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COMMERCIAL BANKING
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ACKNOWLEDGMENT

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EDITOR'S LETTER

The rapid growth in online banking tool adoption and the proliferation of application programming interfaces (API) has caused both businesses and consumers to begin seeing the benefits of a world in which traditional banks no longer play integral parts in the financial transaction process. Financial institutions (FIs) today must now compete with third-party financial services providers that want a piece of the $416 billion corporate banking market.

Banks can blame these developments at least in part on the progress of APIs, which allow for the exchange of information in a simplified, standardized way. APIs, when paired with the cloud and corporate enterprise resource planning (ERP) systems, make financial information easier than ever before to access, share and integrate into a company's internal systems, sidestepping banks' input.

It is more important than ever for banks to find innovative ways to win companies' business. With the trending popularity of open banking, corporate clients are not just looking for an FI that allows them the ability to send and receive money but also a partner that can integrate their products and services with the accounting solutions that businesses themselves employ.

The global spread of API integration has paved the way for further open banking growth. One of the most promising markets for innovation and competition in the future of commerical banking is open banking, which allows entities to share financial data with third-party FIs, enabling even companies that are not technically banks to act as a financial intermediaries without a banking license — a rapidly growing model known as banking as a service (BaaS).

This means that businesses and third-party FinTech companies can now act as financial services providers, offering debit cards, digital lending solutions or payment services through their apps and websites. Traditional banks, up against the ropes, are reinventing their service offerings, with 47% investing in or developing APIs last year and another 25% expected to do so in 2022, according to reports.

This edition of the Next-Gen Commercial Banking Tracker®, a PYMNTS and FISPAN collaboration, explores open banking's recent growth and examines how businesses' banking needs are shifting as they migrate more of their financial operations online. It also analyzes how corporate FIs can tap emerging technologies such as APIs to seamlessly integrate with businesses' systems and explain why such integrations are crucial to the future development of the next-generation business banking ecosystem.

Thought Leadership Team

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Feature Story

Bank Of Montreal **On Personalizing Functionality With Open Banking**

EVEN IN A PANDEMIC, BUSINESS MUST CONTINUE OPERATING, DESPITE CHALLENGES THAT KEEP EMPLOYEES WORKING FROM HOME AND PREVENT THEM FROM INTERACTING FACE TO FACE.

As a result, commercial banks have noted a demand for products and services that can make their clients' financial processes quicker, safer and more efficient.

The Bank of Montreal (BMO) was founded in a small, rented house in 1817, making it Canada's oldest bank. It is now one of the five biggest banks in Canada and the eighth largest bank in North America, with more than $988 billion in assets and upward of 12 million commercial banking customers. Banking has evolved significantly since BMO's early days, but its goal of earning depositors' trust remains the same, and open banking is a trend that is making that happen.

Open banking is predicated on API technology, which enables banks and businesses to exchange and process data quickly and seamlessly without physical input from the bank. Such tools can benefit both businesses and their customers by reducing the risk of human error, freeing up treasurers for more strategic tasks and saving time and money. Bank statements and notifications can be sent seamlessly 24/7 year-round, and payments can be released automatically and directly from internal tools such as ERP programs.

Open banking also creates competition for traditional banks via the rapidly growing BaaS model. Third-party FIs and companies can use shared financial data, allowing them to act as de facto financial intermediaries without the need for banking licenses. The result is that traditional banks are being challenged to rethink their digital services and products as corporate customers seek banking partners that can tailor their products and services to the accounting solutions they already use.

"Online banking is not a vacation destination. Our clients want to get in, get it done and get out," said Sean Ellery, head of digital and innovation in commercial banking at BMO Financial Group.

Ellery said this has always been true of corporate banking clients, as they generally have multiple competing demands for their time and attention. The pandemic's extra challenges made it clear, however, that BMO's clients needed to focus on their businesses and not on their banking.

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PERSONALIZING FUNCTIONALITY

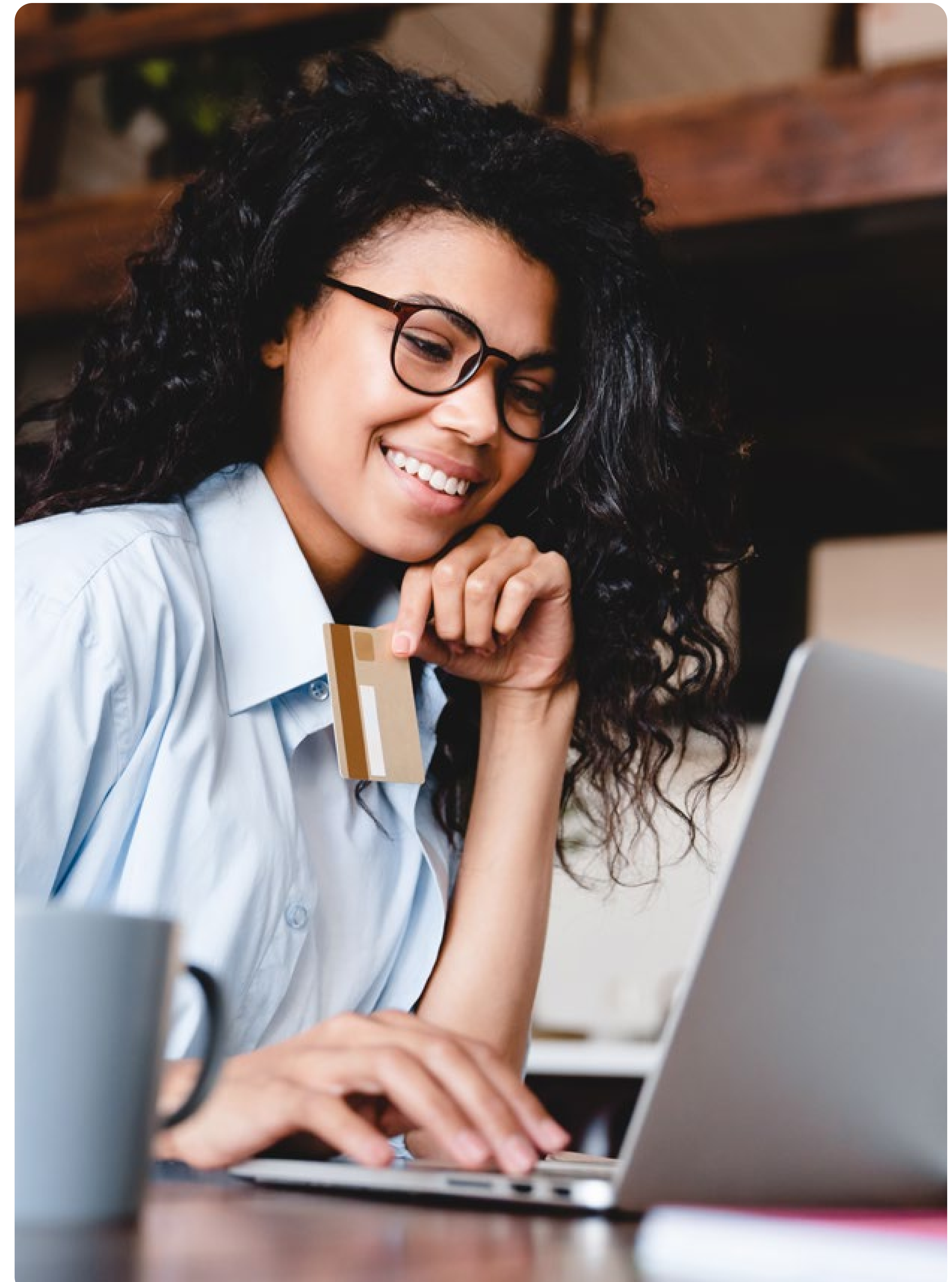
In an online discussion last November, Ellery said that BMO held focus groups to gain feedback on what clients were looking for in their banking. What the company found was that customers wanted not only functionality but also personalized experiences, such as alerts and automatic payment processing. Using real-time analytics, BMO retooled its commercial banking digital client experience to replicate the user-friendly, self-service options found on its retail platform.

One of the greatest benefits of open banking, Ellery said, is that it allows the bank to explore different industry partnerships and integrations faster and with much lower risk, enabling the company to expand its offerings beyond the traditional online banking platform.

"Open banking helps us make banking easier for our clients," he said. "We're able to build new, innovative solutions into our existing infrastructure that allow our clients to automate certain tasks and gain personalized, actionable insights in real time."

Data security is one of the biggest concerns about open banking, as it involves the sharing of financial and personal data with third parties. Ellery said that, while BMO's clients control their data, he likes to think of the bank as serving them in a custodial role. That means aligning with — or exceeding — industry standards for authentication and protection of information and identities. Of course, another of the bank's roles is that of educator.

"Open banking and APIs are still new for many of our clients, so education is key," he said. "We must help them understand how their data is used and shared, and what that opens up for them."



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Q&A

CLAYTON RACINE WEIR

CEO and co-founder

FISPAN

The pandemic has resulted in a significant shift in businesses' banking and other financial needs. How can open banking APIs help unlock access to products and services that are in step with businesses' banking needs?

With APIs, they're not the thing that solves the problem; they're the thing before the thing. With the pandemic and the nature of teams being distributed and people working asynchronous hours more and more now … more digital tools [are required] for any job.

There's a fun analogy from early in the pandemic: There's like a 100-year-old business called Dressew in Vancouver that sells bolts of fabric. … It was the most unimaginable business to be an eCommerce player all of a sudden, but it was forced to out of necessity.

That replicated across different types of businesses in different business functions. … What [the pandemic] heightened was the need for these digital tools, different apps, things that solve different operational problems, whether for finance teams or for the business in general.

For those to work properly, from a banking perspective, it ultimately requires APIs and open banking infrastructure to enable those things to interact with bank data or bank services and ultimately achieve the business value that you were hoping for when you bought those different pieces of software.

Unlike Europe and the Asia-Pacific region, adoption of open banking in the U.S. has been relatively slow. What are some of the factors that are hampering the growth and development of open banking and what needs to change?

One thing that's really true in the U.S. versus Europe is that it's not a regulatory thing here, right? In Europe, and in the U.K., it was this government-mandated initiative — PSD2 — that you would have to allow certain types of people to access certain types of things via this open banking platform.

If that's the definition, there's no open banking happening in the U.S. in that way, because there's no pan-national federal regulation that said that banks had to do that, or that financial institutions had to do that.

There's a completely different way to spin it. … [In the U.S.] there is sort of this gray market open banking that sort of predates the idea of a formalized [initiative] where there are these aggregators that use screen scraping technology to facilitate open banking, [and] things where third-party apps can get certain financial data from you under your consent and [their] app builders can create an experience.

So, in some ways, America's quite a way [along] — you might even argue that they're ahead. They've had that type of option for 20 years now. And all the large FinTech anchors of the last decade or more since the financial crash — the Wealthfronts and the Robinhoods — that's what they've relied on to build their businesses.

Measuring [the two styles of open banking] would be really different depending on how you slice that data, but what is generally true versus Europe is that North America doesn't have a regulatory regime. My gut sense is that what's different versus Asia or certain developing markets is there's that little bit of a phenomenon where you sometimes skip the legacy infrastructure so you jump right to the future.

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How can embracing open banking help U.S. FIs better compete with new entrants in the financial services space?

You have to believe the high tide rises all boats, because obviously with open banking, the first order effect is that it hypothetically creates more competition, and it should enable more FinTechs to offer a wider range of services.

One way to look at open banking is to think about everything that you've thought about a bank doing historically and changing the idea from it being money in the vault to being data, as opposed to keeping your money safe and sharing the money where it needs to go or lending it to people and managing that kind of circle of money flow and safety.

You might imagine that the bank's job in the future is to do [those actions] with your data. ... Say I'm trying to get ... student loans for my kids, or I'm trying to get this mortgage, and I want you to facilitate an easy way to share my data with this provider or that provider so that I can get that mortgage, then that's their job.

I think even in the future there might be a business model [for FIs], because [an FI is] a very safe custodian, the same as with your money. It's a very safe custodian with your data, hypothetically, to begin with, and then they're in the business of sending it or extending trust to these other domains.

How do you anticipate the open banking landscape to evolve in the next five years? How is it going to change the commercial banking space?

It's going to move a lot in five years. It has moved a lot in the last couple of years — the banks are talking about it and they're really running with it. ...

I think, at some point in the U.S., there'll be some kind of a concerted effort by one of the regulatory regimes to do something on this. So that very well might happen within the next five years.

What you will see is there's this virtuous cycle to [open banking]. As the banks make more and more services available, there'll be more and more startups that add that kind of build on top of that, that create more and more value propositions that will coax out more and more things that the bank can do and should do.

I think that we'll see a material growth in this over the next five years. It's up in the air whether it will actually be formalized as a regulatory framework, but it's probably [trending] up and to the right, from my perspective.

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PYMNTS Intelligence

How Open Banking Growth **Impacts Business Banking Prospects**

The pandemic forced many consumers and businesses to rethink how they make payments or conduct other previously routine banking functions, sparking rapid growth in the adoption of online banking tools. One report suggested that the health crisis propelled digital adoption forward five years.

This digital banking expansion has followed familiar consumer trends, with advances in mobile payment technology happening much faster than anticipated as retailers and FIs pivoted in response to consumer demands for contactless ways to shop and pay their bills. What businesses expect from their relationships with their FIs has also irrevocably shifted from previous norms. Open banking, which is powered by third-party FIs accessing the financial data of corporations and individuals with their permission, is gaining steam with the help of innovation. The increased use of API technology that enables computer systems to exchange and process data quickly and seamlessly has made it easier to exchange financial data without physical input from the bank.

The bank itself becomes nonessential in this style of financial transaction, and that can benefit both businesses and their customers by saving them time and money. APIs reduce the risk of human error, freeing up treasurers for more strategic tasks. Bank statements and notifications can easily be received 24/7 year-round, and payments can be released automatically and directly from internal tools, such as ERP programs.

APIs are certainly not new. According to one report, some 80% of banks already use them to connect internal systems or provide customers with features that do not require bank portals, such as accessing an account or making cross-border payments through a client's ERP system.

Entities around the world are utilizing APIs, but their use appears to be most widespread in the Asia-Pacific region, according to one report, which found that some 69% of Chinese businesses use them. Thailand businesses came in second at 55%, and about 54% of United Kingdom businesses currently use APIs. Sensing a need to compete with counterparts as open banking becomes more popular, FIs have begun implementing APIs. One report estimated that the percentage of banks and credit unions that have invested in or developed APIs has grown from 35% in 2019 to 47% in 2021, and another 25% plan to invest in or develop APIs in 2022.

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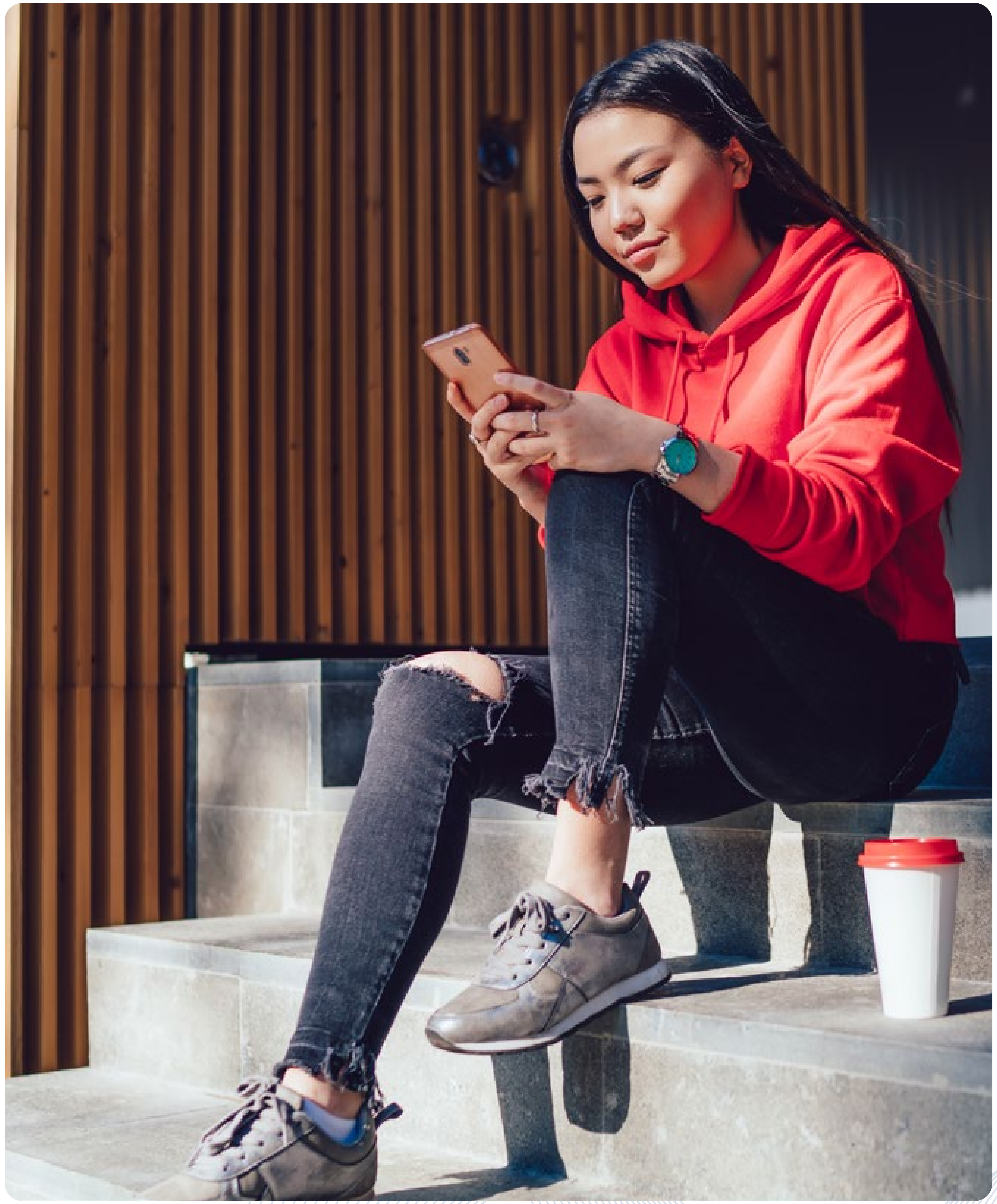
OPEN BANKING'S GROWTH AND FUTURE USES

Open banking's benefits are staggering, and they include more effective cash management, as it enables banking to be done in real time with more visibility, giving treasurers the ability to shift money strategically and preventively to avert shortages and optimize surpluses. Loan access becomes much easier through open banking, as financial information and necessary documents are instantly available and processing time is dramatically shortened. Armed with the ability to view consolidated, aggregated accounts across banks or regions, commercial banks become advisors that can have data-driven conversations with clients to recommend strategies and solutions.

Open banking is expected to become ubiquitous within a short period of time. According to one report, the number of global open banking users is expected to grow annually by approximately 50%, rising from 25 million in 2020 to 132 million by 2024. Most of that growth will occur in the European market, which had already accounted for more than 12 million users in 2020 and is expected to grow to 64 million.

What might these developments mean for the future of open banking? One change could be that third-party FI startups and business entities may attempt to become banks. API proliferation has given rise to BaaS models that allow licensed banks to integrate digital banking services directly into their commercial clients' products. A business could therefore offer debit cards and digital lending or payment services to customers through an app or website without needing to acquire a banking license.

A world powered by open banking is also one in which banks will have to compete to gain and keep business as companies move their financial activities in-house. One report stated that more than 35% of corporates are considering third-party providers for advanced financial services or have brought those functions in-house to enable self-service. Another report found that $416 billion in banking revenue is at stake as the shift toward an open data economy increases competition with third-party financial services. Organizations that embrace open banking will be best prepared to thrive in this competitive future.



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NEWS
& TRENDS

GLOBAL BUSINESS BANKING DEVELOPMENTS

THE DIGITAL DRA PARTNERS WITH YOLT TO EASE CONSUMER DEBT WITH OPEN BANKING

In a move that will leverage open banking payment and data services and improve debt resolution in the U.K., open banking provider Yolt recently announced a partnership with The Digital Debt Resolution Agency (DRA), a U.K. startup that works to help consumers manage their debt. The partnership will power a service scheduled to launch in January that will help The Digital DRA resolve debt collection accounts. The online platform will streamline the way consumers fill out income and expenditure forms, create and update budget planners, and manage their payments online. According to Yolt CEO Nicolas Weng Kan, adding open banking capabilities to The Digital DRA will help reduce inaccuracies and manual data gathering while also allowing consumers to set up more affordable repayment plans based on their changing personal financial situations.

FABLE FINTECH LAUNCHES OPEN BANKING HUB

Touting the ability to allow banks to streamline onboarding and integration processes for large and mid-sized corporate customers as well as ERP systems, aggregators and payout partners, software-as-a-service company Fable Fintech recently unveiled a new plug-and-play open banking platform called API Hub. The hub, which launched in December, aims to help banks offer an independent platform to corporate banking clients and their ERP systems, founder and CEO Naushad Contractor said in a recent report. Contractor stated that API Hub features a library of APIs that will help accommodate seamless and secure cross-border and foreign exchange transactions that can be customized to the customer's technology stack.

OPEN BANKING AND API TRENDS

MOST CONSUMERS WILLING TO SHARE DATA FOR IMPROVED DIGITAL FINANCIAL EXPERIENCES, STUDY FINDS

A December 2021 report found that a large majority of consumers in the U.S. and Canada are willing to share their financial information with FinTechs in exchange for more convenient and faster digital financial experiences. The Mastercard report suggested that nine out of 10 consumers in both countries use online and mobile financial apps to manage their money. Of the 4,000 survey respondents, 82% use online and mobile apps to pay bills, while 80% use them for banking.

It also reported that 59% of respondents said FinTechs save them time and effort, and they are happy to share their financial information with them. The report found that 74% of consumers in the U.S. and 65% of consumers in Canada either have connected or would consider connecting their bank account information to financial apps and services to make financial tasks more automatic. Convenience was cited in the report as one of the major reasons consumers are willing to embrace open banking, as 68% of U.S. consumers and 69% of consumers in Canada said they would be willing to do so to easily send money.

MORE BANKS OFFERING API FUNCTIONALITY, REPORT FINDS

In a sign that more banks worldwide are jumping on the open banking bandwagon, more banks are offering APIs, according to a new report, which revealed a 17% increase in APIs offered per bank between 2020 and 2021. The increase means that these APIs offer consumers a greater variety of common banking functionalities. The most popular API functionalities involve account information, payment initiation and payment management. These are followed by customer information APIs, which enable the controlled sharing of select data attributes. The report also noted an increase in corporate APIs that are driving efficiencies as well as improved customer experiences in transaction banking operations, which include trade finance guarantees, electronic bank account management and real-time cash pooling functionalities.

OPEN BANKING PROJECTED TO KEEP TRENDING UP IN 2022

Recent reporting estimated that 25% of banks and credit unions will invest in or develop APIs in 2022. API growth is one way to measure the open banking trend that has proliferated in recent years; the percentage of banks and credit unions that have invested in or developed APIs grew from 35% in 2019 to 47% in 2021.

According to the report, one in 10 banks is in the process of developing a BaaS strategy, and another 20% are considering pursuing a BaaS strategy. BaaS solutions allow third-party digital banks and FIs to connect with legacy banks through APIs, empowering the construction of more banking options. An anticipated 2022 trend is the proliferation of BaaS infrastructure providers (BIPs). Some common BIPs already in existence include Bond, Moov, Synctera, Treasury Prime and Unit.

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FISPAN

FISPAN's contextual business banking platform makes it simple for banks to offer commercial banking services embedded within ERP and business applications. FISPAN enables banks to provide a best-in-class commercial banking experience by removing friction and adding value to the systems clients rely on to run their businesses every day.

For more information, find us at www.fispan.com.

We are interested in your feedback on this report. If you have questions or comments, or if you would like to subscribe to this report, please email us at **feedback@pymnts.com**.

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