SwissBanking

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Open Banking

SBA position paper

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Changing customer needs, new stakeholders and new technologies are posing challenges for traditional banks. Against this background, open banking will change and have a lasting impact on the banking industry. In a world where the value chain is becoming increasingly fragmented, where customers are being served by a large number of different financial services providers such as banks, fintech companies, neobanks and service providers from other industries, it is no longer a question of whether open banking will establish itself, but in what form.

The Swiss Bankers Association (SBA) is closely monitoring this process and is reviewing the clarification of certain issues in this area with the aim of creating optimal framework conditions for the Swiss financial centre..

The SBA's Position

- The SBA recognises **the significant potential of open banking** for the Swiss financial centre. The SBA is therefore actively contributing to the establishment of framework conditions that facilitate business models based on open banking and thus increase the competitiveness of Switzerland's financial centre.
- At the same time, it must be ensured that if interfaces are opened to third parties, **trust** in the financial centre remains strong.
- **Regulatory measures** such as the forced opening of interfaces are not expedient. Free competition and customer needs in particular must and will decide whether open banking is implemented in Switzerland. It should remain the decision of the banks whether and with which third-party providers they wish to work.

The banks' view of open banking

The SBA defines open banking as a business model based on the standardised and secure ex-change of data between the bank and reliable third-party providers or between different banks.

- **"Standardised"**: The open standardisation of interfaces is a prerequisite for seamless third-party docking and error-free data exchange.[1] The standardisation of interfaces should to the greatest extent possible be based on recognised market standards.
- **"Secure"**: To ensure data confidentiality and security, technological safeguards are required.

[1] Such initiatives already exist in Switzerland, for example the activities of the SFTI working group Common API, the SIX b.Link platform (formerly Corporate API) and the openbankingproject.ch.

- **"Reliable"**: To ensure system integrity, it is necessary that only third parties who meet certain quality criteria – in particular the highest technical requirements – are granted access to the interface. This decision is made by the bank and its customers. The bank assumes responsibility, positions itself as a trustworthy partner and protects the interests of its customers. In doing so, every bank contributes to the security and stability of the Swiss financial centre and justifies why customers should continue to place a high level of trust in Swiss banks in the future.

Open banking – potential for all market participants
Through the standardisation and controlled opening of interfaces, customers benefit from the high pace of innovation and therefore also competitive offerings – while at the same time enjoying a high degree of stability and reliability. Corporate customers can, for example, improve their liquidity by integrating accounting software. Private customers can benefit from gaining an overall view of their personal financial situation by integrating various accounts from different providers.

For banks, collaboration with third-party providers by means of standardised interfaces can in turn result in efficiency gains and additional sources of revenue. Open banking makes it possible to improve the customer experience as a result of seamless transitioning between different offerings. Thanks to the mutual exchange of information, banks can increasingly also access the data of third parties and use these to offer innovative products. Further to this, open banking provides banks with an opportunity to position themselves as a key component of the platform economy and as a result, tap new revenue channels and reach a larger customer base.

Finally, open banking offers third-party providers such as fintech companies the opportunity to launch their products and services with fewer regulatory requirements (e.g. no need for a banking licence). By collaborating with established financial services providers, they have access to a broad customer base, which allows them to quickly scale up a business model. There is also a possibility for third-party providers to position themselves with innovative products directly at the interface between the bank and the customer, which facilitates the expansion of the product portfolio.

Trust especially important in an open financial ecosystem
The SBA recognises the opportunities that arise from opening interfaces and collaborating with third parties. However, it is key that this opening be not just one-sided. The mutual exchange of data offers all stakeholders added value, namely customers, third-party providers and banks.

However, the opening of interfaces and the increased exchange of data also gives rise to new challenges. Especially in the area of data protection and cyber security. For the Swiss banks, the protection of customer data is fundamental. The exchange of data must therefore take place at the highest technical level, which must be ensured not only by the banks involved, but also by the third-party providers. The most important prerequisite for open banking is that client data may only ever be passed on or processed with the consent of the customer. Customers must always know with whom which data is shared and what risks this can entail. They must always have the option of preventing the exchange of data. The rapid increase in the exchange of data that arises from open banking also results in a greater scope for cyberattacks. The collected data can be stolen or compromised.

In addition to these challenges come technical hurdles that must still be overcome. Standardised interfaces which enable the efficient and secure exchange of data are a helpful and important prerequisite in this area. However, the time and expenditures required to develop and maintain generally recognised interfaces are high, particularly if they are developed on a bilateral basis with several organisations. In this area, the SBA considers market-based solutions to be the right approach. State-imposed standards would unlikely be accepted in practice and could therefore actually impede rather than promote progress.

No regulatory obligation
In many countries, open banking is typically driven either by regulation – for example, as in the case of the EU PSD2 regulation – or by the market environment. The implementation of interfaces in accordance with the PSD2[2] was expensive and cumbersome, and there is still a lack of evidence proving that customers are in effect using them. The SBA believes that a voluntary model arising from the market and customer needs can develop significantly better.

The forced one-sided opening of interfaces can actually hamper progress in this area. This is mainly because rigid government measures often fail to take rapidly changing market needs into account in regulation, as reflected in a number of the experience reports from the EU with PSD2 to date. Market solutions are often significantly more flexible and can be better adapted to changing trends.

For the SBA, it is key that the banks' freedom of contract be unrestricted and that market participants have the ability to decide for themselves which third parties they wish to collaborate with. In such a context, it is then the customer who decides, based on their needs, whether and how open banking will ultimately prevail. This is the only way that the Swiss financial centre will develop customer-orientated and non-government-ordered solutions in the area of open banking. Solutions that can also prevail in international competition.

[2] The Payment Services Directive 2 (PSD2) is an EU regulation. Among other things, it requires banks in the EU to provide third-party providers (TPPs) access to bank accounts. Switzerland is not obligated to implement the PSD2 (either directly or indirectly), as it is neither an EU nor an EEA member, and no such obligation is contained in the bilateral agreement with the EU.

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