their older peers:

ABOUT

ONE-THIRD

of those aged 18-44 were happy to share that information with non-banking third parties; the average figure for those aged 45+ was less than half that.

There is also a distinct age-divide when it comes to allowing non-financial firms to manage or access financial information, including investment data:

ONE-THIRD

of those aged 18-34 would do so versus only around 5 percent of those aged 55+.

Similarly, 64 percent of those older than 55 would trust only their bank with such information, compared with 56 percent of those who are younger.
OPEN BANKING AROUND THE WORLD

Accenture has carried out Open Banking surveys in several countries in addition to Canada, including in Australia and Hong Kong.

Respondents in all three places listed data privacy fears and mistrust of big tech companies as their first and second concerns.

For their part, Hong Kong respondents are more trusting of large tech companies with their financial data (see chart), and far more optimistic that Open Banking will bring value – perhaps due to their higher awareness of next-generation banking services in Mainland China, or dissatisfaction with existing banking services:

just **25%** felt Open Banking would not deliver enough value to warrant changing their behaviour, versus

- **44%** of Canadians
- **47%** of Australians

All three surveys show most respondents are, as yet, **unwilling to embrace Open Banking**, and that younger cohorts are more receptive to it.

In all three places, THREE-IN-FIVE say they trust only their banks – not other institutions – when it comes to managing their financial data.

That puts banks in pole position when it comes to driving and educating the market on Open Banking services, and building on their existing client connections before TPPs look to disintermediate.

---

**What would your main concerns be with Open Banking?**

<table>
<thead>
<tr>
<th>Concern</th>
<th>Canada</th>
<th>Hong Kong</th>
<th>Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td>I am concerned about the security and privacy of my data</td>
<td>62%</td>
<td>71%</td>
<td>64%</td>
</tr>
<tr>
<td>I don't trust large companies with my banking data</td>
<td>51%</td>
<td>43%</td>
<td>56%</td>
</tr>
<tr>
<td>I don't think it will deliver enough value to drive a change in my banking behaviour</td>
<td>44%</td>
<td>25%</td>
<td>47%</td>
</tr>
<tr>
<td>I don't understand the benefits enough to provide TPPs with my financial data</td>
<td>40%</td>
<td>42%</td>
<td>53%</td>
</tr>
</tbody>
</table>
THE REGULATORY CONUNDRUM

As Canada determines its approach to implementing Open Banking, it is worth outlining how it unfolded elsewhere:

The UK introduced its Competition and Market Authority (CMA) regulations to encourage higher levels of account switching and regulated the design of APIs to ensure standardisation. On the one hand, this made it easier for TPPs to connect to banks; on the other, it stifled innovative approaches.

This can be contrasted with the market-driven approach in Singapore where the banking sector drove the changes, bringing new products, services and marketplaces to Singaporean customers. The industry has worked closely with the regulator to ensure the market’s needs are met.

New Zealand’s approach was more collaborative: it set up a proof-of-concept pilot that involved banks, the regulator, fintech firms and software providers such as those involved in payroll and accounting. The result: agreed standards for APIs that allow interconnectedness, and innovation, and a proof-of-concept that could iron out any issues prior to going live on a broader scale.

The challenge is finding a balance between a top-down regulatory approach, a light-regulation route, and a collaborative model.

In our view, Canada would benefit from a New Zealand-like collaborative approach and complete clarity around API standards to ensure the best chance of interoperability.
Trust is therefore the ace in Canadian banks’ hands, so it is worth noting that younger customers are far more willing than their older peers to trust TPPs (including online retailers and large tech companies) with their data as much as they trust their bank – should those TPPs offer additional benefits for doing so: 26 percent of 18-34s and 20 percent of 35-44s would do so versus less than 5 percent of those who are older (see chart).

Would you trust a third-party as much as your bank with your financial data if it could provide you with added benefits? Please select all that apply.

<table>
<thead>
<tr>
<th>Would you trust a third party as much as a bank with financial data:</th>
<th>18-34</th>
<th>35-44</th>
<th>45-54</th>
<th>55-64</th>
<th>65+</th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>ANY (NET)</td>
<td>12%</td>
<td>26%</td>
<td>20%</td>
<td>7%</td>
<td>3%</td>
<td>1%</td>
<td>17%</td>
</tr>
<tr>
<td>I would trust a retailer/merchant (e.g. Amazon with my data)</td>
<td>8%</td>
<td>17%</td>
<td>13%</td>
<td>4%</td>
<td>2%</td>
<td>1%</td>
<td>11%</td>
</tr>
<tr>
<td>I would trust a large technology company (e.g. Google or Facebook) with my data</td>
<td>4%</td>
<td>9%</td>
<td>8%</td>
<td>3%</td>
<td>&lt;1%</td>
<td>-</td>
<td>7%</td>
</tr>
<tr>
<td>I would be willing to give access to a startup company</td>
<td>3%</td>
<td>7%</td>
<td>4%</td>
<td>1%</td>
<td>1%</td>
<td>&lt;1%</td>
<td>4%</td>
</tr>
<tr>
<td>I only trust my bank with my financial data</td>
<td>70%</td>
<td>58%</td>
<td>59%</td>
<td>73%</td>
<td>76%</td>
<td>86%</td>
<td>68%</td>
</tr>
<tr>
<td>I don’t know</td>
<td>16%</td>
<td>14%</td>
<td>18%</td>
<td>19%</td>
<td>17%</td>
<td>11%</td>
<td>13%</td>
</tr>
<tr>
<td>I prefer not to answer</td>
<td>2%</td>
<td>2%</td>
<td>3%</td>
<td>1%</td>
<td>3%</td>
<td>2%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Base: All (n=1565)
All of this indicates that – as in other countries – the demand for Open Banking solutions will climb in the coming years, particularly among younger customers who are more receptive to the concept and the benefits it can bring. It is reasonable, too, to expect that older customers will warm to Open Banking as it becomes part of daily life and they see operators providing the levels of security that they would expect to be part of the solutions.

The established banks should expect that challenger banks and fintech firms will rely on changing customer perceptions as they seek to upend the dominance of the Big Five. **How, then, should they respond?**

### OPEN BANKING AND DEMOGRAPHICS

Accenture research of banking and insurance customers in more than two-dozen countries found that 23 percent of them fell into the Pioneer category – one of four groups identified.

Pioneers are digital-savvy, risk-taking consumers who are mostly under 50, and who are keen to engage with financial providers using mobile devices. They are also far more open to sharing data than the others: 95 percent of Pioneers said they were prepared to share data in return for advanced services.

Our research also found that Canada has a much lower share of Pioneers than the average: just 11 percent of the 2,000 customers surveyed here fell into that category. Canada also has a far higher proportion of traditionalists, who are mostly over-55 and who are tech-avoiders: 40 percent of Canadians fell into that category versus 21 percent globally.

Yet Canada’s banks should not be complacent: the UK has shown that millennials are far more open to engaging with a compelling customer experience.

**The UK’s three most popular mobile-only digital challenger banks are**

- **Monzo**
  - 1.275m users
- **Revolut**
  - >1m users
- **Starling**
  - 320k users

A recent survey showed a clear demographic bias: take-up of these banks was three times more likely among under-37s (millennials and Generation Z) than their older peers.

**The effect is more pronounced for the very young:**

While just 6% of those aged 55-65 had a challenger bank account,

26% of Generation Z respondents did.

There are lessons, too, in what customers said they liked about the challenger banks: convenience, usability and personalization.
OPPORTUNITY ABOUNDS, FROM RETAIL TO SMEs

The answer is for banks to ensure that what they offer becomes an integral part of their customers’ daily financial experience. In countries like the UK, for instance, it already is. Take HSBC: its Connected Money app lets its customers see their bank accounts in one place – whether those are with HSBC or its rivals.

APIs that underpin such services constitute the first step in aggregating financial information, adding value for the customer and for the bank. The customer benefits from having, say, their bank account information, insurance details, mortgage, loans, investment and car data in a single place, with the potential ability to find better deals.

That links to another finding of our Canadian survey, which showed more than half of the youngest cohort, and sizeable numbers in the next two cohorts, saw benefits in providing their data to a TPP (see graphic).

**What incentives/benefits would help you trust/provide access to a third-party with your banking data?** Please select all that apply.

<table>
<thead>
<tr>
<th>INCENTIVES/BENEFITS TO HELP TRUST/PROVIDE ACCESS TO A THIRD-PARTY WITH BANKING DATA:</th>
<th>AGE</th>
<th>GENDER</th>
</tr>
</thead>
<tbody>
<tr>
<td>ANY (NET)</td>
<td>18-34</td>
<td>35-44</td>
</tr>
<tr>
<td>To see all of your financial information in one place</td>
<td>54%</td>
<td>41%</td>
</tr>
<tr>
<td>To provide tailored offers like a better mortgage rate or higher savings interest rate</td>
<td>25%</td>
<td>20%</td>
</tr>
<tr>
<td>To see your credit score or apply for credit more easily</td>
<td>26%</td>
<td>14%</td>
</tr>
<tr>
<td>To view your bank balance when making purchase decisions</td>
<td>20%</td>
<td>14%</td>
</tr>
<tr>
<td>The ability to combine non-bank loyalty schemes with your banking products</td>
<td>15%</td>
<td>13%</td>
</tr>
<tr>
<td>Streamlined (i.e., faster) process when applying for new products or services</td>
<td>16%</td>
<td>9%</td>
</tr>
<tr>
<td>None of the above</td>
<td>29%</td>
<td>39%</td>
</tr>
<tr>
<td>I don’t know</td>
<td>15%</td>
<td>18%</td>
</tr>
<tr>
<td>Prefer not to answer</td>
<td>2%</td>
<td>2%</td>
</tr>
</tbody>
</table>

**Base: All (n=1565)**
The opportunities go beyond just retail. Globally, small and medium enterprises (SMEs) and corporates are also important Open Banking markets. Such firms value being able to see aggregated services in one place, such as finance-related information, or being able to integrate receipts, payments and orders automatically into their accounting system.

Those who own these ecosystems can analyse vast amounts of data to generate further revenues. Should banks take ownership, they could work with other providers to cross-sell or up-sell products, services and insights that customers value.

Banks and businesses in other countries have shown how embracing Open Banking can bring a far richer and broader ecosystem with product-driven marketplaces that meet customer needs.

**Take New Zealand-based bookkeeping platform Xero:**

it built a value chain around time-poor SMEs that incorporates automated digital solutions such as payments, reconciliations, reverse factoring, payroll, invoicing, liquidity forecasting and more – **HELPED BY 700 INTEGRATED APPS.**

For its part, Singapore’s DBS bank has used Open Banking to try to own the city-state’s car marketplace with an ecosystem that covers the full range of vehicle needs for its retail clients – from finding a car to financing its purchase, insuring it and repairing it.⁹

The solution is not for banks to develop these areas alone – most lack the expertise to do so – but to work in partnership with fintech firms to create an ecosystem and associated offerings that customers will value for the increased choice and utility they bring. The DBS example shows one way banks can do this – by creating a platform that plays a central role in an array of financial and non-financial transactions. But banks can also work with fintechs to create white-labelled services, from which the bank then earns a revenue stream. The decision on which route to take flows from the bank’s strategic analysis that determines where in the broader ecosystem it sees itself best-placed to operate.
The high levels of trust and satisfaction Canadians have in their banks mean most would not move or close their accounts. But banks should not be complacent and assume this is good news.

WHY?
Because keeping an account with an established bank does not preclude customers from opening additional accounts with challenger banks that provide higher-quality offerings than mainstream players.

In other words, failing to get involved with Open Banking brings the risk that customers will move their transactional behavior to smaller, more aggressive banks. Early-mover advantage would mean these challenger banks would hold their data and transactional information, which is where the value lies. Should established banks do nothing, or not do enough, they could be left holding low-information funding accounts with transactions carried out elsewhere.

As traditional banking revenues decline, the value of accounts will increasingly lie in the data that they hold about customers’ needs and spending habits. The established banks must ensure customers need them for more than basic account services. Otherwise they risk disintermediation: the point where they are cut out of the value chain.

AVOID COMPLACENCY AND ACT NOW
STEPS IN THE RIGHT DIRECTION

Ahead of the committee’s report, Canada’s biggest banks have taken steps to prepare for Open Banking: Royal Bank of Canada, for example, has published five APIs to date. At the same time, the other large banks are working on their API strategies, with background efforts underway to ensure API platforms are ready when Open Banking is introduced.

That means when regulation does come the main banks will not be scrambling to develop APIs – as has been the case in some countries. At most they should need only to tweak what they have developed.

So far, so good, but the real challenge is ensuring that what they have built alone or with partners matches what customers want, and that it matches or exceeds what challenger banks and fintech firms will bring.

POSITIONING FOR SUCCESS

Banks must decide how to position themselves for Open Banking in the face of what will surely be highly disruptive competition. There is no one-size-fits-all approach, and banks must decide where their strengths lie in the broader ecosystem, and how to make their offerings meaningful to their customers.

Should the established banks fail to embrace Open Banking, they risk harming their profitability as traditional revenue streams decline. Open Banking provides an array of alternative sources of revenue on both the retail and the SME side.

To succeed in this new environment, banks should work with partners to build offerings that previously they would have been unable to bring to market. In this way they can use Open Banking to cross-sell and up-sell, adding revenue streams to their operations and adding value to their customers’ daily lives.
REFERENCES


2 Royal Bank of Canada, Toronto-Dominion Bank, Bank of Nova Scotia, Bank of Montreal and CIBC.

3 The online survey questioned 1,565 people between 1-4 February 2019. It was carried out by Leger, the largest Canadian-owned market research and analytics company.


5 1 in 4 Millennials and Gen-Zs are using Challenger Banks with Monzo the most popular, CREALOGIX (December 6, 2018). See: https://crealogix.com/uk/news/crealogix-research-1-in-4-millenials-and-gen-zs-are-using-challenger-banks-with-monzo-the-most-popular/

6 Loosely speaking, millennials are those born between 1980-2000, while Generation Z are those born after 2000.


8 See Xero’s website for more: https://www.xero.com/nz/marketplace/app-function/

9 See DBS’s website for more: https://www.dbs.com.sg/personal/marketplace/car/

ABOUT ACCENTURE

Accenture is a leading global professional services company, providing a broad range of services and solutions in strategy, consulting, digital, technology and operations. Combining unmatched experience and specialized skills across more than 40 industries and all business functions—underpinned by the world’s largest delivery network—Accenture works at the intersection of business and technology to help clients improve their performance and create sustainable value for their stakeholders. With 477,000 people serving clients in more than 120 countries, Accenture drives innovation to improve the way the world works and lives. Visit us at www.accenture.com.