

ANALYSIS: OPEN BANKING



Singapore leads Asia Pacific in open banking readiness

The city boasts top-notch scores in API adoption, fintech/third-party ecosystem, data-based transformation and state of innovation.

Singapore retained the top spot in Asia's open banking readiness index on the back of proactive decisions by its regulators to embrace the technology even as regional neighbours are only just catching up to the growing momentum to open up their data, according to Finastra's Open Banking Readiness Index.

With a score of 8.1, Singapore towers over Australia (7.1), Hong Kong (6.6), New Zealand (6.4) and China (6.4) with strong showing that has even outpaced the Asia-Pacific average of 5.8. "Singapore is most advanced in open banking readiness index in the region, primarily because of its Open Application Programming Interfaces (APIs) and data infrastructure maturity," the report's authors explained.

The index evaluates a country's readiness based on five factors: adoption of Application Programming Interface (APIs), fintech/third-party ecosystem, state of data-based transformation, data monetisation and state of innovation. As the regional top scorer, Singapore holds an 'intermediate' score for data

The city's very own DBS Bank holds the regional distinction for its thriving fintech ecosystem with a massive platform of over 155 APIs



monetisation and an 'advanced' score for the four other categories.

Regional outperformers

In fact, the city's very own DBS Bank holds the distinction as a regional leader in the fintech ecosystem sub-categories with a massive platform of over 155 APIs across over 20 categories which it developed in late 2017 through its API developer hub, DBS Developers. OCBC also made Singapore proud with the regional recognition in the state of innovation subcategory amidst

steady adoption of AI, machine learning, robo-advisory, cloud and blockchain technologies.

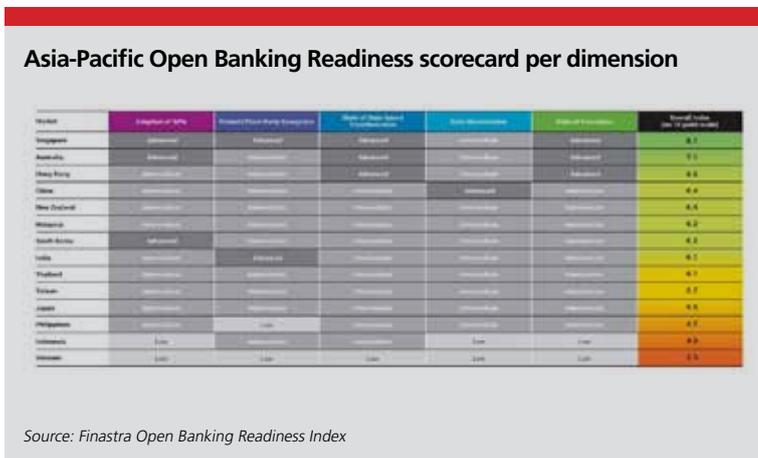
On the other hand, Citi leads in the API adoption subcategory with a thriving API ecosystem in Hong Kong that already counts partnerships with AIA Hong Kong and Octopus Cards whilst India's third largest private sector lender Axis Bank leads in the data monetisation subcategory.

It helps that one in three (33%) commercial bank customers in Singapore are already participating in open banking platforms with 35% planning the shift in 2019, according to a survey from consulting firm Accenture which also highlighted the opportunities for open banking to disrupt and create value in the corporate banking segment.

"There's been a lot of focus on retail consumers when discussing Open Banking, but some of the solutions will create a fundamental change in the corporate banking world," said Divyesh Vitlani, a managing director at Accenture and ASEAN financial services lead. "The opportunities for banks in Singapore are clear and they should leverage the strong trust amongst corporate clients to offer cutting-edge open banking solutions that are relevant and important to SMEs and large businesses alike."

Dynamic regulation

Singapore's open banking readiness also received a significant boost from the proactive regulatory stance by the Monetary Authority of



Singapore (MAS) which was the first APAC regulator to unveil open banking guidelines in 2016. A guidance on security standards and governance models can also be found in the “Finance-as-a-service API Playbook” jointly released by the MAS and the Association of Banks in Singapore (ABS). “Singapore continues to set the pace for other regulators in the region,” noted Finastra.

Regulation plays a key role in open banking adoption as the presence of clear guidelines gives banks the confidence to open up their data and formulate strategies for third party use. Unlike Europe where banks only have until 2019 to meet the deadline set by regulators to comply with the revised Payment Services Directive (PSD2), lenders in the region enjoy relatively more freedom to implement their open banking strategies.

“In general, banks in the Asia-Pacific can decide for themselves if they want to pursue it, how soon, and their preferred approach for partnering with trusted third parties,” Finastra explained. “So far, the Asia Pacific style of Open Banking appears to be a combination of capabilities, with different markets taking different paths. Whichever approaches are taken, capabilities will converge on providing more collaborative, innovative, and responsive banking services.”

In fact, David Hardoon, chief data officer at MAS was quoted in a Bloomberg interview in April saying that Singapore is leaning towards a more ‘organic’ approach towards open banking as opposed to forced compliance. “You can come and say ‘thou shall do it’ but then nothing happens effectively,” Hardoon told Bloomberg. “The point being, we are heading there in an organic fashion. I believe the open banking approach is a good thing and definitely can benefit Singapore.”

How did others fare?

Singapore along with Australia which released open banking guidance in May 2018 and Hong Kong which already had an open API framework in July 2018 are at the top of the pack and rank as ‘early adopters.’

New Zealand, South Korea and India rank as ‘steady warm-ups’ as the three countries do not have concrete guidelines in place although a thriving fintech ecosystem can be found across the industry ripe for collaboration. Similarly, Thailand and Malaysia are dubbed as ‘fast followers’ with expectations of the first draft of guidelines set to be released by mid-2019 and early 2020.

Despite their expansive banking networks, Japan and China are laggards and dubbed as ‘giants with potential’ as the former’s megabanks have ‘sunk costs’ in traditional banking processes, practices and systems whilst China is still focused on expanding oversight over non-bank firms offering financial services. On the other hand, Taiwan, Indonesia, Philippines and Vietnam still have other priorities to settle such as financial inclusion, digitalisation before they can fully embark on their open banking journeys. No guidelines are expected to be issued before 2019 to 2020.

The Finastra’s Open Banking Readiness Index is developed by Finastra in cooperation with with IDC Financial Insights.

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ASIA PACIFIC VIEW

Room for growth in open banking

Leading banks who are most prepared for open banking offer at least five partner and public APIs to the external world but only 36% of banks in Asia Pacific have done so, according to Finastra, highlighting the significant room to maximise the promise of the technology.

APIs, which facilitate the inbound and outbound flow of data, applications and functionalities, are critical in open banking adoption. However, banks in APAC are not sufficiently developing the segment with only 11% in the advanced stage of internal API adoption whilst a meager 4% in the advanced stage of external API adoption.

Moreover, a little over a fifth (23%) of banks in the region have invested in an API management platform that enables control and configuration of multiple APIs within the internal infrastructure. “Banks need to map out a plan to move enterprise and business applications to Open APIs as a way to future-proof their technology. This migration needs to be done iteratively, potentially one application at a time,” explained Finastra, which cited Citi as a regional leader in this subcategory largely owing to the launch of its global API developer hub in November 2016.

Top-performing players who are ahead of the open banking game also have a relationship with at least five fintech partners and at least 10 external partners that are not necessarily fintech. Such levels of collaboration will enable them to tap on new distribution channels and servicing capabilities without having to invest the time and resources themselves. DBS Bank, for instance, has onboarded over 50 partner companies to co-develop solutions aiming to enhance the delivery of financial services. Worryingly enough, only 8% of banks in APAC are in the advanced stage of fintech partnerships with 54% in the ‘low’ end of the spectrum.

Staying ahead of the game also requires that banks invest at least 25% of their IT budget in “new” technologies like location-based services and voice technologies as well as have a central business innovation or digital transformation team to manage their digital initiatives. In this regard, banks in APAC have made headway with 63% of banks claiming to have a centralised team in place to drive innovation. Moreover, nearly half (45%) of digital channel workloads have already migrated to the cloud for top APAC banks, paving the way for smaller banks to follow and adopt new technologies with which they can innovate business models, products and services and modes of distribution.

Asia-Pacific Open Banking Readiness scorecard per dimension

Region	Adoption of APIs	Internal/External APIs	State of Open Banking Readiness	Open Banking
Singapore	High	High	Advanced	Advanced
Australia	High	High	Advanced	Advanced
Hong Kong	High	High	Advanced	Advanced
India	Medium	Medium	Steady	Steady
New Zealand	Medium	Medium	Steady	Steady
Malaysia	Medium	Medium	Steady	Steady
South Korea	Medium	Medium	Steady	Steady
Japan	Low	Low	Laggard	Laggard
China	Low	Low	Laggard	Laggard
Indonesia	Low	Low	Laggard	Laggard
Philippines	Low	Low	Laggard	Laggard
Vietnam	Low	Low	Laggard	Laggard
Taiwan	Low	Low	Laggard	Laggard

Source: Finastra Open Banking Readiness Index