

Once unthinkable, open banking, unfettered access to banking services via an interface, has now become a trend. Open banking allows third-party providers (TPPs) to offer their own financial services to clients, irrespective of the bank that actually manages the account. This expansion of the customer interface has already been regulated in the EU and currently operates on a voluntary basis in Switzerland. What are the key success factors when it comes to opening up such access and what insights might the Swiss glean from their neighbours?

In Switzerland, an important financial centre, changing customer needs, innovative technologies and a growing and diverse range of financial service providers, including banks, fintechs, neobanks and non-financial-sector players, are all ratcheting up the pressure on traditional banks. The regulated introduction of open-banking standards is leading to increased international competition within the euro area, and the positive effects of this change are already being felt. The era of open banking was ushered in by EU regulators after legislation forcing financial institutions to open up customer interfaces, the Revised Directive on Payment Services, or PSD2, was passed. Interest groups from the software and banking industries in several member states, such as the Berlin Group in Germany or Open Banking Limited in the UK, have adopted these procedures. The goal is to ensure that as many banks as possible follow the same protocols in adherence to the regulatory guidelines, thereby enabling standardised access for TPPs. While there is justified concern that such new regulation may hamper and unnecessarily restrict the momentum of the sector, a free and transparent capital market with a standardised environment that is nonetheless sufficiently flexible

to accommodate international factors, for example Swiss exceptionalism, certainly represents a major opportunity.

A new business model

The Swiss financial industry is not currently subject to PSD2-style regulation and any "compliance" has so far been voluntary. One of the key challenges concerns the fact that the adoption of such a system would require an ideological regime change. Traditionally, Swiss banking has relied on absolute discretion, reserve and trust. The demise of banking secrecy and the advent of tax treaties has already largely pulled the rug from under the first of these and now open banking is driving a fundamental opening-up of the business model and the integration of TPPs. This could lead to banks losing their direct interface with clients.

At the same time, an expansion strategy offers considerable potential for growth and represents an opportunity to retain the trust of customers. Publicly accessible interfaces enable TPPs to deliver specialised services to clients in a faster, more efficient and more user-friendly manner than banks operating monolithically – this is a familiar pattern with successful startups. Here, the bank's hand is strengthened by openness, as it

can use an enhanced service portfolio to respond nimbly to the market and boost its competitiveness. The logical outcome is a quicker time-to-market with new services. Both of these improvements will have positive ramifications for a bank's image amongst the online community: customers will see that new and attractive services are coming on stream for their bank and this will promote acceptance and generate favourable feedback. Standardisation of open interfaces will allow banks to benefit from an ecosystem of partners to cater for rapidly proliferating customer needs – it can also open up new revenue streams from cross-sector sources, creating further added value for the client base. A modern bank will therefore need a business model that is consistently orientated towards agility and adaptability.

Opening up – the success factors

A successful opening requires rock solid IT security and a corporate IT infrastructure that is fit for development. Liability issues arising from cooperation with TPPs must also be settled.

The ability to provide interfaces (APIs) and expose them to the outside world on robust enterprise architecture is critical. While running APIs is a standard task, the

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latter is still anything but a given – specialised components such as API gateways are required to make technical interfaces available to multiple TPPs in a controlled manner. What's more, not only users have to be authenticated but organisations. Existing models taken from interactions with users, for example e-banking, cannot be applied, one-to-one.

More interfaces mean more attack surface and, thus, new risks. As TPPs receive a direct channel into IT infrastructure, banks must take particular precautions in order to be able to monitor the effects on their core business as closely as possible. Here, too, tried-and-trusted defence mechanisms from e-banking cannot be transferred directly to APIs.

In addition, banking customers will want to decide for themselves who

can access their data and to what end. User-consent forms must be incorporated into digital processes promptly and without the need for complicated contractual detours. Setting up a system to acquire such permissions quickly, securely and with minimal hassle is a key success factor and a core requirement for banking customers.

The questions of liability for damages under this kind of regime and the extent of any third-party obligations have yet to be defined. These issues were resolved under PSD2 in the EU, with liability residing entirely with the banks but financial institutions in Switzerland are digging their heels in against a 100 per cent adoption of such a regulation. In the absence of formal guidelines, however, Switzerland runs the risk of stymying the open banking concept and falling behind the rest of the world.

The last success factor is the actual "meat on the bone" – the standardised definition and development of interfaces for TPPs. In order to serve as many different use cases as practicable with the fewest possible interfaces, it makes sense to divide today's often complex service landscape into elementary building blocks: this is the only way the innovative power of fintechs will be able to evolve freely. How small these building blocks might ideally be will depend on your vantage point: banks have an interest in retaining as much of the value chain as possible, while fintechs will typically want to make use of services that are as far upstream as possible and to add their own value. Quite where the "happy medium" lies remains to be seen. Banks that adopt a standard PSD2 API will be subject to significantly more restrictions, which may prove a blessing in

Open banking in Switzerland – an overview

There are currently eight different initiatives promoting the establishment of open banking in Switzerland. Ergon is a founding partner of OpenBankingProject.ch.

PROJECTS	AIMS	SERVICES OFFERED	CUSTOMER SEGMENT	COVERAGE	STRENGTHS
<p>Avaloq.one Ecosystem avalog.one Live since April 2019</p>	<p>Promoting the development of innovative, open banking solutions and simplified integration of fintechs with Avaloq banking systems, via standardisation</p>	<p>Market place including developer portal with API documentation, sandboxing and API management services</p>	<p>Banks and fintechs, global</p>	<p>Account information, credit, customer services, asset management, robo-advisors, payments, securities trading, PSD2 Berlin Group</p>	<ul style="list-style-type: none"> > Rapid self-onboarding > Sandboxes for banks and developers > Complete API lifecycle > BIAN standardised REST APIs
<p>Common API common-api.ch Live since September 2018</p>	<p>API specifications tailored to Switzerland's financial industry and support for enabling and reference implementation</p>	<ul style="list-style-type: none"> > Information portal > Knowledge-sharing platform > Coordination committees > Networking 	<p>Banks and insurance companies, third-party providers, regulatory bodies and authorities</p>	<p>APIs for banks' and insurance providers' business segments that include non-differentiated services or those for which there is significant demand</p>	<ul style="list-style-type: none"> > Cross-sector and vendor-independent project > High level of networking in Switzerland's financial centre
<p>Finnova Open Platform finnova.com/en/open-platform.html Live since April 2020</p>	<p>Supporting banks' individual digitalisation strategies and enabling open ecosystems</p>	<p>Solution modules for integration and orchestration projects for banks with third-party systems and the Finnova core suite</p>	<p>Banks, financial-service providers and third-party providers</p>	<p>Support for integration and orchestration of third-party systems, both amongst themselves and with the Finnova core suite</p>	<ul style="list-style-type: none"> > Efficiency and effectiveness > Reuse > Differentiability > Cost benefits in orchestration > Integration and operation
<p>Hypothekarbank Lenzburg AG Open Banking Platform Finstar finstar.ch Live since January 2018</p>	<p>Connecting partnership-oriented and tech-savvy companies in an innovative network for a growing ecosystem</p>	<p>"Banking licence as a service" for payments, cards, account information and investment business</p>	<p>Swiss banks, financial-service providers and third-party providers</p>	<p>Online onboarding and account opening, payments, cards, account information, fixed-term deposits</p>	<ul style="list-style-type: none"> > Flexible and rapid implementation > Networking between sectors and stakeholders > Banking services with API functionality
<p>Inventx Open Finance Platform inventx.ch/ofp Live since January 2020</p>	<p>A service ecosystem aimed at the specific needs of the Swiss financial industry</p>	<p>Agile "prosumer" network in which both service consumers and providers play an active role</p>	<p>Swiss banks, financial service providers, third-party providers and application/integration providers</p>	<ul style="list-style-type: none"> > Highly secure ix.Cloud combined with financial applications > Simple integration of partners and individual access to services 	<ul style="list-style-type: none"> > Vendor independent > Security layer > Cost reduction through economies of scale > Access to wide range of financial services
<p>Open Banking for Switzerland from SIX six-group.com/b.link Live since May 2020</p>	<p>Simplification of cooperation between banks and third-party providers to focus on developing an innovative range of services for end clients</p>	<ul style="list-style-type: none"> > Solution including contractual arrangements and approval testing for third-party providers > Platform including API specification > Option for monetising API calls 	<p>Swiss financial institutions and third-party providers</p>	<p>First applications: account information and payments, with focus on accounting solutions and multibanking</p>	<ul style="list-style-type: none"> > Comprehensive solution covering technical, regulatory and legal requirements > In production at Swiss banks
<p>OpenBankingProject.ch openbankingproject.ch Live since December 2019</p>	<p>Exploitation of API standards and coordinated expansion within the community as a basis for new business models</p>	<ul style="list-style-type: none"> > Networking and knowledge platform > Operationalised APIs including sandbox > Networking and community events 	<p>Swiss banks, financial service providers, third-party providers and application/integration providers</p>	<p>Account information, payments and financial statements as a Swiss adaptation of the Berlin Group's NextGenPSD2 API; ongoing expansion in fields of securities and financing</p>	<ul style="list-style-type: none"> > Independent, neutral and broad-based project > Integrated approach > Instantly useable, well-established API standards > First version of API in use
<p>Open Business Hub marketplace.bankinghub.swisscom.ch Live since May 2018</p>	<p>Technical support for development of partner networks and connection to other hubs</p>	<ul style="list-style-type: none"> > Shared technology: API and integration layers, monitoring and security framework > Development, integration and operation of interfaces > Market place 	<p>Swiss banks, financial service providers and insurance companies, e-government, third-party providers</p>	<ul style="list-style-type: none"> > Covers all retail and private banking segments > Cross-segment integration of banking and insurance services 	<ul style="list-style-type: none"> > Cost sharing via scaling > End-to-end interface management > Security of partner network > Comprehensive service features

disguise – thanks to standardisation, they can expect more TPPs to use their APIs and, thus, will be able to generate greater utility and higher returns on investment.

A diverse spectrum with a rosy future

It is worth looking to the UK for a glimpse of what the future might look like. Its open banking API standard applies to far more than just payment transactions – it covers all aspects of banking that are relevant from the user’s perspective. The upshot is an ecosystem of more than 200 regulated service providers consisting of TPPs, account providers and the major banks. The figures speak for themselves: more than 1.25 billion API calls were placed and processed in 2019, indicating high user acceptance.

The success factor that tipped the balance for establishing open banking in the UK was the extremely close collaboration between regulators and all market participants. A durable and sustainable public-private partnership was created that permitted the UK, alone amongst EU countries, to declare a single technological standard to be mandatory, with resounding success.

Switzerland’s financial market

Switzerland is still a long way off successes on the UK’s scale but voluntarily opening up interfaces represents a great opportunity to help shape the financial market and position companies actively. Individual banks have spotted this potential and have already implemented such a policy with success, managing to establish a fast-growing partner ecosystem with open banking and open interfaces based on their existing

IT environment. Several TPPs are backing this approach and have lost no time in bringing innovative services to market. Combining traditional and open banking enables a more efficient time-to-market, ensures satisfied customers and allows both the bank and the TPP to access additional revenue sources. The successes, and associated reputational dividend, achieved by these first-movers speak for themselves. How this will develop and which banks will manage to carve out a niche for themselves is still uncertain. The burning question on everyone’s lips: will the Swiss take the fight to the Anglo-Saxon countries with an ecosystem of their own? It is clear that open banking is set to influence and change Switzerland’s financial market over the long term, however, the exact contours of this transformation have yet to emerge. />

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Opening up securely.

Maximising customer focus.

Ergon offers a ready-to-use solution for open banking in Switzerland that meets the Swiss NextGen API standard and NextGenPSD2 as well as the highest security requirements. Its central interface enables service portfolios to be expanded quickly and flexibly, removing barriers to new cooperations and allowing traditional business models to scale up rapidly. The goal is to help companies create new and better customer experiences, tap new markets and manage customer data securely.

- + Shape Switzerland's financial market and position the country as a digital trailblazer
- + Improve return on investment, greater flexibility, faster response times
- + Expand digital offerings thanks to efficient integration of specialised services
- + Promote innovation through artificial intelligence thanks to increased data flow and data integration
- + Lower interface development costs
- + Reduce infrastructure complexity via standardisation

_FEATURES

_CENTRAL INTERFACE IN LINE WITH SWISS AND EU STANDARDS:

- > Central, standardised interface for connecting and managing third-party providers [TPPs]
- > PSD2-compliant [Berlin Group's NextGenPSD2]
- > Swiss de facto standard [Swiss NextGen API as per OpenBankingProject.ch]
- > Flexibly expandable to accommodate new requirements and standards

_ACCESS AND CONSENT MANAGEMENT

- > Database for secure consent administration
- > Third-party application access management
- > Configurable user interface
- > Account access and payment authorisation using transaction signatures
- > Revocation of account access authorisation

_EASY INTEGRATION INTO ANY BANK'S IT SYSTEM

- > Interface for connecting to any banking backends
- > Flexible integration using existing IAM, WAF and API gateway solutions

_FULLY INTEGRATED WITH AIRLOCK SECURE ACCESS HUB

- > Meets international compliance standards GDPR, PSD2, PCI-DSS, MAS
- > Central and upstream user authentication
- > API security:
 - > Validation of API calls [signatures, certificates, etc.]
 - > Ensuring conformant interface usage
 - > Attack detection and blocking
 - > Management, automatic registration and authentication of TPPs
- > Transaction signing with second factor authentication of the end-user

With a unique mix of technology, security and business skills, Ergon has been implementing "smart" solutions with unique customer benefits since 1984. Ergon is an established banking expert with specialist know-how in everything from e-banking systems (we built Switzerland's first) to complete digitalisation strategies. Our Airlock security solution offers intelligent access management and maximum protection of applications, data and identities. Do you have an ambitious vision? Start with an email to: preferredpartner@ergon.ch

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