

# Zafin White Paper

---

OPEN BANKING: EVOLVING DIGITAL JOURNEYS AND TRUST



---

ZAFIN PRODUCT & MARKETING

---



## Contents

Open Banking: A large step forward in banks' evolving digital journeys and business models	3
Would open banking provide meaningful benefits to and improve outcomes for Canadians? In what ways?	3
Overview	3
Open Banking: A Definite Opportunity for Canada	3
In order for Canadians to feel confident in an open banking system, how should risks related to consumer protection, privacy, cyber security and financial stability be managed?	4
Open Banking: The burden of trust	4
Open Banking: Transparency	5
If you are of the view that Canada should move forward with implementing an open banking system, what role and steps are appropriate for the federal government to take in the implementation of open banking?	5
Open Banking: Summary	6
About Zafin	6

## Open Banking: A large step forward in banks' evolving digital journeys and business models

Would open banking provide meaningful benefits to and improve outcomes for Canadians? In what ways?

### Overview

Open Banking initiatives are undoubtedly gathering momentum globally and now in Canada with the instigation, by the Canadian Government, of the Advisory Committee on Open Banking to explore the benefits of implementing Open Banking in Canada.

Whilst the Open Banking objectives for different markets vary, all are seeking to encourage greater competition, transparency and product and service innovation by financial services institutions for the benefit of customers. A key lever in doing so involves allowing customer data to be shared securely with authorised third-party providers (TPPs), primarily through Application Programming Interfaces (APIs) as banking seeks to tap into the API economy and associated Software-as-a-Service (SaaS) models that have proved successful in other industries. This will drive a paradigm shift in banks' business and technology models: from today's closed banking models towards more collaborative Open Banking models through the creation of digital financial marketplaces and ecosystems.

At Zafin, we see similar challenges and opportunities for the different players within the Open Banking ecosystem: customers; banks and other financial services providers; FinTechs and BigTechs.

### Open Banking: A Definite Opportunity for Canada

Should Open Banking, of itself, be considered a threat or an opportunity for banks? At Zafin, we are firmly in the opportunity camp. Technology innovation is providing the means to allow traditional banks, collaborating with the right FinTech partners and other TPPs, to excel in today's already digitally-oriented world.

However, for banks to successfully deliver market-leading digital propositions for Consumer and Business customers they will have to embark on a significant transformation journey, involving major decisions on developing or selecting the right technological building blocks as part of their digital architecture and adapting business models to ensure that it can be leveraged to maximum efficiency: this means both are aligned to deliver customer-centric, personalised yet transparent product and service propositions rather than the product-centric and opaque models that still proliferate today.

Open Banking will likely ensure that banks' digital transformation investments are considered mandatory and so help them to secure the budgets and the business focus required to truly transform their business models. We see this added impetus and direction as a major benefit of Open Banking.

Not only that, but the options now available for implementing digital banking strategies offer greater capabilities and cost-efficiencies than ever before. The very FinTech community that Open Banking around the world is seeking to encourage as participants in the new financial API economy are already playing a major role alongside the larger established players. FinTechs offer a range of off-

the-shelf platform, functional and infrastructure solutions leveraging the latest standards such as DevOps development models and cloud deployment options. Together, these can provide an accelerated path for banks to put in place the key architectural building-blocks required to service their digital banking models in compliance with Open Banking. In the Canadian payments market, over 25 Fintech providers have reportedly been involved in the evolution of the payment infrastructure and ecosystem. We believe that opportunities for FinTechs to participate in a new Open Banking model will be greater still. **Open Banking should be a win-win for forward-looking banks, for FinTechs and consequently a big win for customers.** The environment will likely become far more challenging for banks that are not able to adapt their models.

In the case of Zafin, our product (product catalog), pricing, rate and offer management solutions are already being used by several leading banks to accelerate and differentiate their digital models. Open Banking, whether through legislation or market forces will foster greater competition and innovation by banks for the benefit of consumers – in effect, Open Banking is going to happen in some way or form in Canada with or without formal regulation.

We believe that Digital Banking will significantly change the way banks service their Small & Medium Business customers – these customers have traditionally been poorly served by the big banks, yet there has been little competition in the past; these will be a major target for FinTechs and Digital first banks, which can leverage the capabilities being introduced for consumers, e.g. P2P equivalents for businesses, enhanced B2C options and better adapted products. Regulation that ensures Small Businesses are within the scope of Open Banking initiatives will likely accelerate this trend.

The need for instant or real-time payments will become an integral feature of Digital Banking (and therefore Open Banking) models as customers increasingly want ‘everything now’ models. Open Banking and changing payments models will have several converging points. Request to Pay models, for example, in which merchants can request debits directly to customer accounts rather than using card payments could have a material impact on the payments market, for example. Similarly, SWIFT has already published a nascent API framework for providers of loan financing at point of transaction as an alternative to card and other traditional payment models.

If adopted successfully by Canadian banks and FinTechs, Canada will, arguably, have the means to expand their banking footprint globally in a more efficient, risk-free way than before.

**In order for Canadians to feel confident in an open banking system, how should risks related to consumer protection, privacy, cyber security and financial stability be managed?**

#### **Open Banking: The burden of trust**

Banks not only have to enhance their digital models to focus on customer-centric service models rather than product-centric models, they must fundamentally change their organisational models – this may be harder for some banks than embracing the technology that is already available to aid Open Banking journeys.

In addition to the organisational model changes required, the external perception and trust of the Consumers has to be addressed. With the extended boundaries that will be introduced through the adoption of Open Banking between Banks and Consumers (i.e. the sharing of information with third parties), the Federal Government should look to define a consistent position on the authentication

and encryption mechanisms that can be utilised by Banks and FinTechs. One such example is the UK where OAuth 2.0 has been adopted as the method for verifying identities.

### Open Banking: Transparency

Once Consumers can open their relationship to multiple participating Banks and FinTechs, one of the key side effects of Open Banking is an increased requirement for transparency. With the extended supply chain from Fintech A to Bank B and Bank C, Consumers will require significantly more information as to what, who and why products and services are being either recommended or executed on their behalf.

Open Banking will also require banks to provide certain product information, such as standard prices and transaction histories to 3rd party providers. For banks to do this efficiently, they will likely need to standardise and enhance their product information and make this available via standard APIs; in the face of this greater transparency, enhanced product capability and design will be increasingly necessary for banks to be compliant and differentiate themselves.

In order to provide standardised interfaces to their products and services, banks first need to have a consistent enterprise-wide view of them. In effect, product and service attributes must be treated as Master Data for banks to allow for consistent and uniform access. For many banks with widely disparate back-end systems and highly heterogeneous product management practices this has been a significant challenge.

A number of Canadian Banks are currently investing resources in addressing these issues on a Bank to Customer basis through the use of Zafin's product suite.

Zafin's suite of products are offered as a Software as a Service (SaaS) solution with built-in industry-leading security features. Horizontal and vertical scalability is available on demand. The solution features well-designed, reusable, built-for-purpose APIs in conjunction with an extensive fixed data model which supports data connection with external systems such as customer information systems, core banking systems and other applications including digital service layers. API-driven solutions are at the heart of digital transformation in many industries and our solution is designed specifically for the banking domain to allow banks to accelerate and enhance digital enablement.

This API-led connectivity helps to accelerate the transition from on-premise to cloud models. It also allows banks to experiment and innovate more quickly. For similar reasons, Zafin will be able to leverage cloud and API infrastructure quickly to introduce product and feature enhancements for all our clients and more easily as part of scheduled product roadmap developments.

**If you are of the view that Canada should move forward with implementing an open banking system, what role and steps are appropriate for the federal government to take in the implementation of open banking?**

We believe introducing a regulatory framework will help Canada to capitalise on the many opportunities of Open Banking whilst ensuring consumers continue to be protected to existing or even more demanding standards than today and that FinTechs with proven credentials and solutions are freely able to participate in new open banking models.

Of all the Open Banking models that have been implemented so far, or are in the process of being introduced, we are advocated of the UK Open Banking Model. The UK market shares some

characteristics with the Canadian banking market with a few large players dominating market share. In the UK, the Competition and Markets Authority (CMA) has identified a key need to promote competition and improve the quality of products and services and accessibility of these for consumers.

The starting point has been to focus on enforcing changes by nine of the largest banking providers in compliance with Open Banking standards. For such change to be effective, and supported by the main stakeholders, it will be critical that incumbent and new banks along with potential FinTech providers are encouraged to participate in shaping the model and pace of change in the Canadian banking industry.

In terms of steps, like the CMA approach, these should include:

1. Ensuring that customer data continues to be protected to the highest available standards
2. Ensuring that APIs become the standard mechanisms for data exchange
3. Encouraging larger Incumbent banks to take the lead on Open Banking implementation
4. FinTechs are encouraged to participate, i.e. notwithstanding data protection obligations, regulatory hurdles should be balanced in favour of introducing innovation initially rather than creating insurmountable entry points for smaller companies
5. Ensuring that Canadian FinTechs have a clear and leading opportunity to participate in a new open banking model
6. Ensuring that monitoring mechanisms are ultimately introduced to ensure that all participants in the open banking ecosystem are operating compliantly

### Open Banking: Summary

In the case of Zafin, our product (product catalog), pricing, rate and offer management solutions are already being used by several leading banks to accelerate and differentiate their digital models. Open Banking, whether through legislation or market forces will foster greater competition and innovation by banks for the benefit of consumers – in effect, Open Banking is going to happen in some way or form in Canada.

### About Zafin

Zafin, a Canadian based award-winning technology company, alongside our partner network, can provide a range of technology solutions, with access to business advisory services, to help banks deliver their Open Banking driven digital transformation journeys. If you would like to know more about Zafin's product solutions, please contact us at [zafin.com](http://zafin.com).