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The era of Open Banking

Five promising applications of Open Banking and how to get started today

Open Banking *has the potential to reshape the future of the financial services industry. However, realizing its full potential will require prudent thinking on its design, applications, and implications. This article is Deloitte's second release of a multi-part series that explores the most pertinent Open Banking issues facing Canada's financial services sector.*

Open Banking will likely be a costly endeavour for the financial services industry, and the value it returns will depend on the applications it enables. For banks, Open Banking will be a cost centre that erodes strategic advantages—if its applications are not explored and nurtured. In fact, beyond the general association of Open Banking with personal financial management apps and customer engagement, it also can deliver tangible benefits such as generating cost efficiencies and fueling business growth. This article first explores the five most promising Open Banking applications and then describes four opportunities for financial institutions to start experimenting today.

1. Ongoing prequalification of small business loans

Small businesses applying for loans may take up to 90 days to receive funds due to the document review and approval process.[1]

The problem:
Canadian small businesses continue to face unprecedented times. Quick access to funds is top of mind for entrepreneurs as they deal with the consequences of lockdown measures, prepare to reopen, and look to finance new growth and expansion opportunities. Yet, accessing credit is often a lengthy process for businesses without pre-established credit lines.

Potential applications enabled by Open Banking:
Open Banking can change the linear and point-in-time borrowing experience. Lenders can offer continuously available and ongoing real-time prequalification by aggregating transaction history—augmented by external sources like receivables and payables, sales records, and digital traffic. Changing prequalification limits and rates to reflect the business's performance would provide realistic and available borrowing options while reducing the steps required to onboard the consumer as an everyday banking client. The gathered data would increase efficiency by streamlining the application and verification process, enabling near-instant access to funds.

2. Post-purchase installment refinancing

In 2019, the average monthly credit card debt for Canadians was up to ~$4,240, totalling to ~15% of their monthly reoccurring payments.[2,3]

The problem:
Many consumers carry a balance on their cards even though credit cards are one of the most expensive borrowing methods. Financing options often depend on exclusive merchant partnerships that limit ubiquity and influence credit scores.

Potential applications enabled by Open Banking:
By accessing credit card purchase history, lenders can offer installment-based refinancing on any purchase regardless of the merchant or card used. Lenders use this data to efficiently assess the borrower's creditworthiness and capacity and instantly pay back the card. This process would make borrowing options more accessible, help consumers avoid paying high interest, and promote an understanding of true affordability in terms of cash flow.

[1] https://www.ondeck.ca/resources/qualify-small-business-loan-canada/#:~:text=Your%20lender%20will%20then%20make,a%20week%20to%2090%20days.

[2] https://financialpost.com/news/economy/canadians-racked-up-100-billion-in-credit-card-debt-for-first-time-ever-and-theyre-not-done-adding-to-it#:~:text=The%20average%20credit%20card%20balance,end%20of%20September%2C%20it%20said.

[3] https://loanscanada.ca/stats/statistics-on-credit-card-trends-in-canada/

3. Automated cash flow management

Canadians between 18-35 spend 2.4 hours a day worrying about their finances. 65% of Canadians with debt find it challenging to save, invest and pay down their debt.[4]

The problem:
While Canadians tend to understand the importance of managing their finances, many continue to experience financial anxiety. Several challenges can fuel this anxiety, including the mental math required to understand their liquidity and the overwhelming amount of attention needed to balance cash flow across spending, borrowing and saving.

Potential applications enabled by Open Banking:
By aggregating transaction accounts, Open Banking can provide a clear view of all money inflows and outflows. Consumers can choose to automatically set aside funds to pay any commitments—from hydro to credit card bills—to align with paycheque cycles. Consumers then only have to worry about one number, the remaining spendable balance, and never miss a payment. Financial institutions can also use the data to present opportunities for customers to save by switching their financial and ancillary products with recurring payments.

4. Mass-market retirement and decumulation planning

Of Canadians between 45 and 64, 32% do not have anything saved for retirement, and 53% do not know if they are currently saving enough.[5]

The problem:
Planning for retirement is a daunting task for many Canadians. For those who are starting out, retirement is a distant event and estimating the funds required decades from today can discourage action. Many innovators have introduced projection and goal planning capabilities to help consumers set aside portions of their paycheques, but these tools are not holistic. For those who are facing retirement soon, planning for decumulation is not just a function of investments held at banks. Developing a more comprehensive spending and decumulation plan is often only available for high net worth individuals.

Potential applications enabled by Open Banking:
By aggregating financial data, such as spending, assets and liabilities, pension, and real estate value, Open Banking can provide a comprehensive view of personalized retirement readiness gaps and better inform post-retirement budgeting. These ongoing data feeds can help monitor and track consumers' retirement readiness as their financial position fluctuates. Ultimately, these data can be used to create a retirement plan with greater confidence and contextualize the trade-offs required between today and tomorrow. For those planning for decumulation, this would help create a draw-down plan from various assets, making conversations with advisors more efficient, effective, and accessible.

For more details of Deloitte's view on the future of decumulation, stay tuned for an upcoming article in the Future of Advice series.

5. Persistent and ongoing discovery for wealth management

The problem:
Good wealth advice starts from discovery, when the wealth advisor develops an accurate picture of the client to create the best possible financial plan. However, today's onboarding and discovery processes are highly manual and cumbersome for consumers and advisors, taking time away from valuable conversations that yield the best advice. More importantly, it makes discovery a point-in-time exercise that limits advisors' ability to provide proactive advice under changing circumstances.

Potential applications enabled by Open Banking:
Accessing banking and investment data via APIs would streamline the data gathering process for clients and advisors and change the paradigm of discovery from a point-in-time to an ongoing activity. Continuously monitoring client data through analytical models will allow advisors to proactively initiate meaningful dialogue when a client's portfolio or income fluctuates, which will result in higher quality and more dynamic advice and investment strategies.

The applications above present a bold vision that can make financial services more accessible and valuable for Canadians and Canadian businesses. However, enabling them at scale will require ongoing commitment to maturing the Open Banking ecosystem. These applications are also a reminder that a successful framework cannot have a narrow scope. The more we can promote consumer rights for financial and non-financial data beyond everyday banking, the more comprehensive, personalized, and impactful these applications can become.

[4] https://www.hrreporter.com/focus-areas/compensation-and-benefits/canadians-worry-about-finances-2-hours-a-day-survey/325012#:~:text=Nearly%20seven%20in%2010%20(65,and%20pay%20down%20their%20debt.&text=A%20recent%20U.S.%20study%20said,rainy%2Dday%20or%20emergency%20savings

[5] https://www.bnnbloomberg.ca/32-of-canadians-are-nearing-retirement-without-any-savings-poll-1.991680

Why financial institutions should get started today

The time to start exploring Open Banking applications is now, with various policy, industry, and competitive movements underway. In the data economy, a small number of winners reap disproportionate benefits and will invest in amassing relationships and data as early as possible to create a defensive moat against competition. In addition, developing compelling propositions to promote data sharing at scale requires testing and optimization that will take time to perfect. As a result, many traditional and emerging competitors, including big techs, have begun ramping up their adoption of data aggregation practices to gain an early-mover advantage.

Open Banking will not be triggered overnight. Evidence from other markets suggests that the financial services sector's data landscape will continue to include a mix of Open Banking, data aggregation, and bilateral agreements for the foreseeable future. We believe the market leaders will accumulate and continue to advance customer intelligence and operational expertise in advance of the formal policy.

Four opportunities to get started

How can financial institutions prepare for Open Banking? We believe that the most promising near-term opportunities can be found at the intersection of customer friction, tangible business benefits, and risk minimization.

First, Open Banking applications should stem from friction that consumers and businesses experience today, rather than the possibilities enabled by the technology. These pain points often exist where manual data gathering and calculations are required.

The ability to deliver measurable, in-year benefits is critical to sustaining the enterprise momentum of Open Banking. Many Open Banking applications falter because they are not continuously improved post-launch, which can deter an organization's progress toward unlocking the power of data. The opportunities across the acquisition funnel—from awareness to onboarding—can lead to tangible commercial outcomes that organizations can rally behind.

Finally, the short-term Open Banking applications should fall within an organization's risk appetite for data aggregation. Many financial institutions are concerned about the practice of capturing and storing customers' online banking credentials at scale. The applications that are one-time in nature can address these concerns by allowing immediate destruction rather than storage of credentials.

The following four examples highlight promising short-term opportunities that financial institutions can explore today.

1. Credit card selector

The problem:
Credit card offerings are continuously differentiating through additional perks and services. With the plethora of options, selecting the right card can be difficult for prospective customers, especially when comparing these offerings across multiple financial institutions. This experience is often disconnected and isolated, leaving the customer uninformed when choosing the best card.

Opportunity enabled by Open Banking:
Issuers can aggregate past transaction history to create a holistic understanding of the customer's spending habits. Issuers can then personalize the card selection experience by recommending the best card that aligns with their customer's spending habits and lifestyle. Issuers can also reduce their overall risk exposure related to credential storage by implementing a one-time data sharing model.

Value for financial institutions:
Offering a personalized and data-driven card selection experience at the initial point of contact can streamline the onboarding process and increase overall customer conversion. This experience can also yield data points, such as income, that streamline the application process, improve customer value, and provide insights for future product development.

2. Mortgage switching campaign

The problem:
In today's historically low interest rate environment, refinancing a mortgage can be a lucrative option to save on monthly expenses. However, most digital mortgage experiences are built around new originations. As a result, comparing the potential amount of savings against the penalties associated with switching is a manual, complex process that discourages customers from exploring their options.

Opportunity enabled by Open Banking:
Financial institutions can run a campaign for customers to link their mortgage data from third-party institutions to see how much they can save by switching from their existing mortgage. This tool can then facilitate new discovery-related discussions and increase customer conversion at the initial point of contact.

Value for financial institutions:
This campaign can be a quick and easy method to generate high potential leads. The approval process can also be streamlined by leveraging the data collected in the process. Financial institutions can also target this campaign toward their existing customer base with third-party mortgages to grow share of wallet.

3. Reduce wealth onboarding and discovery frictions

The problem:

Understanding the prospects' financial circumstances is a critical part of the wealth discovery process that generates good advice. However, advisors have to manually gather the information from prospects who do not have existing, consolidated relationships with the bank. The prospective clients then have to spend time accessing various portals and gathering documents. This process can be tedious, time-consuming, and error-prone for both advisors and clients.

Opportunity enabled by Open Banking:

Financial institutions can reduce the overall time spent on administrative tasks by allowing potential clients to link their bank and investment accounts. The data can then be used as a discovery tool to develop a more holistic understanding of the client and improve operational efficiency by prefilling any necessary onboarding forms.

Value to financial institutions:

Streamlining the administrative side of onboarding and discovery improves advisor efficiency in data gathering and manual calculations. It can also allow for more meaningful conversations during the customer's first interaction by highlighting the areas the advisor should explore deeper.

4. Retirement health assessment tool

The problem:

Canadians often feel overwhelmed and uncertain about their retirement readiness. This uncertainty is exacerbated if retirement funds are spread across multiple sources, including public pension, private pensions, and individual savings and investment products. Consequently, many Canadians—especially those without access to advisors—avoid starting their retirement planning.

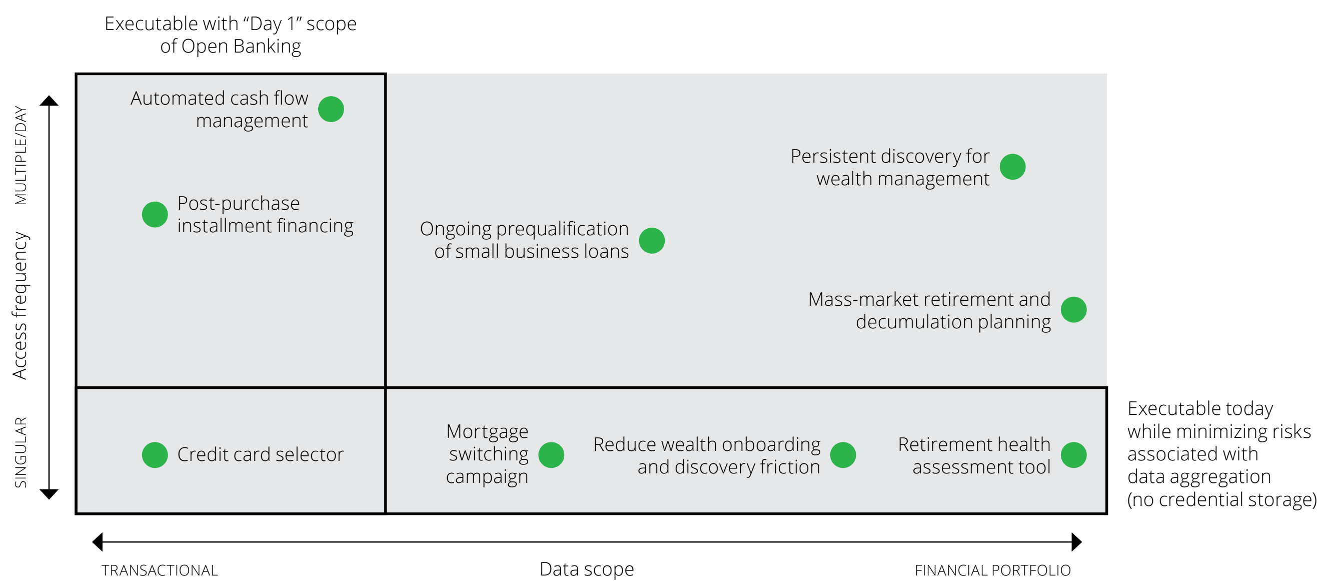
Opportunity enabled by Open Banking:

Financial institutions can create a prospect-facing digital tool for customers to link their existing banking data and check for major gaps in their retirement readiness. This tool can also be leveraged for internal advisors to accelerate advice-based conversations during discovery and financial planning sessions with existing clients.

Value to financial institutions:

Financial institutions can use this tool to increase total prospective clients at the top of the funnel by prompting users to get started on assessing their retirement readiness. Financial planners or self-directed investment solutions will have a new catalyst for customer acquisition that also increases onboarding process efficiency by generating prefilled documents and more personalized conversations.

Exhibit: Open Banking applications and opportunities across scope and frequency of data



Summary and path forward

The most promising use cases are not stand-alone widgets but rather an end-to-end reimagination of customer journeys and product constructs. Open Banking exploration cannot be siloed in digital or innovation teams but must be owned by business lines. The perils of prioritizing Open Banking compliance without application strategies are evident. Before “Day 1”, financial institutions must explore where and how they can leverage Open Banking; otherwise, they will become net exporters of data. An increasingly comprehensive and rich Open Banking ecosystem will generate direct value for consumers. Building such an ecosystem requires coordination across federal and provincial regulators, industry players, and policy efforts beyond financial services.

In the next article, we will explore the impact that Open Banking has on the Canadian cards industry.

Sign up to be among the first to hear about articles and future events exploring the most pertinent Open Banking issues facing Canada’s financial services sector.

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