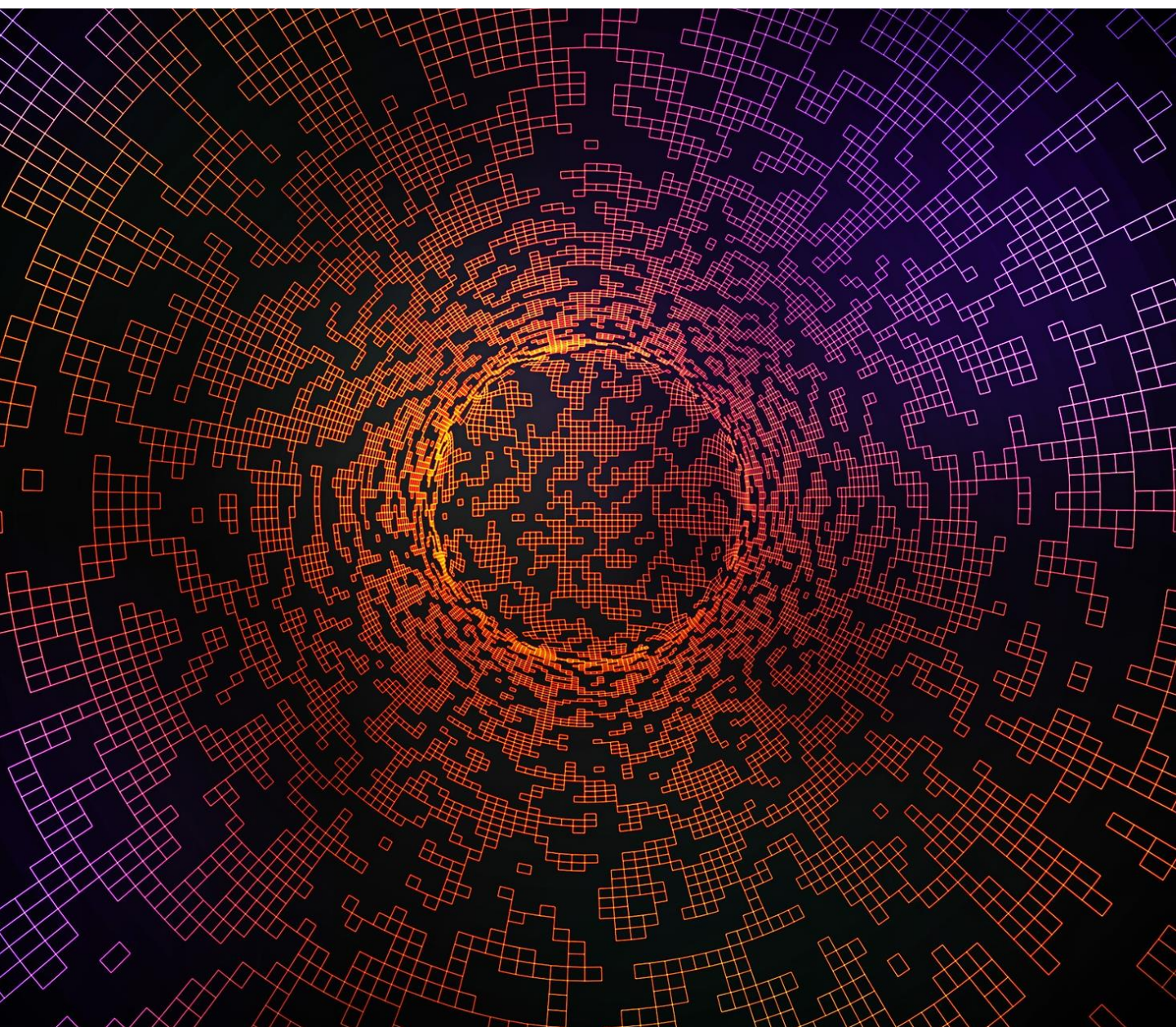


How will the role of incumbents evolve?

An Open Banking Nigeria Perspective



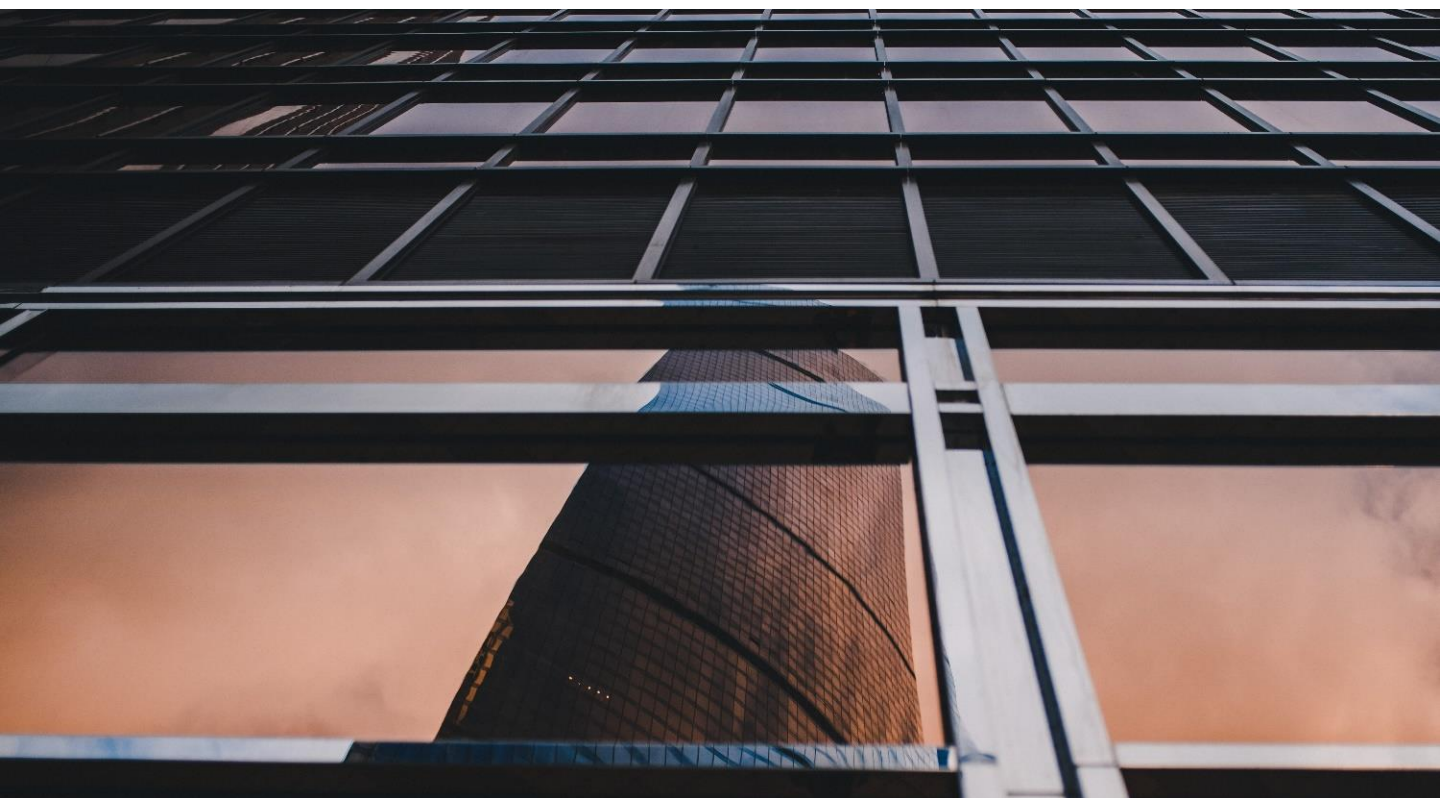


Introduction

Open banking is the outcome of direct and indirect push from change drivers such as technology, competition, customer expectations & preferences, and regulation in the financial services ecosystem. Redefining banking and other financial services, the open model provides a sneak preview into how financial services will be delivered and consumed as part of the digital future.

Though still in its infancy stage, the shift towards Open banking raises several concerns from stakeholders bordering on the possibilities in an open system. This report is aimed at addressing one of such stakeholder concerns – ***Will the roles of banks change in an open banking system?*** In this report, we provide insights into the strategic role options for incumbents in the evolving Open banking ecosystem, opportunities, and challenges that lie ahead.





Open Banking: The beginning of a transformational journey for banks

Over the years, banks have enjoyed a monopoly in delivering banking services. Leveraging their strengths and organised structures, incumbents have built a wide network of branches to connect with customers, offering an array of financial products and/or services. They have also invested heavily in infrastructure, talent, and technology.

The banking industry is not new to evolving business models catalysed by disruptive events. Transformation in the industry has moved from operating models centred on brick & mortar to internet banking then mobile banking. In recent years, disruptive events driven by new technologies and capabilities such as artificial intelligence (AI), machine learning, the Internet of Things (IoT), etc. continue to shape the industry landscape, requiring banks and other financial services entities to make significant adjustments in their business models in order to remain relevant and competitive.

As with every new development, these changes are met with a degree of uncertainty from incumbents as they pose threats to legacy systems and traditional ways of delivering banking services. However, despite initial reactions to transformation in the banking business, history has proven that a “wait and see” approach is a riskier strategy to adopt.

Technology has opened the door for third-party providers to chip away at the banking value chain, leveraging their core competencies to deliver unique products/services to banking customers. These new entrants and challengers continue to up the ante, riding on increasing customer demands and expectations from banking services providers.

While incumbents recognize that the influence of third party providers is increasingly becoming significant in the industry, there is yet to be an industry-wide framework that defines how interactions amongst players will be pursued going forward. Some banks in Nigeria have developed alliances and partnerships with third-party providers as part of their strategic efforts to maintain relevance. For example, First Bank of Nigeria launched a digital lab - a platform for collaboration with Fintechs, FCMB also launched "Hub One" - a tech-focused co-working space, etc.

Open banking has emerged as a single framework with the promise of providing an all-inclusive ecosystem that will shape the future of banking and financial services in an evolving digital landscape. However, the idea of adopting an Open banking regime raises critical questions from key stakeholders including banks on how their current roles as the custodians of key industry resources - customer data and relationships, extensive knowledge base and experience, infrastructure, etc. - will evolve in the emerging system.



What are the role options for banks in an Open Banking Ecosystem?

To effectively operate as relevant players in the Open banking ecosystem, banks will be faced with options of shifting from being solely financial institutions to platform companies - connecting people and processes, leveraging robust technology infrastructure - i.e. in the emerging model, banks will decide to either maintain status quo or evolve into other roles in the ecosystem. This evolution may also entail a shift to new revenue models.

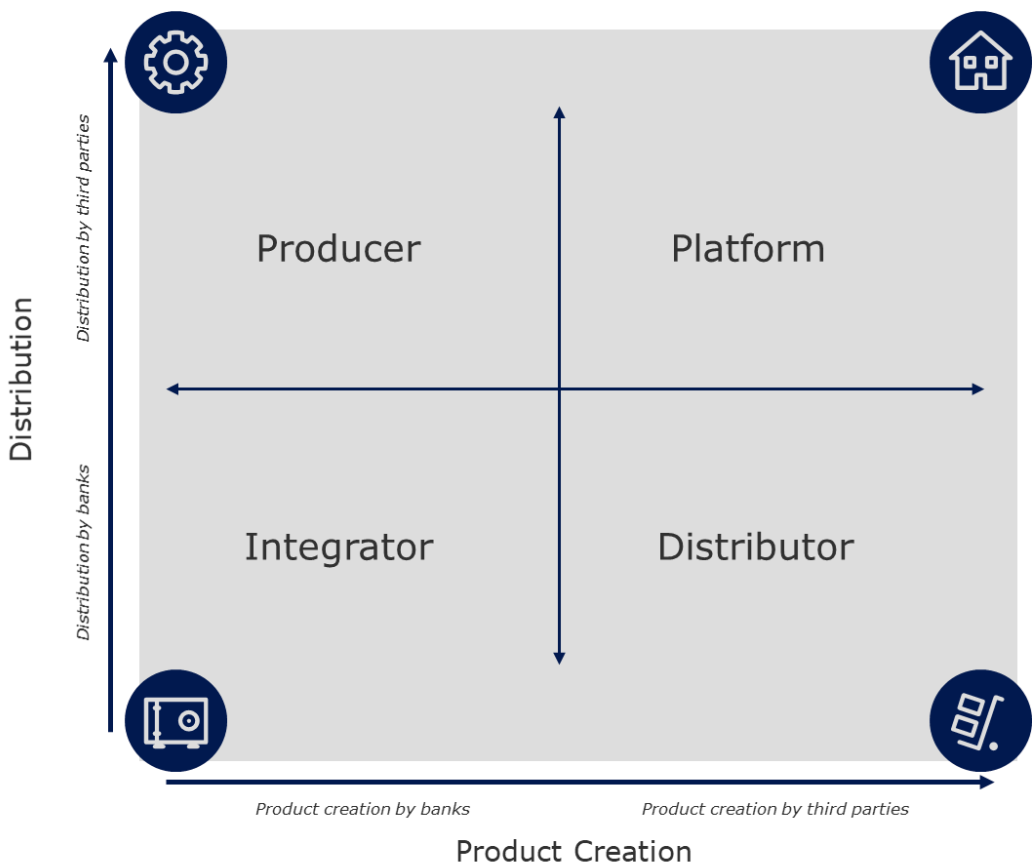
The emerging roles for incumbents will be based on two questions;

- **Who will develop products and services that will be sold to customers?**
- **Who will distribute products and services in the open model?**

The opening of bank APIs will present incumbents with the following strategic role options;

- Incumbent as an **Integrator**
- Incumbent as a **Producer**
- Incumbent as a **Distributor**
- Incumbent as a **Platform**

Figure 1: Strategic Role Options for Incumbent Bank

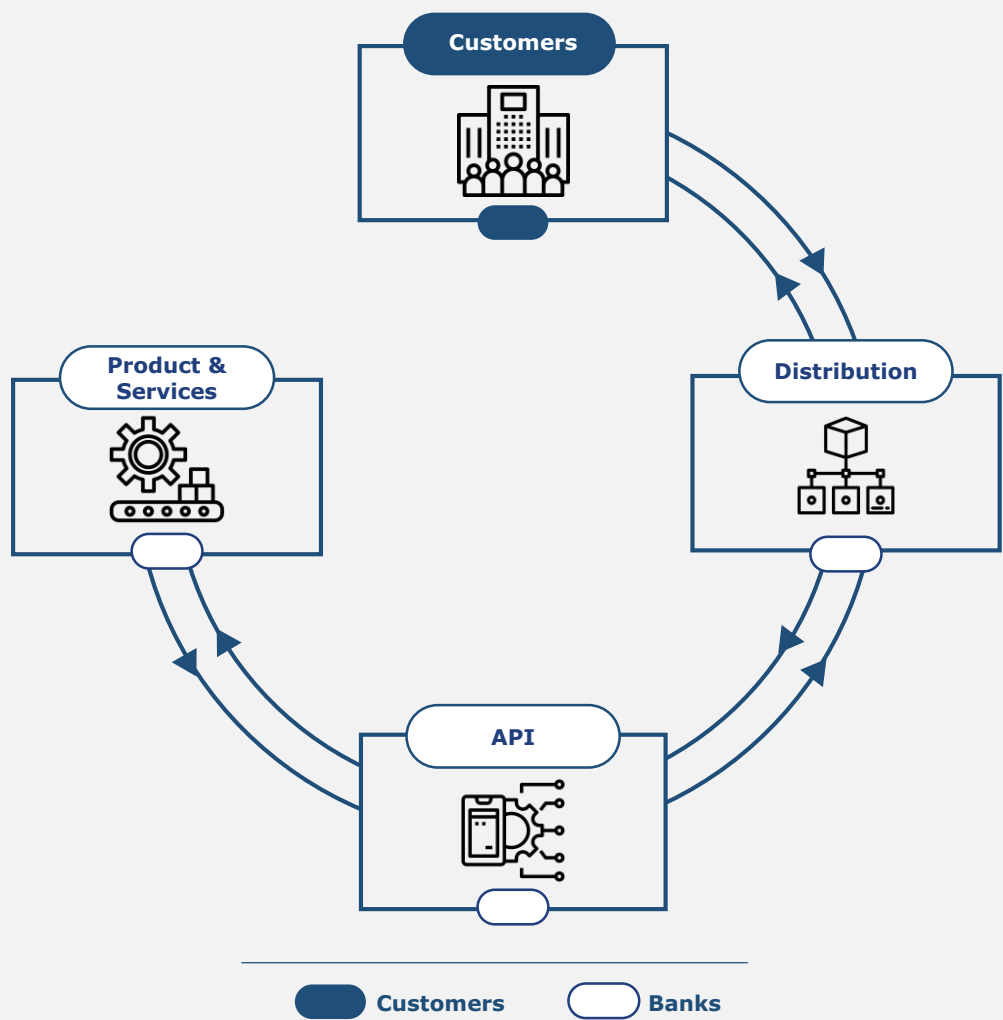


Incumbent as an Integrator

In this role, Banks will continue to offer a full range of services with limited or no API integration with third party providers. Here, they will have the exclusive right to create and distribute products and services. Customer experience and relationship management will be fully controlled by banks. The banks will also control the underlying infrastructure; hence, the current business models will largely remain intact.

Incumbent banks will only succeed in this role going forward by creating niche products or services capable of differentiating them from other available products via the open marketplace. To remain relevant in this role, incumbents will need to refresh their strategy to customer experience, pricing, and value proposition. They must focus on maximising available customer data for enhanced service delivery.

Incumbent as an Integrator

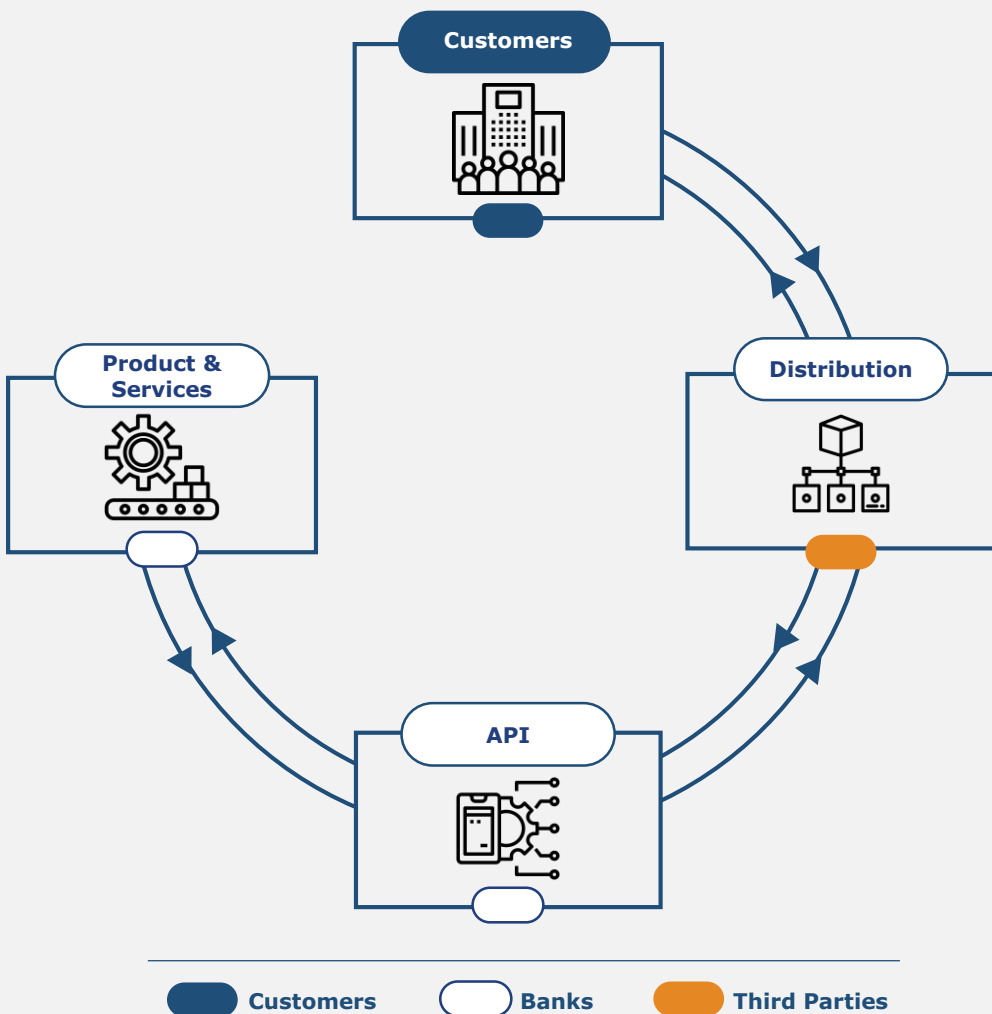


Incumbent as a Producer

Adopting this role would position incumbent banks as majorly creators focused on product and service development while third parties will handle the distribution of services to the customers. Here, defining customer relationship ownership and branding will be a challenge for parties involved as the producer and distributor would

want to control the customer relationships and branding. The producer role is already being explored by several banks to maximise market penetration, evidenced by the number of bank sponsored incubators, accelerators, developer portals, hackathons, etc. across the market.

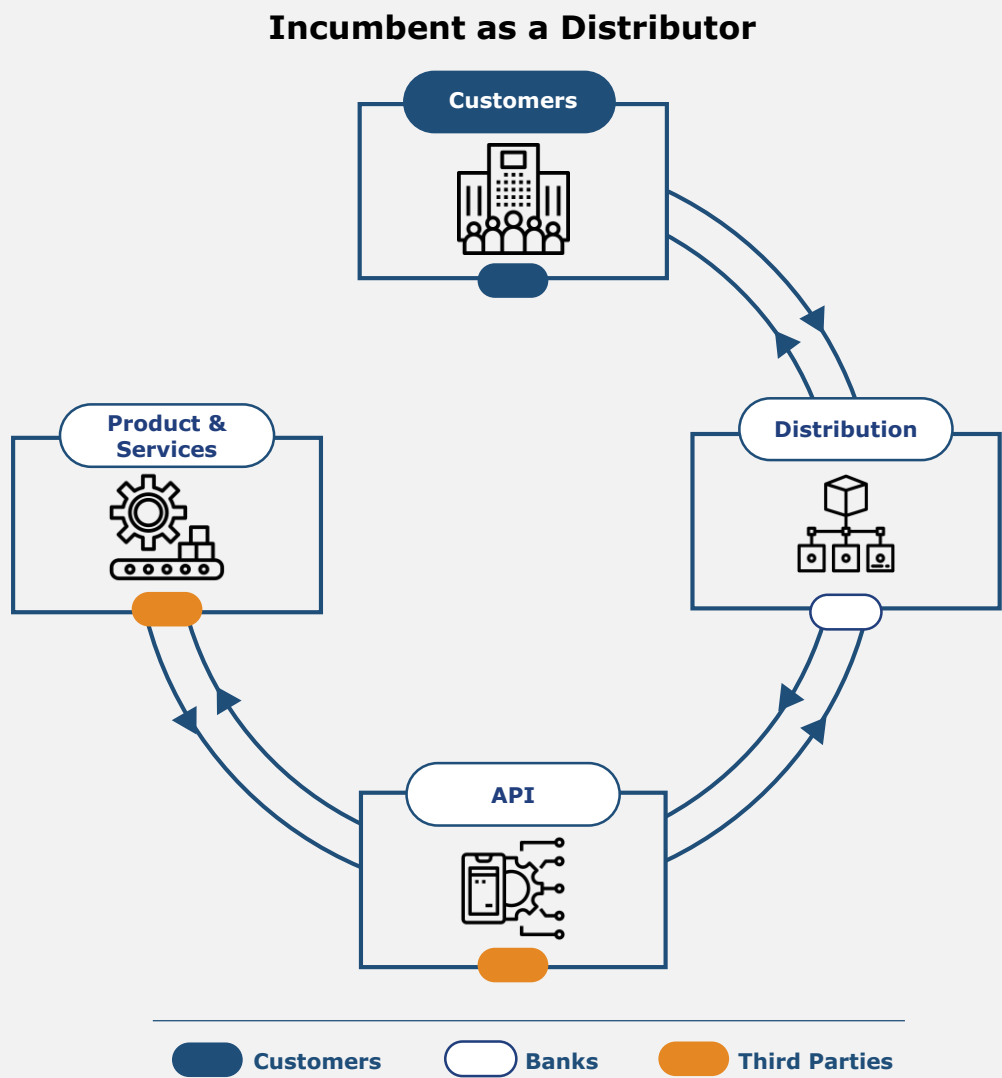
Incumbent as a Producer



Incumbent as a Distributor

In this role, banks will extend their digital market presence by distributing third party products and services leveraging their already established internet and mobile channels. Most Nigerian banks are already playing the distributor role by collaborating with third parties - Telcos, Utility service providers (e.g. electricity distribution companies), TV companies, etc. - to distribute their products and services, by enabling direct bill payments, airtime recharge, TV

subscriptions, etc. Conversely, banks, especially those with weaker brands who do not possess the capabilities to competitively match the stronger brands, can become distributors to other banks, offering services such as account aggregation and payment initiation for customer accounts held across multiple banks and Fintechs. Banks that take on this role are also likely to be faced with the challenge of the ownership of customer relationships and branding.

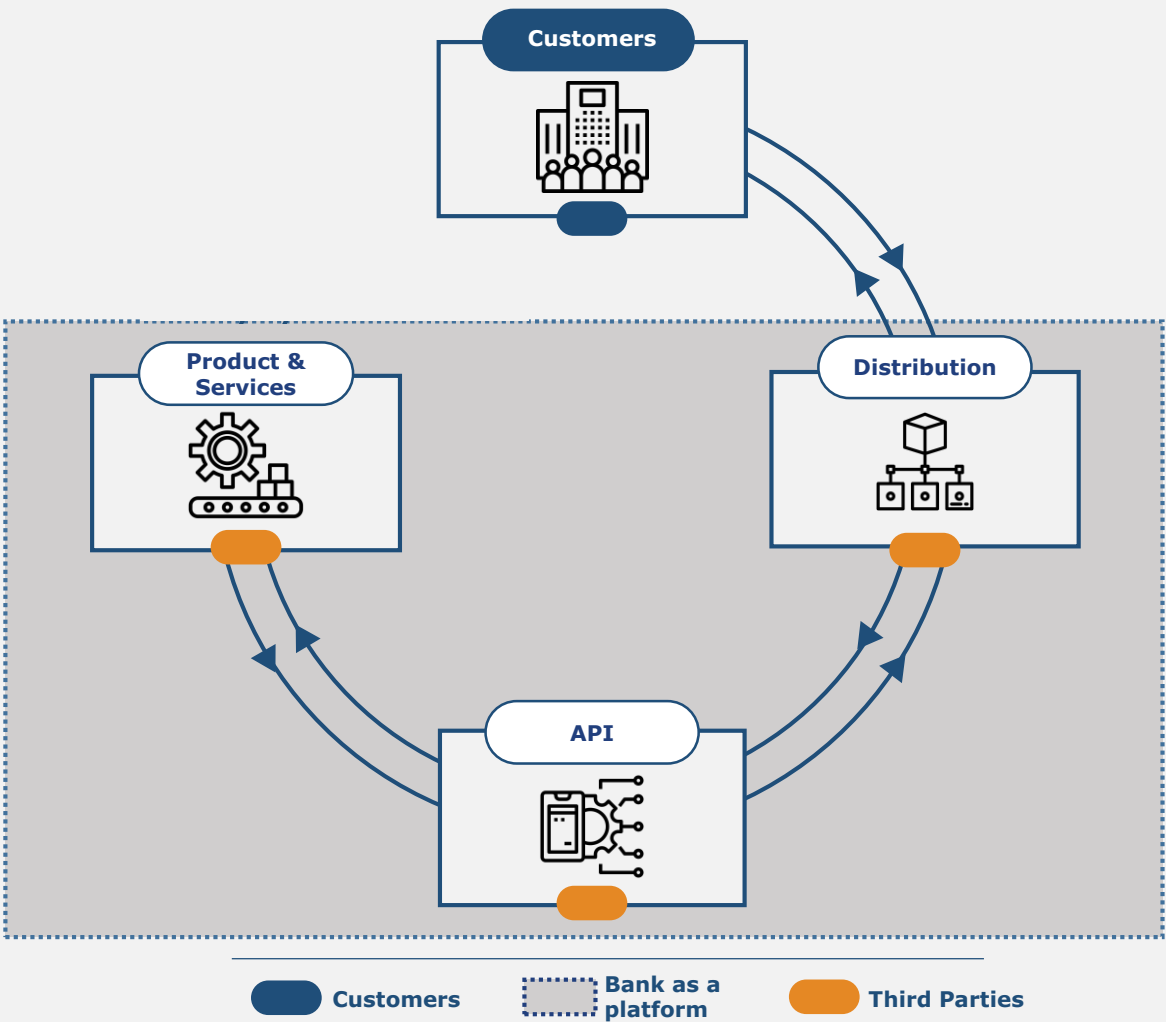


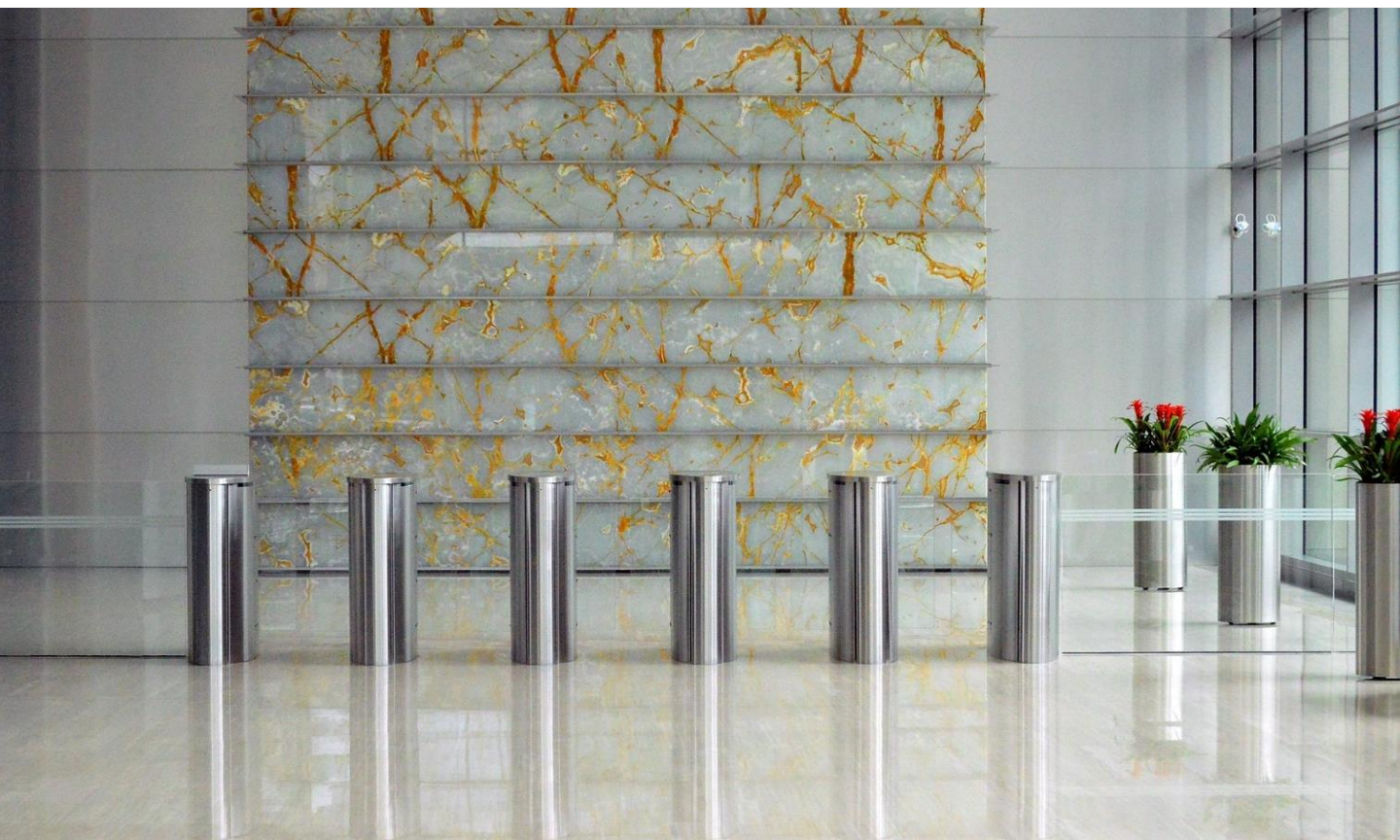
Incumbent as a Platform

Adopting this role will position banks as the interaction hub, thus retaining the stakes in product and service development as well as distribution by acting as an intermediary, facilitating activity among customers, producers, and distributors in the platform. This role will expose customers to a greater spectrum of choices as a bank will also distribute the products of others (banks and third parties) when they are not

positioned best to meet customer demands. Analysts and experts consider this model as the “uberization” of financial services. Compared to other role options, this is the most demanding route for incumbents, in terms of investments in technology required for real time integration with third-party providers and other required capabilities such as data analytics

Incumbent as a Platform





These roles are not mutually exclusive. To win the race for the customer interface and customer relationships, incumbent banks must choose the roles or combination of roles that best align to their strategies. The adopted role by banks will determine their future play in the Open Banking ecosystem. To maximise the available benefits in the emerging system, leading

banks must position to play more multiple roles in the marketplace, thus remaining flexible and relevant in a changing market environment. Sticking to one role might relegate the banks to just being channels for moving money around the system leaving third parties such as Fintechs to hold the customer relationships.

Opportunities and challenges ahead for incumbents

The open model provides banks with the opportunities to enrich existing customer data enabled by the advantage of aggregating and sharing data from other partner banks and third parties in the wider ecosystem.

Taking on new roles in the ecosystem will also open banks to new revenue models leveraging wider and improved distribution channels for products and services to both customers and other industry players such as Fintechs. Banks will also have access to serve customers via multiple platforms which are restricted in a closed-loop system. Additional opportunities will be available to the banks as a result of standardized and coordinated ecosystem efforts towards risk mitigation and security.

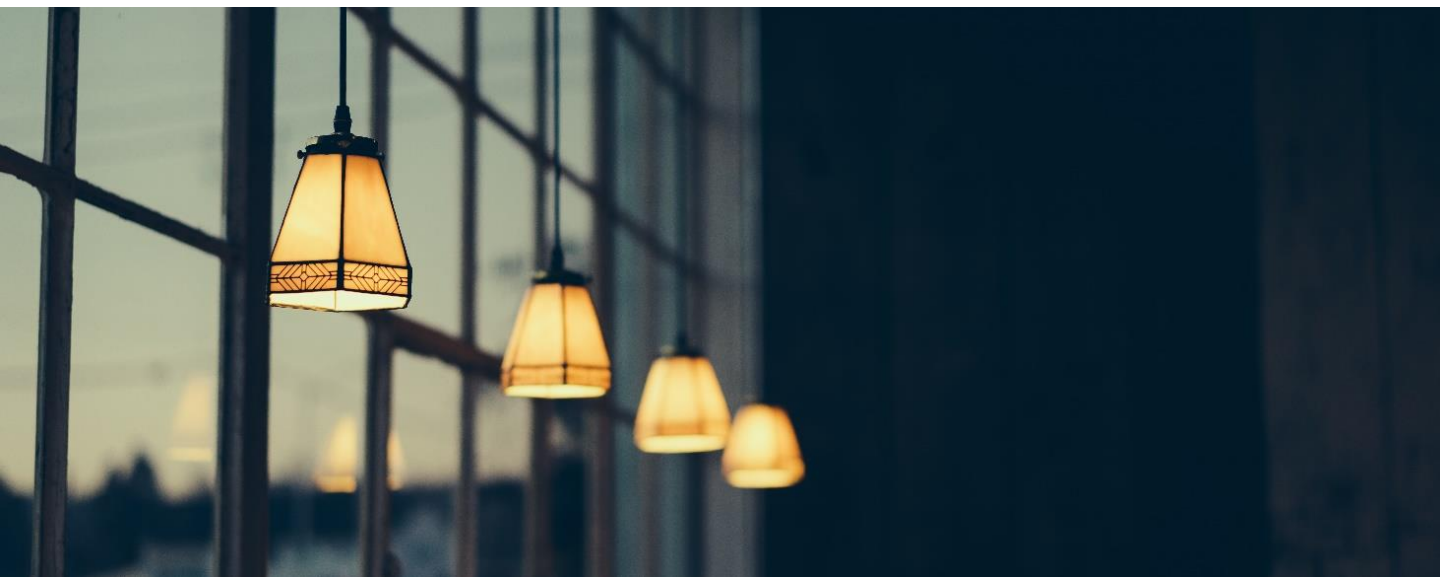
However, alongside creating several opportunities for incumbents, the evolving roles will pose some challenges to

incumbent banks. For example, in deciding how to win, incumbents will be challenged to choose the most impactful role or a mix of roles that will deliver the most beneficial outcomes for their sustainability.

Considering the position of banks as the custodians of customer relationships and interface, banks may face the risk of disintermediation by third parties, depending on the chosen roles in the emerging ecosystem, thus, grappling with the challenge of retaining their stakes in customer relationships as the open model becomes the new normal.

Adopting new roles will also place technical, financial, and organisational demands on banks, including the associated pressure to maintain distinct brands in an open ecosystem where customers have multiple options.





Conclusion

To tap into the marketplace, banks must adopt new strategies and redesign their business models to remain leaders in the emerging ecosystem. Open banking may be considered as either a threat or an opportunity depending on the perspective banks choose to adopt. Besides being

threatened by the possibility of losing direct ownership of customer relationships and interface, it is imperative to carefully consider and define the right mix of roles that will secure the future of banks in the emerging ecosystem.

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Alongside other industry veterans, he founded Open Banking Nigeria, the nonprofit driving the development and adoption of a common API standard for the Nigerian financial industry.

Adédèjì was also with Atlas Mara as the Vice President of Cards and Payments, First City Monument Bank, and Access Bank Plc. He was an Advisory Board Member at Verve International (a member of Interswitch Group).

Adédèjì has been blogging at www.dejiolowe.com since 2001.

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Ope Adeoye has spent 13 years in the payments ecosystem in various capacities including engineering and leading high performance product teams.

Most notable is his work helping to birth and grow Quickteller and Interswitch Lending Services while at Interswitch.

He holds a degree from University of Ilorin and certificates from Lagos Business School and Stanford CPD.

Ope currently serves as a Trustee at Open Technology Foundation, helping with advocacy for the Open Banking Nigeria initiative. He's also Founder at OnePipe.io, a company building a platform that makes it possible for fintech operators to partner with banks and large corporates. He writes actively at opeadeoye.com.

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About Open Banking Nigeria

Open Banking Nigeria, is a legal entity propelling the Open Banking journey in Nigeria. Set up in June 2017 as a non-profit organization, the foundation comprises of industry leaders who recognize the importance of Open Banking in driving the next level of growth in Nigeria's financial sector. The activities of the foundation are targeted at unlocking growth potentials through the improved collaboration of players within the financial space. A set of standards are being defined as a guidance framework for API integration, data accessibility, and security. An overarching objective of the open banking team is boosting the country's economy through the reduction of barriers to innovation and consumer's access to essential financial products and services.

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