Catching the Open Banking wave

Super apps and the open data economy

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Estimated $416 billion in banking revenue at stake in the transition to an open data economy

Open Banking initiatives and regulations are maturing rapidly, clearing the way for a shift towards an open data economy—a potentially vast new marketplace characterized by platforms and ecosystems that take advantage of enhanced flows of customer data to offer these customers highly relevant, personalized products and services.

Our analysis indicates that this market could be worth as much as $416 billion for the banking and other financial services players that succeed in establishing a role for themselves in the winning ecosystems.

Though most countries are moving towards the open data paradigm, the speed and trajectory vary. In many markets, banks have become complacent about the threat Open Banking poses to their traditional business model. Yet when Open Banking takes off, growth is likely to be exponential and the skeptics may be left behind. Given the vast potential revenue that is at stake, the decision to pass over the opportunity—or even to wait and see how it unfolds—could be costly. Our new report looks at the capabilities leading banks are expected to prioritize for the open data economy as the danger of disruption grows.

Beyond the horizon, the Open Banking wave is picking up speed

Looking out to sea from the coastline on a calm day, it may appear that the ocean is still. Yet forces such as tides, wind, earthquakes, and underwater volcanoes and mud slides are creating the next waves that will break on the beach. Those waves forming in the deep water might not look like much at first, but they can build up massive force over time, and then inundate the landscape.

Likewise, when bankers look to the horizon, the Open Banking wave that forces such as regulation, disruptive competition and consumer uptake of new technologies are generating may be barely visible from the shoreline. Yet, like a hurricane creating a storm surge—long waves created far from shore that intensify as they get closer to the land—Open Banking could soon engulf banks that are not ready for it.

As regulation, business models and competitors mature, and as the potential becomes more apparent, the Open Banking wave is likely to gain momentum. Accenture research[1] shows that 76% of banks worldwide expect customer adoption and Open Banking application programming interface (API) usage to increase by 50% or more in the next three to five years. Many industry commentators believe 50% will turn out to be a conservative estimate.

This is just the beginning of a wider shift towards an open data economy, where companies across different industry and ecosystem boundaries will use APIs and platforms to connect customers to vast groupings of first- and third-party services and offerings—a development that promises to change the nature of competition in financial services.

The rapid growth of third-party providers

The number of third-party providers (TPPs) in the banking ecosystem is growing dramatically in most markets. Europe, for instance, has seen TPPs grow from around 100 to more than 450 in less than two years. Not only is the number of TPPs growing, but they are also looking beyond payments and transactional retail banking to the entire financial value chain.

More and more TPPs are targeting commercial banking, wealth management, insurance, investments and other more complex, high-value parts of the financial product stack. Following in the footsteps of Chinese 'super apps' such as WeChat and Alipay, the likes of PayPal[2] and Klarna[3] are taking the first steps towards building ecosystems that integrate features such as mobile payments, shopping, investing, savings, budgeting and crypto-capabilities on a single platform.

Accenture Research analyzed a variety of data sets covering 20 of the largest economies, which together make up more than 75% of GDP worldwide. Using this in conjunction with the findings of a global C-level banking survey conducted in 2020, we estimated (see About the Research on page 17) that as much as $416 billion of banks' total revenue will be at stake as the open data economy materializes over the next three years. This revenue is likely to be captured or defended by agile players—whether traditional banks or newcomers—that have recognized the opportunity, equipped themselves with the requisite capabilities, allied themselves with the right partners, and launched successful Open Banking initiatives.[4]

With such high financial stakes, it's not surprising that fintechs, neobanks, bigtechs and a range of non-traditional players are preparing to take on the incumbent banks in the looming battle for this potentially profitable market.

Despite the flurry of activity as these innovative newcomers jockey for position, many banks around the world have been slow to respond. Far from preparing themselves to lead in the unfolding open data economy, they have done the minimum to comply with Open Banking regulation. Their hesitance is perhaps understandable—the regulatory and technology landscape has yet to settle, funding for innovation programs is limited, and customer churn and loss of revenues due to Open Banking have not yet been material in most countries.

But the belief that banks can safely take a wait-and-see approach in this as-yet-undisrupted market is a dangerous one. It is based on the mistaken premise that banking growth and innovation will follow a slow and predictable linear path. Recent experience—such as that seen in the worlds of mobile and social media —suggests Open Banking is more likely to follow a trajectory of rapid if not exponential growth.

In some markets, the storm surge has arrived

We're already seeing the first signs of this dramatic trajectory in markets where consumers show high levels of digital readiness and where the regulatory environment is loosening banks' ability to lock in their customers. Just consider the brisk adoption of super-apps in Asia, or the rapid uptake of payments app Venmo in the US—from 10 to 40 million users in just two years.[5]

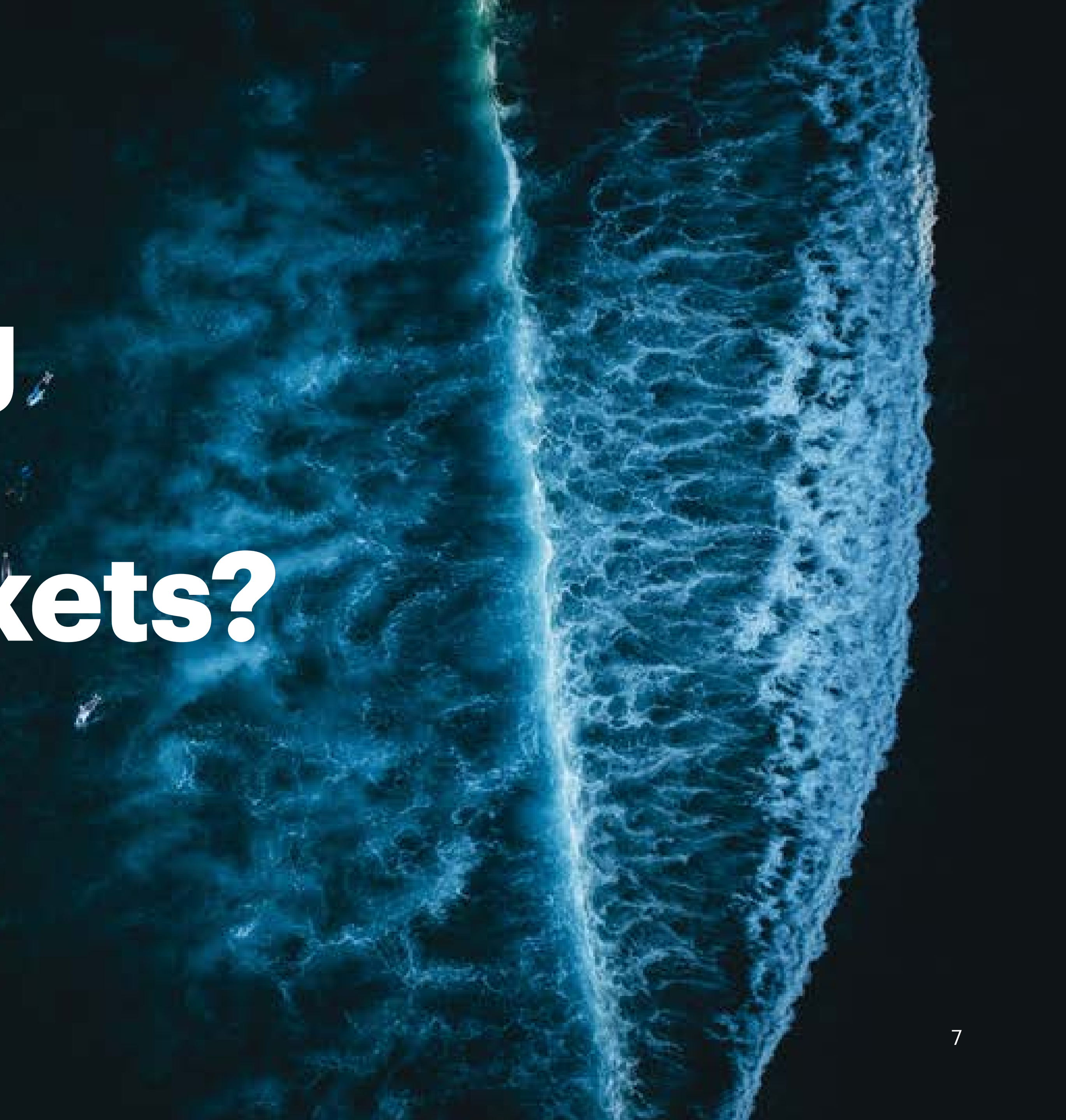
A critical enabler of the open data economy is the blurring of boundaries between industries. This makes it easier for any company with a large pool of consumer data—including major billers such as utilities and telecom operators—to compete for the revenue at stake. Consider the example of Italy's largest utility, Enel, which has partnered with the Swedish fintech, Tink, to launch an account aggregation solution.[6] Enel is also working with high-tech firm SIA to develop new mobile banking solutions.[7]

It's not only industry incumbents that are eyeing the opportunity, but also digital natives from sectors outside banking. Consider the examples of GoJek and Grab in Southeast Asia. Originally founded as ride-hailing platforms, both today offer a wide range of services from a single app. GoJek provides more than 20 on-demand services—covering transportation, payments and food delivery, among others—to over 170 million users.[8]

Banks that are not yet considering where they will play in the open data economy risk yielding the market to their more agile competitors. Around half of all consumers express a strong preference for integrated value propositions,[9] while eight out of the 10 companies with the world's highest market capitalization generate much of their revenue from the ecosystems they have created.[10]

There comes a point where banks must decide whether to catch the wave and use its energy for forward propulsion, or ride it out in the hope it does minimal damage. To maximize their opportunities in the evolving open data economy, leading banks should adjust their strategy to the waves generated by customers, regulators, technology infrastructure and competition in their markets.

Knowing that waves can bring change and excitement, or danger and destruction, leading banks are deciding today how to balance the risk and the reward of Open Banking. Our new research examines market readiness across these four pillars—customers, regulation, technology and competition—in Europe, North America, Latin America and Asia-Pacific to help banks chart their course for open data.



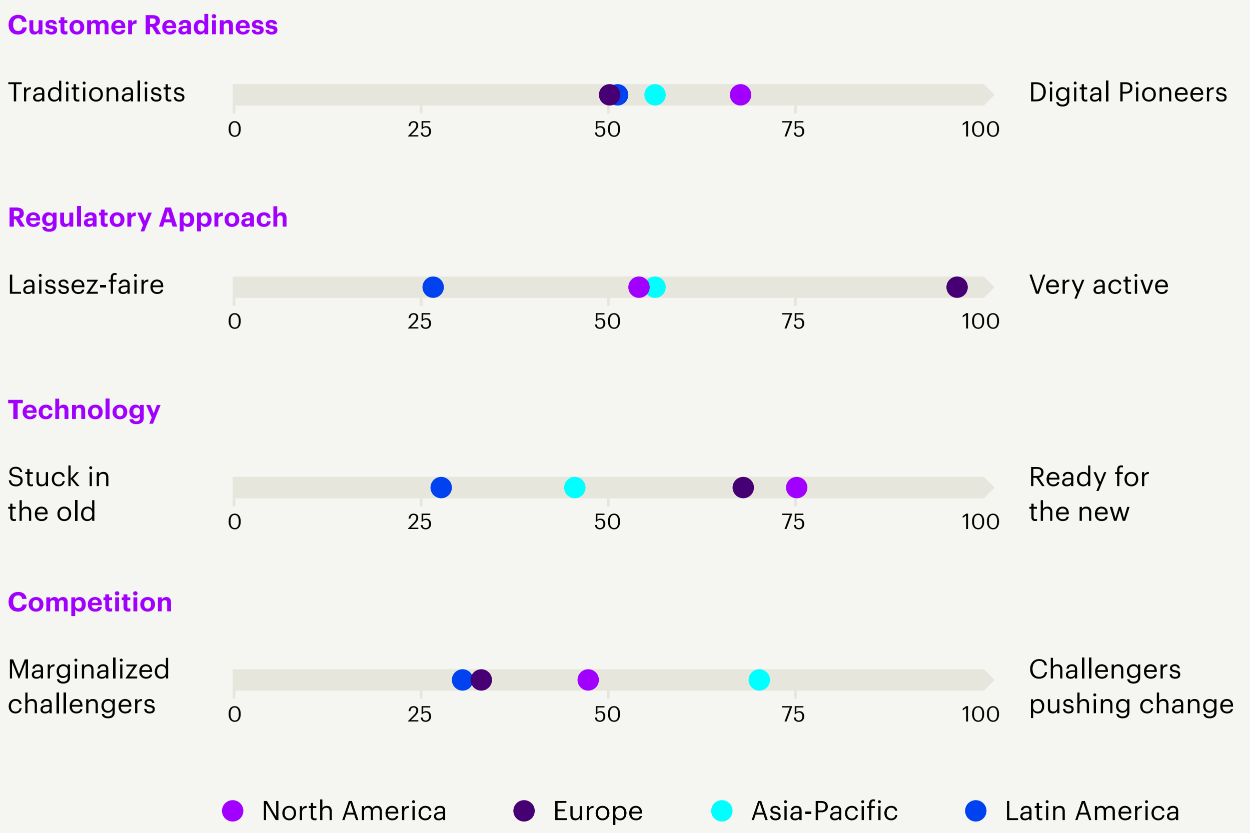
How will the Open Banking wave break in different markets?

The Open Banking wave will not break in the same way or at the same time in all markets due to the different regulatory, technological and competitive forces at work.

To better understand the regional nuances, as well as the capabilities banks will need to develop if they are to compete effectively in different territories, we analyzed market readiness in Europe, North America, Latin America and Asia-Pacific across four dimensions:

- **Consumer readiness:** Consumers' digital maturity and their openness to new digital and integrated banking services.
- **Regulatory approach:** The extent to which regulators are driving the transition to an open data economy. This dimension considers both Open Banking and data-related regulation.
- **Technology:** The maturity of banks' technology environments and of the market infrastructure.
- **Competition:** The extent to which new challengers are making inroads into the banking market.

Figure 1. Open Banking Readiness Across Four Key Dimensions



Source: Accenture Research

From our analysis, we grouped territories into three categories to understand which capabilities leading banks are expected to prioritize to enhance their competitiveness:

Consumer-enabled
These are markets where most consumers are digitally enabled and prepared to embrace new-age financial services and products. China is an example. Banks in these territories will likely prioritize data management capabilities to ensure that consumers receive value from sharing their data.

Regulator-directed
Markets such as the European Union and Australia, where consumer readiness is lagging despite a regulatory focus on open data and Open Banking. In these markets, security and customer consent management will be priorities.

Market-led
Markets such as the US, where incumbent banks and other members of the ecosystem are driving Open Banking in the absence of market infrastructure or a regulatory mandate. Here, creating ecosystem partnerships is expected to be the urgent imperative.

Core capabilities for the transition to open data

The open data economy will reach different shores at different times, and in diverse shapes and sizes. Each bank will prioritize its Open Banking investments according to conditions in its market. However, we anticipate that most banks will eventually master each of the following four capabilities on its journey to becoming a significant player in the age of the super app.

CAPABILITY 1

Data custodianship

Where consumer readiness is low despite a regulatory drive towards Open Banking, leading banks are focusing on overcoming customers' reluctance to share data.

To that end, these banks are giving their customers a transparent view into which parties have access to their data, for which purposes and for how long. But in addition to that, their authentication and digital identification mechanisms mean that banks could have a key role in enabling consumers to share data with other companies.

Our Global Banking Consumer Study suggests that banks could evolve naturally from being trusted custodians of customers' money into custodians of their personal data. Some 37% of consumers trust their bank "a lot" to look after their data, while less than 10% trust bigtechs or neobanks to do so.[11]

Trust in non-banks varies by market—Chinese consumers have more trust in neobanks than those in other countries—but banks are the most trusted in all markets surveyed.

Coupled with banks' well-established know-your-customer (KYC) processes and systems, this makes them a good fit for the role.

As data custodians, banks will oversee the seamless and secure sharing of customer data in a trusted and well-governed ecosystem that revolves around digital identity and consent. This gives banks an opportunity not only to advance their Open Banking strategy, but also to position themselves at the heart of the open data economy.

Banks will enable customers to control their data from a single point, as well as to view and manage the consent consumers and businesses give to TPPs. To do so, banks will need to invest in consent management solutions that broker the access that TPP apps and services have to customers' data via APIs.

Each bank is currently focusing on data custodianship independently, which is causing friction in the customer experience. Over the long term, we expect to see the rise of centralized consent stores where customers can see a transparent overview of the data they have shared across ecosystems. It might make sense for banks in each market to work together to pioneer such market infrastructure before regulators or competitors in other industries set the pace.

Key capabilities for data custodianship and consent management:

- **Credible, provisioned data that customers have consented to share.**
- **Processes and infrastructure that are guaranteed to safely store customers' data.**
- **Data stores, data identification and categorization algorithms, machine learning capabilities, and data audit mechanisms.**

CAPABILITY 2

Data management and analytics mastery

In markets where consumers are ready to embrace Open Banking and open data value propositions, banks should prioritize investments in data management and analytics capabilities. This will enable them to create more sophisticated pricing and risk models, as well as more compelling offerings for their customers.

Leading banks will focus on putting processes and systems in place to improve how they ingest and leverage data from external sources, such as Yelp, Google, satellite imagery and more. This will enable them to create new offerings that blend internal and external data to create value for customers.

Banks could consider appointing a data hunter to identify and vet new sources of data. This would help ensure that externally sourced data is fit-for-purpose and consistent with existing data, enabling easier integration. This role could span organizational silos to ensure that data is shared enterprise-wide and to negotiate more favorable terms with data providers.

A transition to an open data economy will also require that banks invest in advanced analytics tools that enable them to aggregate external datasets and customer-mapped data. Perhaps even more importantly, banks will need to drive a culture of data sharing and data-driven decision-making across the business, making use of machine learning and artificial intelligence to enrich insights.

Leading banks will invest in change management and training to support the democratization of data and encourage peer-to-peer collaboration. Techniques and structures such as storytelling, multifunctional teams and collaboration metrics can help to cement a more data-driven culture across the business.

Key capabilities for data management and analytics mastery:

- **A common framework for capturing, organizing, integrating and maintaining data.**
- **Data stores, data identification and categorization algorithms, machine learning capabilities and data audit mechanisms, all able to be integrated into digital customer propositions.**
- **Data catalogs that enable people across internal silos to discover and use data and the insights it enables.**

CAPABILITY 3

Agile partnership

Picking and attracting the right partners are essential to Open Banking success across all territories, but they assume even more importance in markets where regulators have taken a light-touch approach. Leading banks are focusing on creating robust processes and policies for onboarding partners and managing vast networks.

Banks may need to manage hundreds of partners —such as real-estate agents, legal-services firms, movers, auto dealers and more—in the open data economy. Not all of these partners will offer equal value, so leading banks will likely distinguish between tactical and strategic partners. The former may be managed through standardized agreements.

Relationships with larger and more strategic partners might be managed through dedicated teams and based on more customized contractual terms.

One bank we interviewed has a relationship management team that works with its 20 most strategically important partners and another team responsible for more than 100 tactical partners.

The onboarding process sets the tone for the long-term relationship. Leading banks will work closely with potential partners to understand their businesses, the data sources they offer or wish to access, and the integration challenges they may face. They will use this information to offer an accelerated onboarding process that streamlines time-to-value.

Measuring partner performance—in terms of the revenues they generate and the value they create for customers and other members of the ecosystem—is a fundamental component of successful Open Banking relationships. Leading banks focus on positive incentives rather than penalties to drive partner engagement.

An example of a useful key performance indicator (KPI) might be the level of activity on a bank-linked credit card before, during and after the launch of an ecosystem-related promotion. Leading banks share usage statistics through their APIs or partner portals with their strategic partners, but typically share the same information with their tactical partners only when contractually agreed.

Key capabilities for agile partnership:

- **An accelerated onboarding process that enables partners to rapidly start delivering value.**
- **KPIs such as revenue per partner and partner satisfaction.**

CAPABILITY 4

Trusted security

Security is a prerequisite for building a trusted Open Banking ecosystem. This is not merely a matter of compliance with data security regulation—it is also about building consumer confidence and encouraging adoption. API security, especially, has emerged as a priority in a world where hackers are targeting banks' APIs as a potential chink in their security armor.

An Akamai report in 2019 found that up to 75% of credential abuse attacks against the financial services industry targeted APIs.[12] Breaches often take place when poorly implemented API authentication allows attackers to assume legitimate users' identities.

To ensure API security, banks can track and monitor three security related KPIs:

- Successful authentication of customers.
- Successful authentication of technical-service providers.
- The number of fraudulent transactions.

One challenge banks are likely to face is to strike the right balance between security concerns and the customer experience. Many authentication mechanisms, if not thoughtfully implemented, may negatively impact the customer journey.

Key capabilities for trusted security:

- **Application delivery controller infrastructure, web application firewalls and dedicated API gateways.**
- **Bot mitigation to protect public APIs from misuse that can lead to data loss, fraud and skewed analytics.**

Ride the wave or brace for impact?

Changes in the regulatory, technology, competitor and consumer seascape are generating ripples on the ocean that will soon intensify and reach the shores of mainstream banking. The surf forecast doesn't show exactly when the waves will break, but it could be sooner than many banks imagine. Those that are not advancing Open Banking business models or preparing for the open data economy may miss the wave, or worse, be engulfed by it.

Tomorrow's leaders are looking to take the initiative in the shift towards the open data economy, building the capabilities they need to compete effectively with a new breed of API-driven and data-capable competitors. In so doing, they are not only protecting their existing revenues and market share from other incumbent banks, challenger banks, fintechs and new players entering from adjacent industries. They are also positioning themselves for significant growth.

The banks that are likely to thrive in the open data economy will be those that understand that it's not enough to own customer data or even to be a trusted custodian of money and information. The winners will be those banks that are able to aggregate data, extract insights from it, and use it to offer richer customer experiences.

Now is the time to decide whether to treat Open Banking as a potentially destructive tsunami or an opportunity to ride the surf break of a lifetime.

About the research

Accenture Research's Open Banking revenues estimate

The estimate of the impact of Open Banking on total banking revenues has been assessed by analyzing a data set of 20 major economies which together comprise more than 75% of world GDP.

The share of revenues estimated to be impacted by Open Banking has been calculated by combining a proprietary Global Banking Revenue Model, the results of a global C-level survey run by Accenture Research toward the end of 2020, and input from interviews with several subject matter experts.

Thanks to its global C-level survey, Accenture Research was able to estimate the expected share of banking revenues likely to be affected by ecosystem-related plays by region. These estimated shares have been adjusted, on the basis of the interviews with subject matter experts, to reflect the impact at banking-product level of Open Banking initiatives on these ecosystem-related revenues. Lastly, these adjusted shares have been applied to the banking revenues of each country in scope, by means of the Accenture Research Global Banking Revenue Model.

Accenture's assessment of Open Banking readiness

We calculated the readiness of the four main regions by combining 19 metrics related to the development of Open Banking and clustered in four pillars: Consumer, Regulation, Technology and Competition. The score is scaled between 0 – 100, with higher values indicating a more conducive environment for Open Banking to take-off.

The analysis was run on 22 major economies globally. Regional scores were calculated as weighted averages using GDP data as weights.

Consumer Pillar	Regulation Pillar	Technology Pillar	Competition Pillar
Demand for integrated propositions	Open Banking regulation	% of IT spend on new investments	Fintech ecosystem (amount of funding)
Share of 'Pioneers'	Data protection regulation	Market digitalization	Positioning of bigtechs in banking
Willingness to share data	Privacy protection regulation	Number of bank APIs available	Neobank adoption
Trust in banking and non-banking players		Real-time payments infrastructure	
E-commerce penetration			
Digital buyer penetration			
Smartphone penetration			
Share of cashless transactions			
Share of banked population			

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