



OPEN BANKING IN CANADA: THE FUTURE BEGINS TO TAKE SHAPE

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In the second quarter of 2022,
CI&T interviewed senior technology executives at the most prominent Canadian banks to get **their views on Open Banking**. Here's what we learned:



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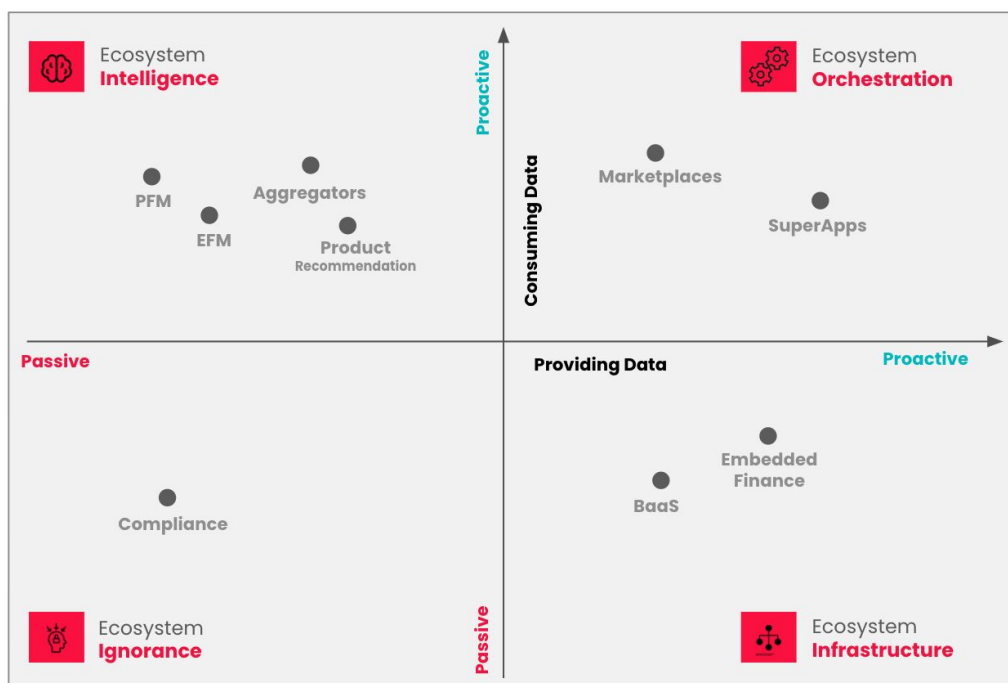
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Banks are Preparing for Multiple Futures

All of the leaders we spoke with agreed that there is significant uncertainty about the direction open banking will take in Canada regarding regulatory requirements and the best use cases. As a result, the banks won't make substantial commitments to any specific business model. However, to guide the discussion, CI&T presented a framework for the banks to consider.

CI&T's Open Banking Framework defines four open banking models based on how much a bank consumes and provides data about its customers. In the lower-left quadrant below, the Passive approach means the bank will only comply with regulations regarding customer data sharing. At the opposite end of the spectrum, in the upper-right quadrant, is a bank actively consuming and providing data. We call this an Ecosystem Orchestration model, and examples include open banking marketplaces and super apps. The Intelligence quadrant consists of data networks, such as Plaid, that consume data from numerous banking partners but don't have data of their own to provide. Finally, there is the Infrastructure model, in which the bank offers its banking platform to a partner, typically a non-bank, to embed within its customer experience. Commonly referred to as Bank-as-a-Service or Embedded Finance, this approach enables the bank to source new customers it might not reach otherwise.



But, one interviewee felt that a lack of regulatory clarity was the most significant impediment to Canadian banks choosing an open banking strategy. In his view, even with a great use case and the supporting technology ready to go, most large banks will be very reluctant to launch a service because of the risk associated with the lack of rules and regulations.

Banks are Taking a Dual-Track Approach for Now

The banks we spoke with are taking a dual-track approach to open banking. The first path is to connect with a third-party data network, such as Plaid or Flinks, that has integrations with other banks and fintechs. The bank then uses its internal IT resources to construct the APIs needed to integrate with the data network. In fact, the Royal Bank of Canada just announced a partnership with Plaid and CIBC with MX.



At the same time, the banks are considering opening up their data and processes to outsiders directly via APIs and developing the related products and services. Banks recognize that not using a data network, at least initially, will take much longer and cost much more. In addition, they often don't have the right in-house skill sets to do the job. However, leaders we spoke with unanimously agreed that the biggest obstacle was a lack of strategic vision, resulting in frequent shifts in direction. Here's why:



Open Banking Still Lacks Compelling Use Cases

"What's the golden nugget?" one interviewee said. The ability to circulate providers' data alone won't deliver compelling use cases. Our interviewees concurred that the best end state was to collect a wide range of customer data, apply advanced analytics to predict needs, and deliver custom solutions to address those needs.

CI&T has developed compelling use cases for bank clients in other countries that could apply to the Canadian market.

Canada's Data Ecosystem Isn't Ready to Support Open Banking

Establishing data treatment rules will be foundational to open banking's success. But, as the leaders we spoke with pointed out, significant work must be done. For example, Canada has yet to forge a GDPR-style regulatory framework around data privacy. Banks also lack standardized consent processes for data sharing.



Technology Limits Us but Isn't the Biggest Hurdle

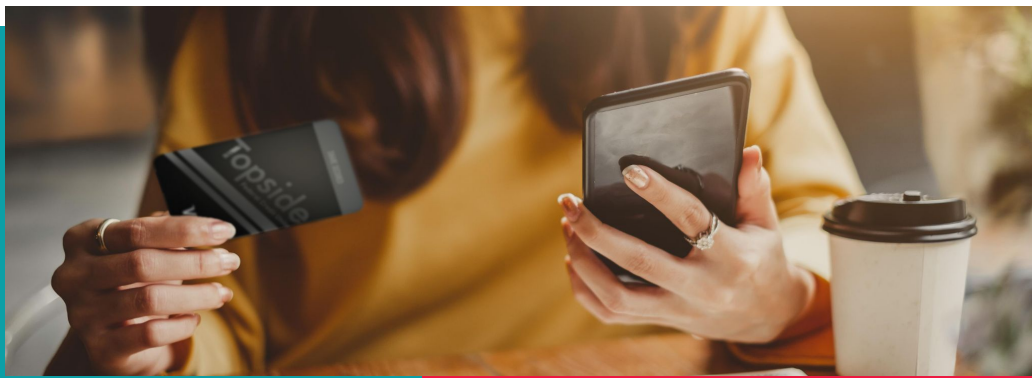
Legacy systems and teams that work in silos are complicating factors that drive up the cost of open banking implementation. Data quality and accessibility is another limiting factor for open banking. Consumers may also be hesitant to share their data until they understand its benefits and are comfortable with the security and usability of the process. However, the lack of strategic vision is the more significant hurdle. As a result, getting funding for long-term projects with uncertain payoffs is challenging.

Data Security and Privacy Concerns May Be Overblown

The executives we spoke with believed that Canadian consumers would willingly share their financial data if the risk-reward trade-off were compelling enough. We kept coming back to the same theme. What are the use cases that users will embrace? In our view, the same dynamic holds for senior management of the banks. The potential rewards of open banking must outweigh the risks of compromising customer data.

Management Attitudes are Shifting...Towards Action

Leaders we spoke with agreed that the attitudes of senior management are shifting, albeit slowly. Fintech start-ups are proliferating in Canada, so customers increasingly have alternatives to the largest banks. As a result, inaction is no longer a viable strategy.



OPEN BANKING

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David Ritter, Director, Financial Services Strategy

David's forward-looking strategy and research content offer solutions to financial services firms' most vexing challenges. Drawing on more than 20 years of experience as a banking and fintech analyst on Wall Street, David also helps drive CI&T's go-to-market strategy for financial services.



Leo Mattiazzi, Executive Vice President of Global Innovation

As Partner and EVP for Innovation, Leonardo helps CI&T and its customers evolve capabilities and organizational structures needed to thrive and grow in a fast-paced world.



Robin Borrelli, Head of Financial Services Practice

Robin is a client partner with 20 years of experience in financial services, specialized in marketing, strategy, and digital platform and product management.



Young Pham, Chief Strategy Officer

At CI&T, Young helps our clients envision, build and launch new products, marketing programs and service experiences. He believes any problem is a catalyst to move forward through innovation.

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