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Real use cases in Asian Open Banking

How Open Banking and APIs are transforming the landscape of banking services in Asia



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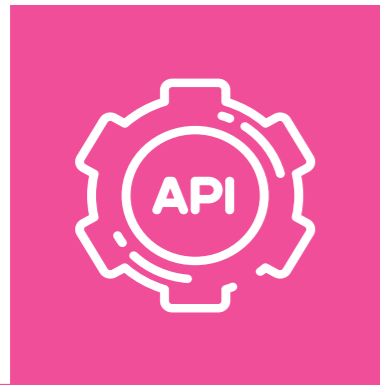
Introduction

Asia is opening up to Open Banking

Across the world, the rise of Open Banking models supported by access to open Application Programming Interfaces (APIs) is changing the face of banking – and bringing the benefits of customers ever greater service innovation and choice.

At root, Open Banking is a secure way to provide access to customer data, and provides an environment for banks and fintech to collaborate around apps and services. The aim is to meet customers' rising expectations for service quality and convenience in every aspect of their daily lives, and offer them an ever more positive and compelling user experience.

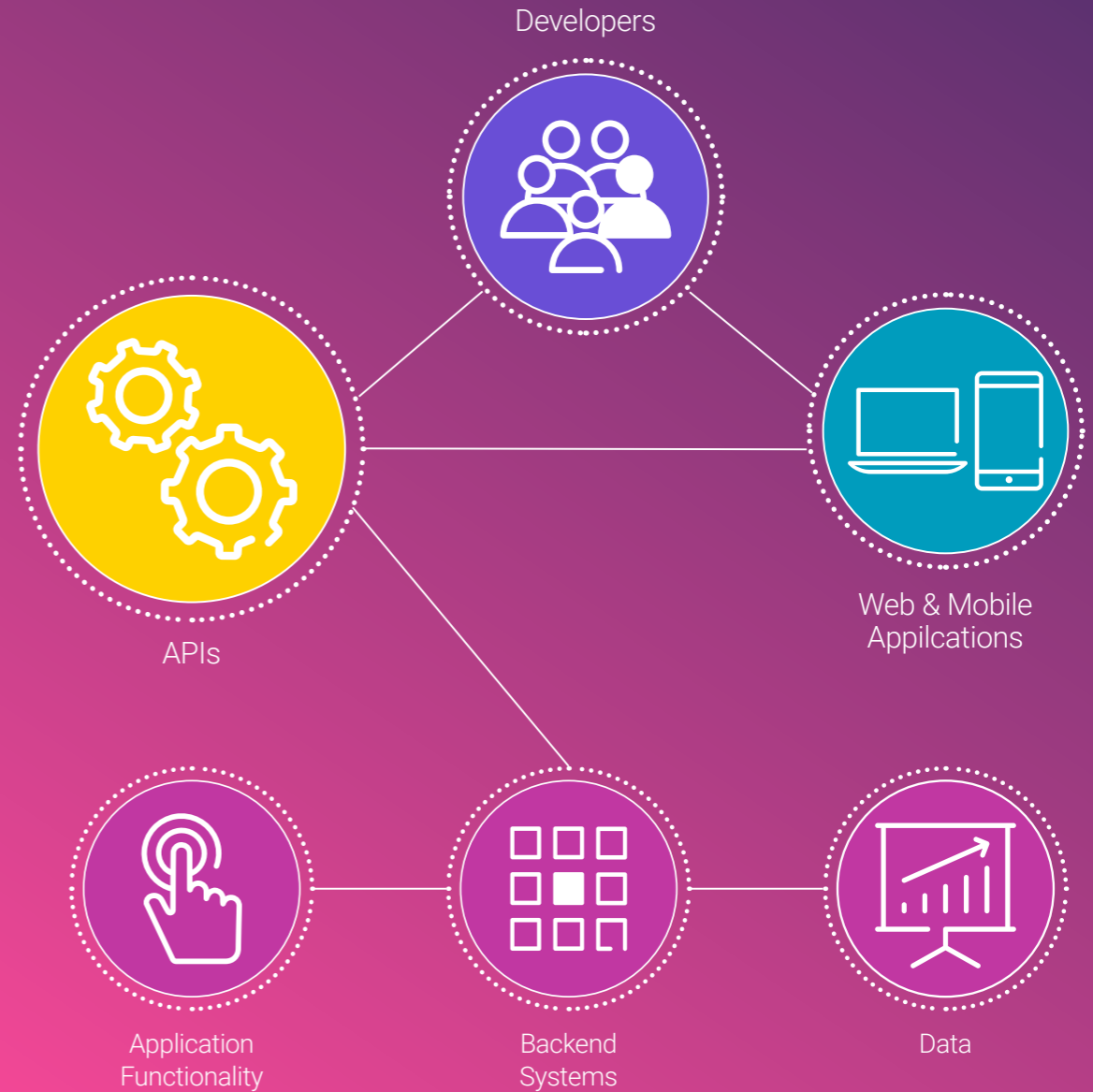
While "Open Banking" is a term originally coined in the UK, it has now gone decisively global. A recent global survey from Finastra found that Open Banking has firmly taken root in Asia – and financial institutions across the region are already reaping the benefits of the collaboration it enables.




Key benefits of
Open Banking

**Foster an
API-rich economy**

Application Programming Interfaces (APIs) are changing the face of banking



The pandemic has accelerated the importance of remote and digital banking services.

95% 

of banks in Hong Kong think collaboration is a key driver of their success.

9/10

banks in Singapore say collaboration increase efficiency



In fact, 95% of banks in Hong Kong have already found collaboration to be a key driver of their success, while nine out of 10 in Singapore say it has made their business more efficient. Also, the COVID-19 crisis has not stalled the momentum of Open Banking. On the contrary, the pandemic has accelerated progress by reinforcing the importance of remote and digital banking services.

But as Open Banking continues to advance, what does it really mean for banks across Asia? What commercial use cases can they target? What's the different between Open Banking and Open APIs? And how are traditional banks, virtual banks and fintech creating new ecosystems in the region?

In this paper, we look beyond the buzzwords to focus on how modern banks are leveraging open banking and fintech collaboration to meet the expectations of today's customers across Asia.



Asia's Open Banking landscape takes shape

A distinctive approach to Open Banking

While Open Banking is a term that's used and understood globally, the approach taken toward it by regulators varies widely in different countries and regions. In Europe, for example, it was mandated by EU's PSD2 regulation, mirrored by the Open Banking legislation in the UK. In the US, the approach to Open Banking is more market-driven, focused on delivering a stronger experience for customers.

Similar divergences in regulatory approaches have emerged in Asia Pacific. The clearest divide is that Open Banking in most parts of South-East Asia is very different from the model in Hong Kong, Australia in Europe. While Open Banking in South-East Asia is not mandatory by law, the regulators have essentially said to the banking industry: "We need to fix a problem – so you go ahead and solve it by defining standards and taking a step-by-step approach."

Singapore, for example, spent two years defining the standards for API banking. Having invested this degree of time and effort, no regulator wants a scenario where every bank has its own API standard, and every small fintech has to operate in ten different configurations with ten different templates to maintain. The burden for small fintech would simply be too great.

This is why the pragmatic approach being taken by regulators in South-East Asia is to aim to build for the long term instead of a passing a law. It's an approach that is reflected by the fact that the first live production instance of Open Banking in Singapore was around retirement. The solution enabled people to access their information around their financial future, and was driven by a Government ministry focused on addressing that particular problem.

As this example underlines, the strategy in South-East Asia is not to require banks to create Open APIs and then let them identify a solution that these can provide. That was largely the approach taken in Europe – and in South East Asia it has been reversed. Instead, the strategy is to identify a problem, and then see what APIs will be needed to solve it. This approach has significant implications for how banks look to realize the opportunities Open Banking presents.



The benefits for banks

Commercial models for Open Banking in Asia

By enabling collaboration with third-party fintech innovators, Open Banking is allowing banks across Asia to provide their customers with value-added services. However, since banks are generally unable to charge more money for this additional value, the commercial benefits tend to be more indirect in nature.

For incumbent banks, the main benefit is improved customer retention. Today's customers – especially younger demographics, including millennials – are more likely than preceding generations to use multiple providers of financial services. So they may have their primary account with a traditional bank, go to a digital bank for their payment cards, and use a fintech for other needs like bill payments.

What matters for incumbent banks is to retain these customers. This is where the Open Banking framework comes in, by helping banks integrate with fintech and other banks to provide the value-added services and enhanced experiences that will help to keep their customers with them.

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Open Banking allows banks to develop new services



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With the orchestrator model, ecosystem participants like digital lenders and payroll companies can use our regulated banking services over an open API banking platform, which helps us create new business revenue. All we need is the digital orchestration layer where we build a digital ecosystem through an API development platform, for example, where you can easily onboard multiple ecosystem partners, define the financial products, and easily integrate and expose the open APIs for them to collaborate. And all your ledgers and all your systems are ready."

Ramu Arivuvel,
Chief Technology Officer, TONIK



Key benefits of
Open Banking

**Enhance customer
banking experience**

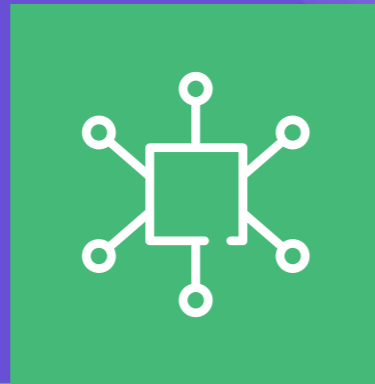
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We have a number of digital use cases for how to onboard, service and retain customers via digital touchpoints. An example is the customer who says, "Don't throw me a bank account - help me to save, what I really need is a little extra cash in the meantime." Meeting this kind of need will help you to keep the customer loyal. If a customer needs a loan, there are automated technologies available that can provide approval in a few clicks – and this will help to steer customers away from looking at one of your competitors."

Ramu Arivuvel,
Chief Technology Officer, TONIK



By contrast, the key focus for digital banks is on the customer acquisition side. When digital banks enter the market, their first objective is to get customers on board. This requires them to offer a smooth user experience to onboard them quickly, and then provide them with value-added services as differentiators from some of the incumbent banks. For this reason, the digital banks' customer activation journey is very important. And smooth integration using the Open Banking framework with a digital KYC, OCR or ID verification provider is critical.



Key benefits of Open Banking

Expand the banks
ecosystem

In Finastra's view, the optimal model for Open Banking in Asia is to use digital technologies to tie these two journeys together. To do this, we're helping the **incumbent banks** accelerate the pace at which their core banking systems can provide their capabilities through our FusionFabric.Cloud platform. At the same time, we're helping the **digital banks** – which are already on cloud – achieve the scale and agility they need to start integrating with fintech and other partners, and create the niche in the market required to get their customers on board fast and create differentiation. It's a win-win.



Key benefits of Open Banking

Accelerate "time to
market" for product
and service

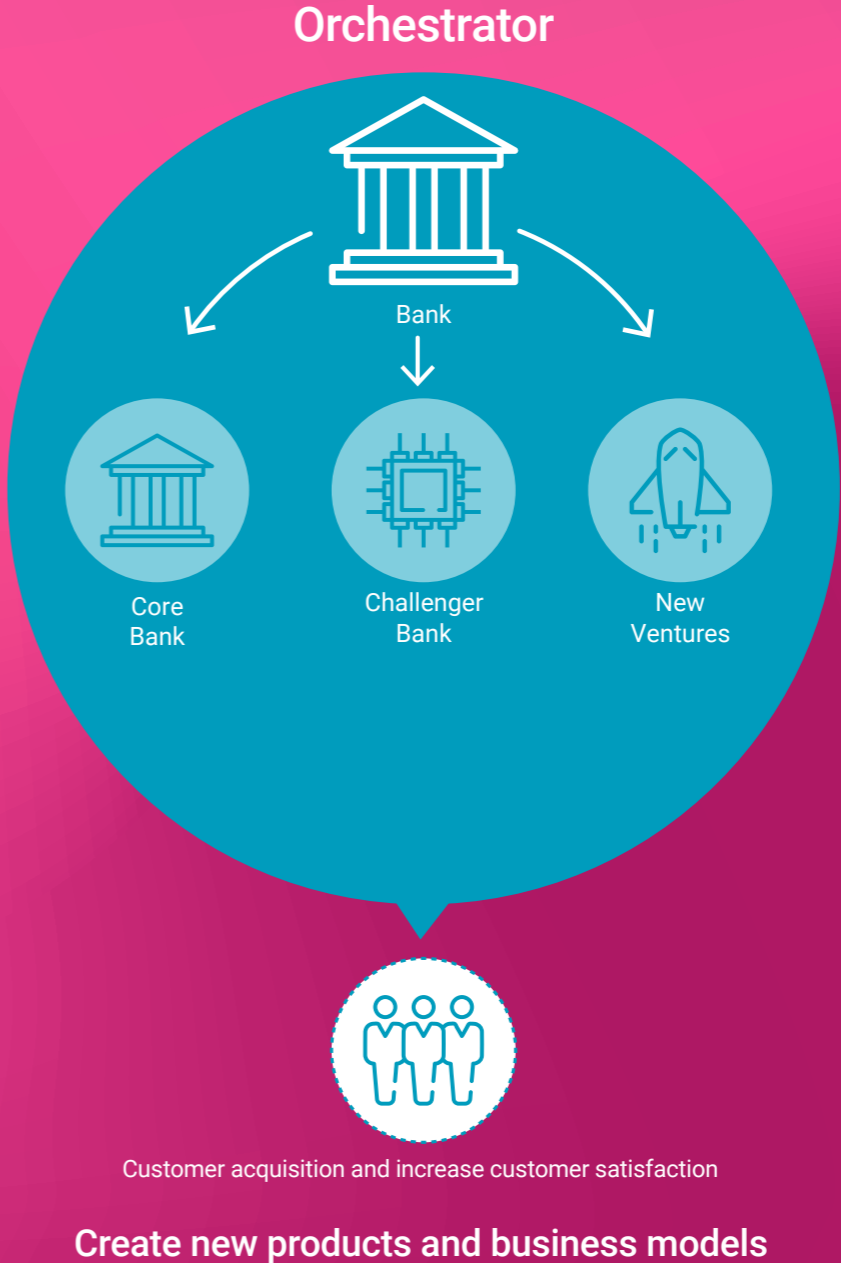
Models for Open Banking in Asia

Three key business models

As Asia's Open banking ecosystem grows and matures, three business models are coming to the fore for digital banks: orchestrator, aggregator, or distributor.

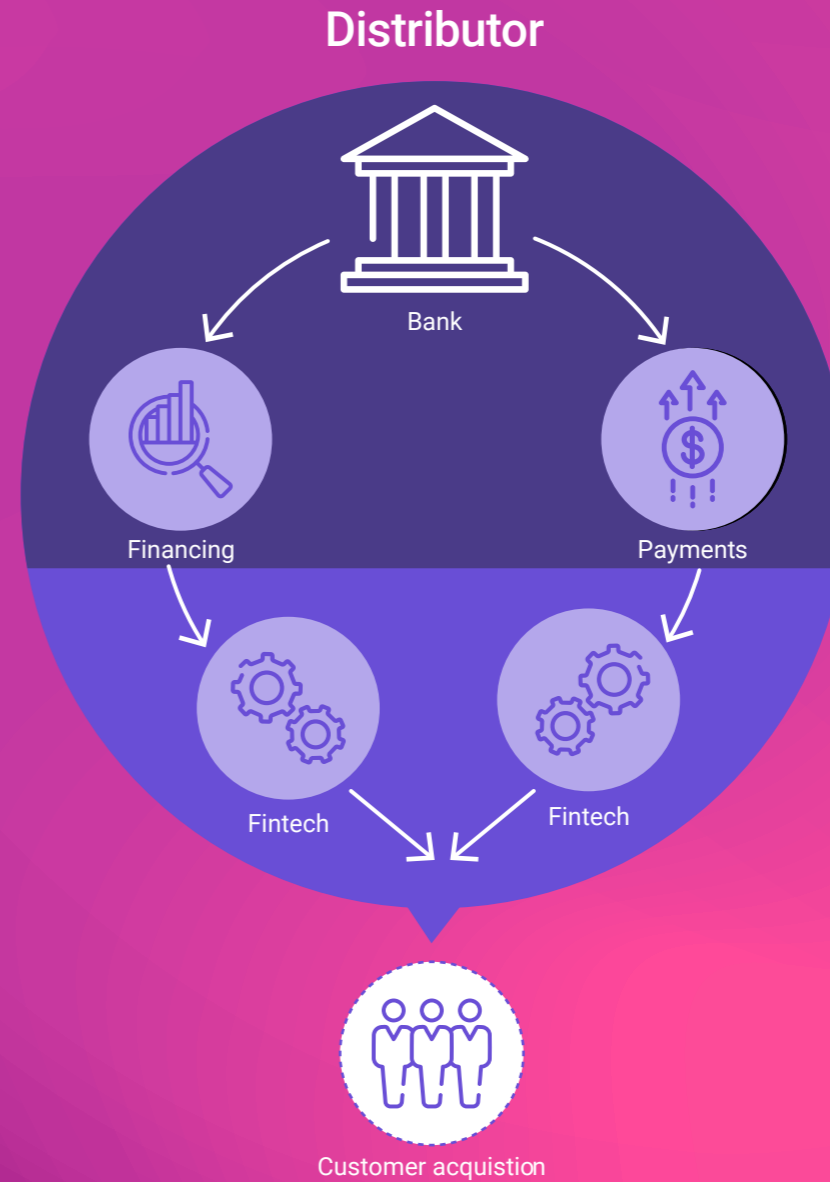
01 Orchestrator

The **orchestrator** business model is a marketplace where like-minded companies come together to showcase and bring their ideas to market. It's based on multiple partnerships between banks and various players such as digital lending providers and payroll companies. Speed-to-market is vital, and the partners can collaborate via open APIs to access regulated banking services securely and in real time, while collaborating to improve customer satisfaction by reviewing products and services.



02 Distributor

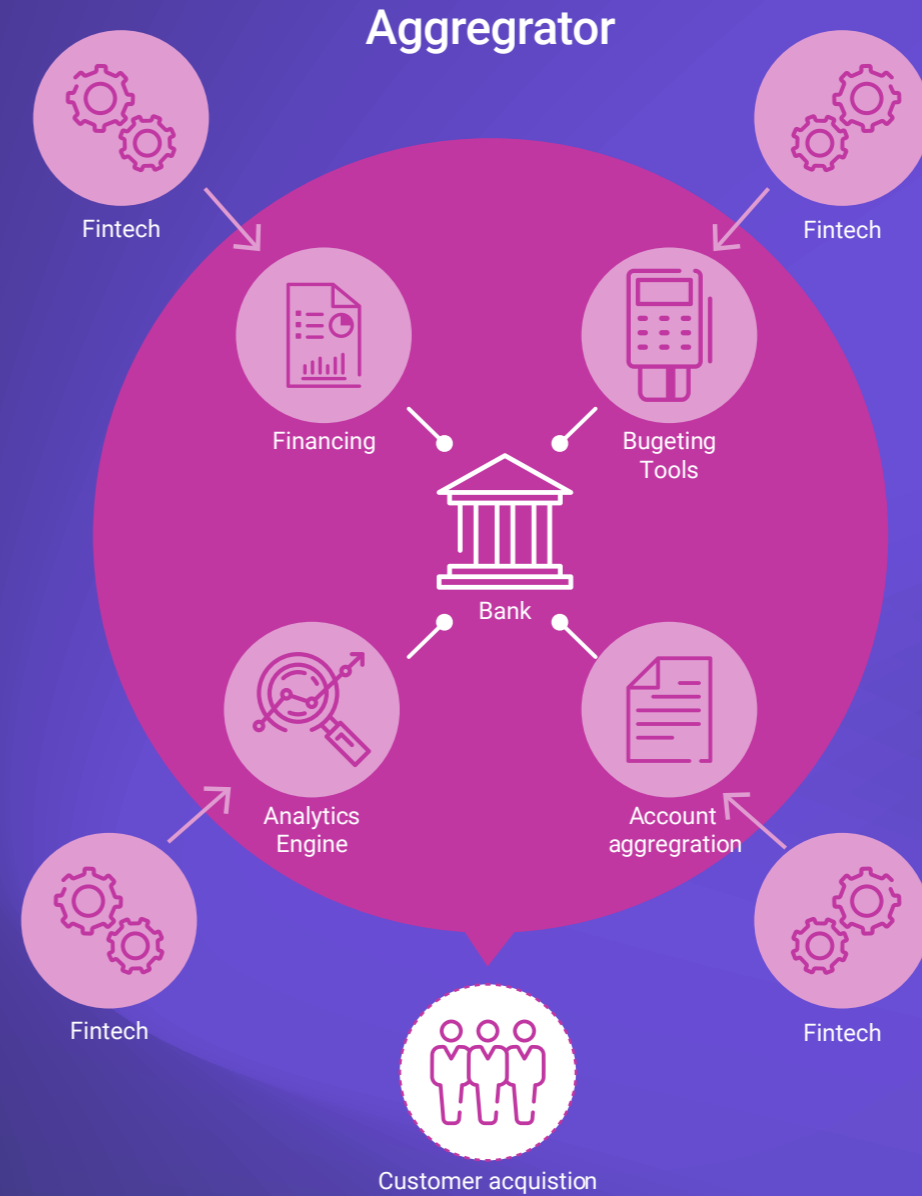
The second business model is the **distributor**. This involves the bank crossing its products with various third parties, typically fintech companies. Under this model, the bank tends to focus on customer acquisition while the fintech distribution channel takes care of servicing. The bank benefits from rapid customer acquisition while taking responsibility for the ledger and product liabilities.



Collaboration with fintech customer acquisition

03 Aggregator

The third business model – the **aggregator** – involves putting together a wide array of digital use cases ranging from KYC and OCR for onboarding to customer spending patterns and behaviour in terms of saving and lending. The bank uses this information to work with multiple third-parties, collecting and integrating the data to provide a high-quality user experience and transparency to the customer, boosting their satisfaction and loyalty.

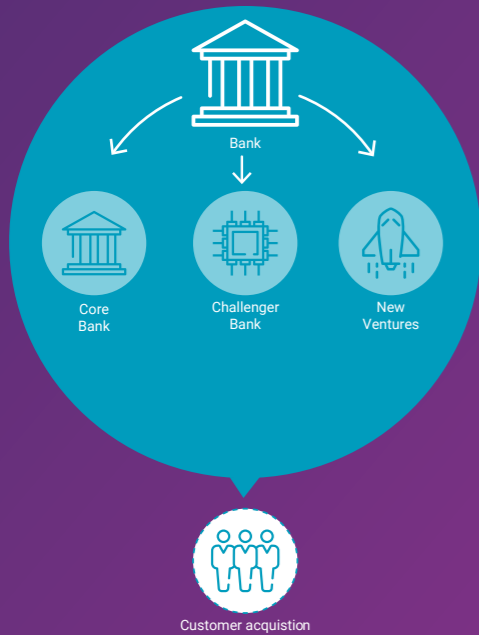


Enhance the existing core banking

Banks can apply each of these different business models to different streams of Open Banking – with each model offering its own specific benefits.

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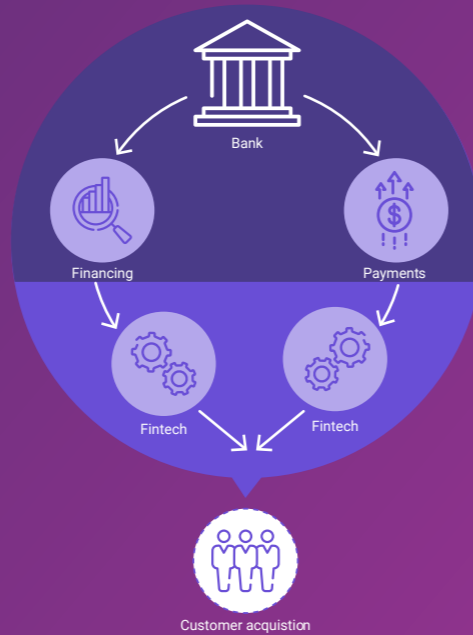
Orchestrator



Create new products and business models

02

Distributor



Collaboration with fintech customer acquisition

03

Aggregator



Enhance the existing core banking

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As a relatively new bank, we are building all three of the different strategies – orchestrator, aggregator, or distributor – through the open banking platform, with the goal of going live in 2020. That's our approach."

Ramu Arivuvel,
Chief Technology Officer, TONIK

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The way forward for Open Banking in Asia

Building the future of Asian Open Banking

Where is Open Banking heading in Asia? As we highlighted earlier, the core objective of Open Banking is to provide secure access to customer data, and enable banks and fintech to send apps and services around financial institutions. And the end-goal is to meet customers' expectations and provide great user experiences.

Like any framework, Open Banking and Open APIs in Asia – and every other region – face risks. We've already seen some of these risks emerge in the EU, for example through a lack of

standardization and non-performing or broken APIs. There are also questions around ownership and governance of customers' data. These issues are also among the risks and challenges that banks and fintech in Asia will need to deal with.

To help address them, Finastra's view is that what's required is more engagement with the region's regulators – and for regulators to come together and formulate the policy framework and governance model around Open Banking. Research shows that 56% of financial institutions in Singapore believe that regulations are a barrier to the whole framework – and 43% of their counterparts in Hong Kong agree.


As a technology provider, Finastra is working in the background with banks and fintech to support them in engaging with regulators. Our view is that regulators need to start considering cloud as a key technology for banks and other sectors. We are also helping digital banks bring solution onto cloud. However, the liability for finding the right fintech partners still lies with the bank, and there are also risks if the data is compromised.

To help banks address these issues, Finastra's FusionFabric.cloud platform has stores where we are onboarding, testing and validating fintech partners, and integrating them with our applications. In doing so, we are taking the effort

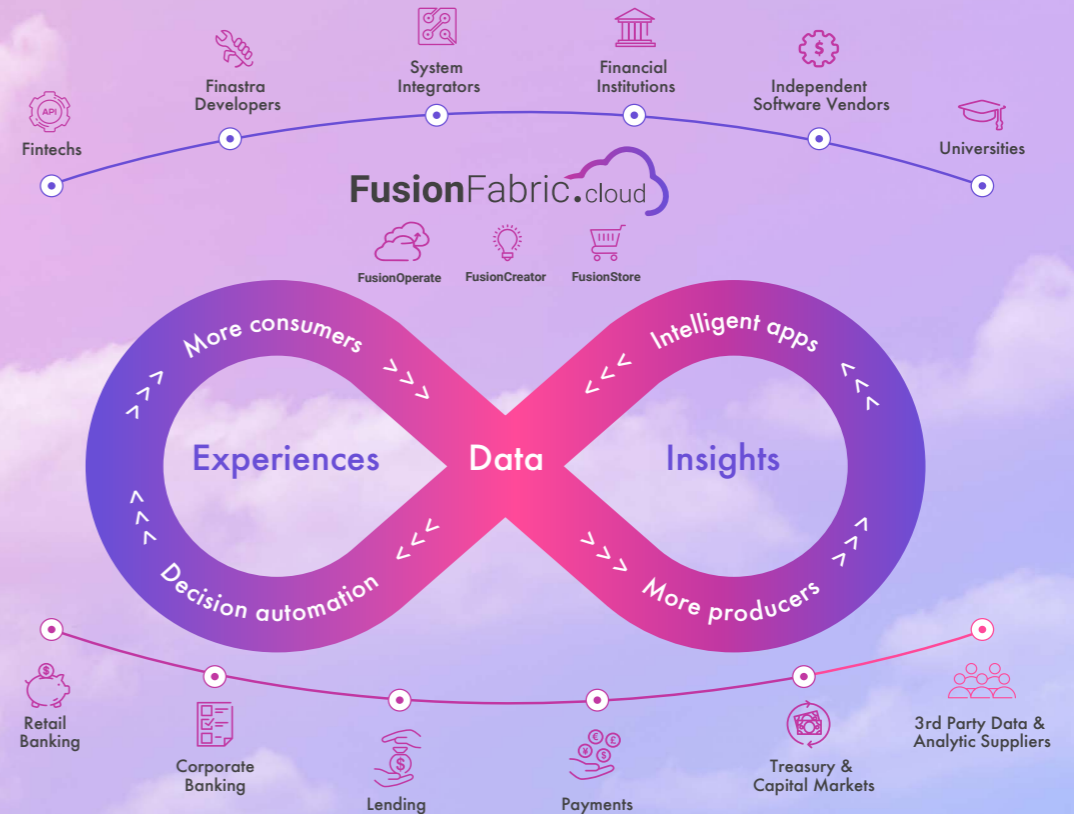
and risk away from the banks in terms of finding and validating partners, and providing an ecosystem where they can pick and choose the value-added services they most want to provide to their customers.

By owning these risks and taking the burden off the banks, we're looking to make a positive contribution to driving Open Banking forward in Asia and elsewhere. Given the rapid progress to date, we believe the future for Open Banking is bright – and that Asia will be in the forefront.

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of financial institutions in Singapore believe that regulations are a barrier to the whole framework - and



43%
of their counterparts in Hong Kong agree



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Finastra is unlocking the power of finance for everyone by creating a platform for open innovation in the world of financial services.



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About Finastra

Finastra is building an open platform that accelerates collaboration and innovation in financial services, creating better experiences for people, businesses and communities. Supported by the broadest and deepest portfolio of financial services software, Finastra delivers this vitally important technology to financial institutions of all sizes across the globe, including 90 of the world's top100 banks. Our open architecture approach brings together a number of partners and innovators.

Together we are leading the way in which applications are written, deployed and consumed in financial services to evolve with the changing needs of customers. Learn more at finastra.com

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