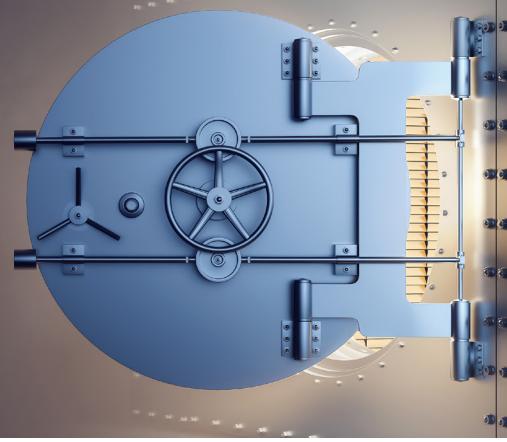




## Open Banking and the Future of the Canadian Financial Services Industry: Turning Threats into Opportunities



April 2021

### Open Banking is changing the face of the Canadian financial services industry

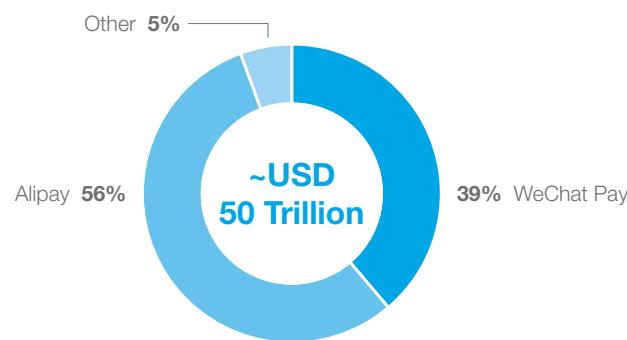
Consumers increasingly expect online banking services to rival the services they can access in branch. *Open Banking* or *Consumer-Directed Finance* – which officially recognizes consumers' ownership over their financial data – has the potential to drive innovations in financial technology that will vastly improve the customer experience. Open Banking policy is driven by, and beneficial to, consumers, but it has the potential to seriously disrupt the financial services industry. As fintechs and tech giants begin entering the market and developing products and services based on Open Banking APIs, the Canadian banking oligopoly will begin to erode.

Absent immediate and decisive action by incumbents, there is a significant risk that traditional financial institutions may eventually be reduced to commoditized providers of financial services, competing with other incumbents solely on price in a race to the bottom. For example, Open Banking enabled applications could drastically reduce the need to shop around for mortgages and loans; consumers could simply share their credit information with a third-party app that provides them with a list of quotes from major financial institutions from which they could simply select the lowest rate. Despite posing a threat to incumbents, fintechs can also serve as allies, helping them better serve their customers while defending against the more serious competitive threat posed by the tech giants.

### Tech giants are capitalizing on the shift to consumer-directed finance to penetrate the financial services market

Worryingly, most Canadian financial institutions lack the infrastructure and / or the expertise needed to compete effectively with tech giants like Amazon and Facebook, who have both the technological and financial resources to displace incumbents. Google has recently entered the consumer banking space by allowing consumers to open checking accounts and transfer money digitally through the Google Pay app and Apple partnered with Goldman Sachs in 2019 to launch the Apple credit card. In China, an early adopter of Open Banking, tech giants like Tencent and Alibaba have already begun to dominate the financial services market with integrated platforms such as WeChat Pay and Alipay.

*Chinese Mobile Payments Market Share by Transaction Value*



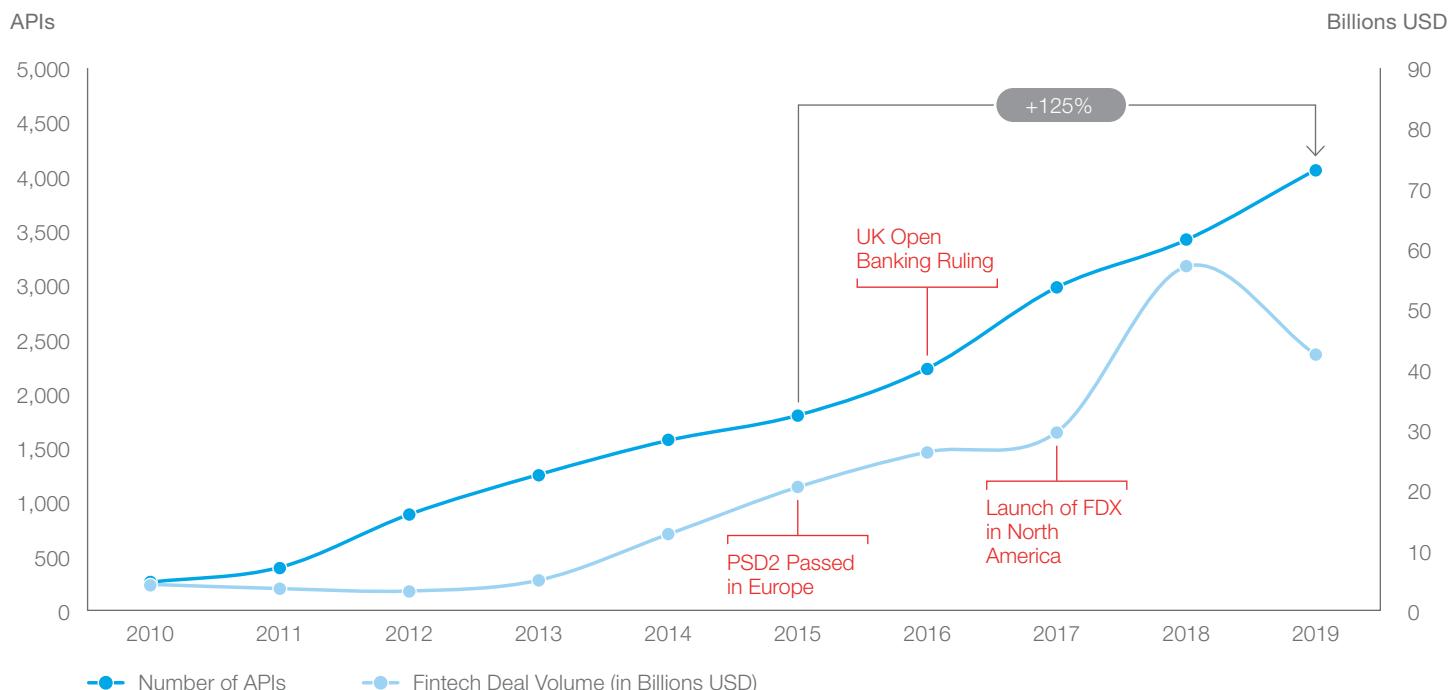
Source: Bloomberg, iResearch data as of June 30, 2020

In addition to looming competition from Western tech giants, fintechs also threaten to disrupt the industry by chipping away at the consumer-facing link in the financial services value chain by providing innovative services built on Open Banking APIs (including account aggregation, robo-advisory, automated accounting etc.). This shift is particularly problematic in an era of near-zero interest rates putting pressure on lenders' bottom lines. While fintechs may appear to threaten incumbents, they can also serve as perfect partners for financial institutions looking to remain competitive in the face of potential competition from tech giants. By providing fintechs with access to an API ecosystem and creating mutually beneficial partnerships, financial institutions can leverage their expertise and agility to bring innovative products and services to market faster. Speed to market is key because Open Banking adoption, as well as the competitive pressures that come with it, is intensifying and incumbents should act quickly.



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### Growth of Financial Services APIs and Fintech Deal Volume



Source: Crunchbase, Programmable Web, Accuracy Analyses

### The Canadian Open Banking ecosystem is still in its infancy, incumbents should learn from experiences abroad to help prioritize the most promising use cases

The secular digitization trend in the financial services industry was accelerated by the COVID-19 pandemic, as well as the ensuing lockdowns, which forced consumers to increasingly rely on digital banking as bank branches around the world were shuttered. According to a recent report by TrueLayer, a UK-based Open Banking data aggregator, use of their Payments API grew 832% between March and July 2020. Further, the average transaction value of those payments more than doubled since last year, while usage rates have yet to fall off. The same report analyzed millions of API calls and found that, as of 2020, PFM (personal finance management) was by far the most popular Open Banking use case, representing nearly a quarter of all API calls. PFM includes applications such as account aggregation, smart budgeting and auto-saving. PFM applications are likely the most popular use case because they're the easiest to implement, but there are number of emerging use cases in proptech, insurtech and regtech that promise to further revolutionize consumer banking.

### Open Banking API Calls by Use Case – Europe (% of API Calls)



Open Banking not only makes retail banking more convenient for consumers, it also provides SMEs with a previously inaccessible suite of time saving digital tools that help them stay competitive. The TrueLayer report shows that nearly 10% of all API calls for related to automated accounting applications. By automating accounting and other back-office tasks, entrepreneurs can spend more time on their businesses and less money on professional services.

Source: TrueLayer



## Canadian incumbents have begun preparing for the shift towards consumer-directed finance by forging partnerships with leading fintechs

A small group of large financial institutions, commonly referred to as the Big 6, has long dominated the Canadian financial services value chain. Other industry players including insurance companies, wealth management firms, credit unions and payment processors have successfully competed with the Big 6 in certain verticals, but none have materially disrupted the industry across the value chain. While the oligopolistic nature of the industry has helped Canadian banks outperform their European and American peers, consumers have gotten the short-end of the stick. Open Banking promises to change this by opening up bank data and processes to third parties who can leverage it to create innovative products and services. Most incumbents lack the expertise, technological infrastructure and operational agility to build competitive products and services internally. As such, most incumbents are forced to choose between acquisitions and partnerships when implementing Open Banking use cases, with the latter being the preferred choice for most. Canadian industry leaders have already established partnerships with a number promising fintechs across the value chain in anticipation of the looming paradigm shift.

### Canadian Fintech Partnerships

 Desjardins + 

 +   


 Scotiabank + 

 +   


 NATIONAL BANK +    


 +   


Source: Luge Capital, Company Websites

In 2019, Desjardins announced a partnership with Hardbacon, a personal financial management and account aggregation application, in order to drive traffic to Desjardins' online brokerage service. In 2017, RBC collaborated with Wave to provide their SME clients with a suite of accounting, invoicing and financial management tools. These mutually beneficial partnerships help incumbents by allowing them to offer improve their service offering and stay competitive without substantial investment. While the existing incumbent-fintech partnerships are effective, they are far from sufficient. Customers' needs and expectations are constantly evolving and incumbents must continuously innovate to ensure they can keep up with the rapid pace of change. If they don't, the tech giants will.



## Open Banking and the Future of the Canadian Financial Services Industry: Turning Threats into Opportunities



Accuracy has worked with global leaders across the financial services industry on a wide-range of engagements.



Our experts have both the industry experience and functional expertise to help your organization overcome the challenges posed by the rise of Open Banking and turn threats into opportunities.

### Selection of Financial Services Industry Clients



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Accuracy Partners and professionals are available to discuss your needs and design an appropriate solution with the relevant experts.