

## **Open Banking**

A platform-based business approach that came to stay



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Drivers and forces  
behind the recent  
development



Financial Services (FS) institutions have been facing major challenges over the last few years and they will certainly continue to do so. At the same time, opportunities emerge and shape current and future profit pools. We identify three main factors that have led many institutions to open up to this innovative development: customers change their behavior and want it (1), advanced technology enables it (2), and regulation fosters it (3):

(1) Different and newly emerging generations, such as Generation Z or even Generation Alpha, lead to a change of customer behavior and requirements, forcing FS companies to rethink the way they create and sell products and services to end-customers. A bank, for example, has to ask itself whether the product or service really answers cus-

tomers needs and not only those of its own product development department. Just because a product feature is possible does not mean that the customer also requires it. FS providers are thus moving from a product-centric to a customer-centric approach when rethinking their products and services, e.g., by involving the customer in the product development process. Furthermore, customers today enjoy an unprecedented level of market transparency and are no longer satisfied with a limited choice of products offered by their main bank. At the same time – educated by frictionless user experiences in other tech-based services – they are increasingly able to differentiate between a good and a bad customer experience and will not accept laborious processes when it comes to their needs.

(2) Digital technology has been a catalyst for radical innovation, as previously closed industrial systems have become networked and open, providing ideal conditions for Open Banking to flourish. In general, advances in exponential technologies, e.g., AI, real-time analytics, machine learning, or blockchain enable FS providers to improve their processes, services, and products at all levels, i.e. in the front office, the middle office but also in the back office.

(3) Regulation specifically fosters innovation by naming 'Open' as an explicit policy goal that needs to be considered by every financial institution. Directives such as PSD2 or the Open Banking Initiative in the UK lead as prime examples.

The need for change  
and how to strategically  
tackle the challenges

These forces combined will require a paradigm shift by traditional financial institutions to redefine their role in their ecosystem. Customer relationships tend to move towards the best offering, especially when switching costs diminish. As a result, banks can no longer rely on closed-shop offerings but should rather embrace the opportunities of opening up. This way, the Open Banking movement is no longer a threat but rather it allows access to new profit pools and enables future growth.

Financial Service providers should actively address the drivers and challenges described above with a holistic approach, if they want them to become opportunities instead of threats. Deloitte sees two general – and not mutually exclusive – strategies to face the challenges (see Figure 1):

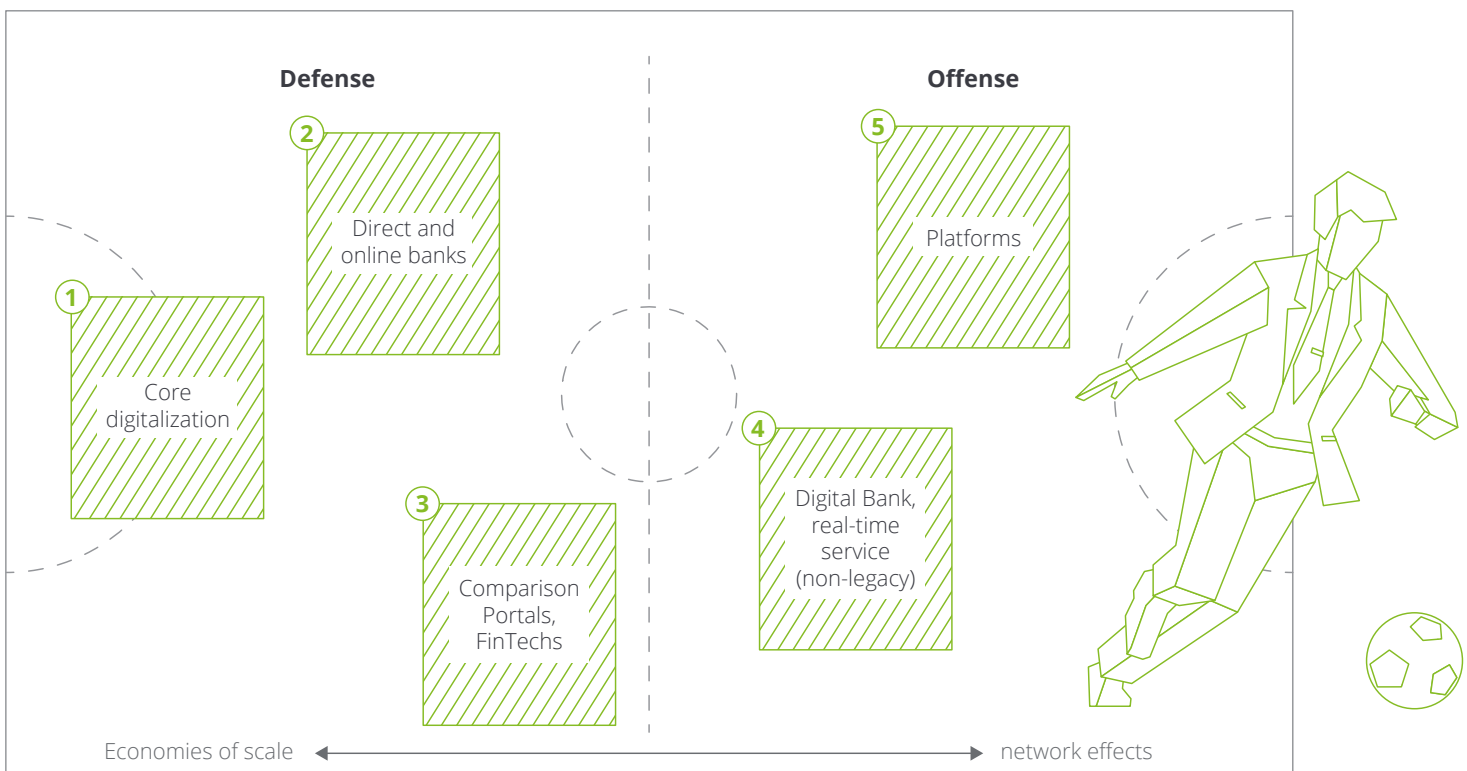
- Defense: generally speaking, FS providers can react to the challenges described by defending their current business model (i.e., “pure” banking, “pure” insurance, etc.).

FS companies have emphasized this strategy in the last 5–10 years through three general models:

1. Core digitalization: improve the current processes for existing products and services by rethinking them with a more customer-centric perspective;
2. Launch direct and online sales channels as an additional channel to sell existing products and services;

3. Open up to FinTech and start-up ecosystems by using their customer-centric sales interfaces to better understand current customer requirements and to draw first conclusions about the existing product and service portfolio.

**Fig. 1 – Strategic playing field**



This defensive strategy supports the preservation of the status quo. However, this will not be sufficient to increase future revenues and profits. To achieve that, FS companies have to go from defense to...

- **Offense:** following this strategy, FS providers have to strongly pursue not only the core business model but also explore and develop adjacent business models, e.g., commerce business models. We see two developments towards achieving this development or evolution:

1. Establishment of green-field entities to completely rethink the current product and service portfolio from a customer-centric perspective. Such efforts are often pursued through new legal entities and with new branding to protect the core brand if anything goes wrong.
2. Participation in platform business models to integrate current or enhanced product and service portfolios in a comprehensive platform business model. Such a business model addresses end-consumers, not merely in respect of a stand-alone product need: the objective is to understand complete customer journeys and life cycles in order to provide the right product or service at the right time. FS companies can play different roles in these platform-based business models, from product provider to relationship owner.

The right combination of these strategies depends on the general maturity of the company as well as on the existing capabilities within it. After having methodologically assessed the above-mentioned aspects and decided on a way to proceed, it might be necessary to challenge the current operating model and prepare for potential transformation.

Based on this strategic approach, institutions, especially banks, can leverage the Open Banking paradigm as a tool to switch from "Defense" to "Offense" mode, as they suddenly become able to react to many of the challenges ahead and to explore new profit pools.

**"If you want something new, you have to stop doing something old"**

**Peter F. Drucker**





Market insights and how  
Open Banking successfully  
becomes an integral part  
of the ecosystem

Many established financial institutions as well as new players in the market have already joined the “open revolution”. Fields of application range from a “minimum approach” that allows third-party access through APIs solely to share select data up to a “maximum implementation” enabling the integration of various functionalities in form of a Banking-as-a-Service platform.

The former is often rooted in the need to comply with regulations such as PSD2 that requires banks to allow third-party access, or follows a sales-driven approach focusing on front-end improvements. HSBC’s recently launched aggregator solution that allows customers to see all the accounts they have with different providers is a prominent example, for which HSBC has secured the participation of 21 different banks.

‘True’ Open Banking that goes beyond an exchange of information requires solutions that touch the core of financial service providers, potentially impacting established processes and legacy core banking systems. At the same time, such solutions hold tremendous potential. They permit the connection of players with different needs, thereby benefitting different types of banks and the financial industry in a broader sense.

Deposit Solutions, a pan-European FinTech company, follows this far-reaching approach towards Open Banking. The company partners with banks across Europe to bring Open Banking to the deposits business. Any bank can easily connect to Deposit Solutions’ Open Banking platform through APIs. Once connected, banks can either source deposits to deepen and diversify their funding base or offer their own customers a choice of attractive deposit products from other banks within the existing bank relationship. Bank customers benefit from a broader choice of deposit products that they can access through their main bank instead of having to open new accounts at other banks.

In several product categories such as mutual funds, mortgage loans or structured products, adding third-party products has already been a common practice for banks for decades. This logic is now also applied to the deposits business, one of the most widely used products among bank customers and a key source of funding for banks.

The platform can  
benefit every bank –  
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banks

An effective allocation mechanism for deposits has further gained relevance, since banks can increasingly be divided into two categories: “Client banks” focus on business with retail customers and want to maintain exclusive customer relationships. “Product banks”, on the other hand, concentrate on specific product categories, for example leasing, mortgage loans, or consumer finance, not necessarily possessing an own retail infrastructure. Nevertheless, they have an interest in adding regulatorily beneficial retail deposits to their funding mix.

Deposit Solutions’ Open Banking platform connects these different types of banks on its platform. This allows product banks to access deposit funding, reducing funding costs and diversifying their funding internationally, without having to establish their own retail infrastructure in each market. Client banks can offer select third-party deposit products to their own customers, providing them with access to a broader choice, better interest rates, and a significantly enhanced customer experience. This makes it possible not only to maintain but also to further strengthen valuable customer relationships. At the same time, client banks can manage their balance sheets by allowing customers to place their deposits in attractive third-party offers and as a result reduce deposit surplus.

The platform provides a unique ‘middleware’ for the deposits business by allowing product banks to use the existing infrastructure of client banks. While other players in the market focus on the B2C segment, providing private savers access to various deposit

products from across Europe, Deposit Solutions’ core expertise is in B2B solutions for banks. More than 70 financial institutions across Europe are already connected to its Open Banking platform. Additionally, the company operates two proprietary B2C channels, ZINSPILLOT and SAVEDO, which offer selected deposit products of partner banks directly to savers. These channels act as additional points-of-sale, increasing and broadening the choice of channels through which its partner banks can market their products.

For product banks, the platform is a flexible tool to deepen and diversify their funding mix without upfront investment. Fees for the service are volume-based, depending on the amount of deposits the product bank receives through the platform. Client banks using the platform are able not only to improve their offering for customers, but at the same time to monetize deposit products as they receive a revenue share on transmitted volume.

Integration modes of the solution can be customized depending on the specific needs of the partner bank. Deposit Solutions permits product banks to source deposits through a fiduciary account model, which is exclusively offered by Deposit Solutions. It enables a superior customer experience and provides product banks access to sticky retail deposits with the same ease as handling institutional money.

For client banks, Deposit Solutions can also offer a broad variety of solutions, ranging from portals that bank advisors can access to offer their customers deposit products up to full-fledged white label solutions that are seamlessly integrated into online banking systems.

Some banks have already taken first steps and succeeded in implementing great Open Banking solutions (an excerpt of case studies)

**Deutsche Bank case study:**

Deutsche Bank has selected Deposit Solutions to operate the bank's exclusive retail deposit marketplace, which is still the first of its kind for a major global bank. Deposit Solutions delivered a white label solution called "ZinsMarkt" that allows Deutsche Bank to offer deposit products from other banks to its own customers. The marketplace is fully integrated into Deutsche Bank's online banking and additionally offered as a service through client advisors at the bank's branches, potentially reaching a total of seven million German retail customers. Deutsche Bank customers can easily build up a portfolio of deposit products through their home bank account. Deutsche Bank in turn strengthens its position as a central digital platform for all of its customers' financial service needs.

**Oney Bank case study:**

French bank Oney, a subsidiary of Auchan Holding that specializes in retail payment solutions and consumer lending, has established a successful cooperation with Deposit Solutions. Being connected to Deposit Solution's Open Banking platform helped Oney increase its international presence and diversify its funding by gaining access to German retail depositors. The French bank was able to reach its target volume of around EUR 600 million in deposits within nine months after launch.

**MünchenerHyp case study:**

MünchenerHyp has partnered with Deposit Solutions to build up a portal for savings deposits within the Cooperative Financial Network, a group consisting of German customer-facing Volks- and Raiffeisenbanken or Spardabanken and specialised banks such as MünchenerHyp. MünchenerHyp is one of Germany's major property financing institutions and acts as a close partner of Germany's regional cooperative banks (Volksbanken and Raiffeisenbanken). The bank sought to diversify its funding mix by adding retail deposits without operating its own retail infrastructure for this purpose. The portal provided by Deposit Solutions connects the banks within the Cooperative Financial Network, allowing MünchenerHyp to receive retail deposits from other banks, which in turn can offer their customers attractive savings products from MünchenerHyp. The portal is an easy-to-use tool that the bank advisor can access in customer meetings, which facilitates the process for the customer and enhances the customer relationship.

Consider Open Banking  
as part of a holistic  
business transformation



Independently of the chosen strategy or the current stage of your transformation, the need to think about an adjustment or even a new, integrated design of the future operating model is an inevitable fact. Your change will have an impact on most core parts of your institution, e.g. processes, people, IT, etc. Depending upon the degree of the impact on your business model it is possible to consider such an approach as a business transformation of your company.

The business transformation towards a platform-based Open Banking ecosystem will provide the opportunity to define a courageous ambition that goes beyond incremental change and deliver breakthrough value. It involves the shown strategic choices that will affect where you will grow, how your organization operates, and what kind of improvements you can expect.

In today's and especially tomorrow's financial services world, every strategic business model decision needs to be planned with an agile, flexible, and cascading approach to the planned implementation because this is crucial and critical for effective change.



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