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# ORGANIZATIONAL IMPACT OF OPEN BANKING ADOPTION

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MASSEY HENRY TALENT NEWSLETTER  
FEBRUARY 2023



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# PREFACE

In this article, we examine:

- **Open banking within a Canadian context**, including its anticipated impact, and the response to date from the federal government
- **Executive talent implications** for financial services institutions following the adoption of open banking, including challenges and opportunities

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Massey Henry is a leading Canadian executive search and advisory firm, offering solutions to today's complex executive recruitment challenges, with a focus on the financial services sector.

FOR MORE INFORMATION,  
PLEASE CONTACT:



**Michael Henry**  
Managing Partner  
[michael.henry@masseyhenry.com](mailto:michael.henry@masseyhenry.com)

## FROM OUR NETWORK



*Open banking will have a significant impact on the Canadian financial services sector, including from an executive talent perspective. To adapt, organizations will need to stay informed of critical technical and soft skills required at the executive level. Massey Henry's experience leading searches in critical areas such as technology, product, and customer relations will position the firm well to help organizations navigate this forthcoming transformation.*



**Johanne Brossard**

Corporate Director/Trustee and former CEO, **ING Direct Canada**  
Advisory Board Member,  
**Massey Henry**

## INTRODUCTION

*The scope and extent of open banking are developing at varying rates globally. Among many factors, the scale of open banking will be shaped by the regulatory environment, rates of technology adoption, and the existing financial services infrastructure of the given jurisdiction.*

### What is Open Banking?

At its core, **open banking uses application programming interfaces (APIs) to link consumer financial information with one or more third parties.** However, such a simple definition diminishes the broad application of APIs, as well as the revolutionary impact the growth of Fintech providers have had on the financial services industry.

### Open Banking in a Canadian Context

Digitization and worldwide technology adoption are significantly impacting the financial services industry; this was further enhanced by the COVID-19 pandemic, which dramatically accelerated the need for digital adoption on a larger scale.

An 'adoption' is often driven by necessity rather than choice. **Canada has historically trailed its global peers in developing standards and regulations relating to Fintech services in e-commerce, banking, and payments.** However, the Canadian government has held a series of industry consultations since 2020, which have focused on Accreditation, Liability, Privacy, and Security as it relates to supervision of open banking services and participants.

**NOTE:** *The final report summarizing consultation recommendations will be presented in Q1 of 2023; this article by Massey Henry will be amended to reflect the results accordingly.*

Background discussions have suggested that the federal government, in collaboration with various industry working groups, will look to adapt and repurpose many existing oversight protocols, such as the National Institute of Standards and Technology (NIST) framework. Indications suggest a policy framework that will support a flexible ecosystem to accommodate different market participants.

Some have observed that the federal government may prefer to regulate open banking by establishing standards as they do in many other utility functions, essentially ensuring that APIs (Application Interface Standards) are appropriate and that consumer protection safeguards are well established.

It is important to note that **the federal government has been developing a regulatory framework to support the transition to an open banking environment** with the launch of the Retail Payments Activities Act (RPAA), a retail payment regulatory framework under Bank of Canada supervision, and the appointment of Interac as the Real-Time Rail (RTR) payments exchange solutions provider for non-primary financial institutions and the Digital Identity Solutions initiative.

These activities indicate that the government and financial service providers know that the digital economic revolution will profoundly impact financial service delivery and the economy.

## INDUSTRY IMPACT

Industry experts predict that open banking could increase revenues for Canadian financial institutions by \$10 billion. There will be a significant revenue opportunity, with some institutions predicting over 70% of customers will adopt some elements of open banking.

**Despite these favourable projections of future success for the industry, there are important caveats.**

While the aggregate banking pie may expand over the next decade, the existing market share allocations will likely shift. Recent [Accenture analysis](#) indicates that in the 20 largest economies covering 75% of the global GDP, open banking will put \$500 billion of annual revenues at risk of reallocation or disintermediation.



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## EXECUTIVE TALENT IMPLICATIONS

**Talent requirements and core competencies will change significantly with the wide-scale adoption of open banking in Canada.**

Skill requirements will shift from being centred on function expertise to a mix of **technical and critical soft skills** to enable business and organizational transformation. Specifically, financial institutions will need to bolster technology skills in data science and artificial intelligence.

Perhaps most importantly, the need to acquire and enhance skillsets that support transformation, innovation, and new forms of internal and external stakeholder management will be essential.

The magnitude of change to the delivery of banking services, the range of services provided, and the evolution of business partner relationships will require financial institutions to transform their existing operational and structural frameworks.

Apart from the changes brought about by open banking, the impact of technology adoption is very significant. A recent McKinsey study indicates that approximately 40% of current banking employment hours can be automated with existing technology.

## ORGANIZATIONAL IMPLICATIONS

The implications of these trends suggest that new skills and talents will be required to reposition financial institutions to adapt to technology and business model trends. Each organization will need to determine its strategy and talent requirements in four key areas:



### Technology

What is the right approach to technology implementation going forward - build, build-buy, or buy?



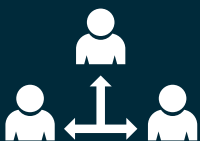
### Product Offerings

What financial services should be offered, and are the services core or third-party solutions?



### Customer Relationships

How do we manage existing relationships and develop new ones in a digital world?



### Third-Party Relationships

How do we evolve from a purchasing-driven vendor relationship mindset to a mixed portfolio of vendor and third-party partner relationships?

While many financial institutions have substantial and experienced talent pools, they must be redeployed and supplemented with external talent, which will present many challenges. The ability of internal talent to pivot to new realities and external talent to integrate and adapt to new cultural paradigms will be complex.

## MARKET IMPLICATIONS

Open banking will present unique challenges and opportunities over the next decade for the following segments within the Canadian financial services landscape:



### Financial institutions

Financial institutions, primarily deposit-taking institutions, will need to transform their business processes. The necessary transformation will significantly impact the existing talent mix and skill sets.



### Fintech organizations

Fintech organizations will need to adapt to increased regulatory and technological scrutiny. More importantly, they will need to ensure stable funding during a higher interest rate cycle and increasingly volatile capital markets environment.



### Customers

Customers will need to educate themselves on the implications of open banking. The digitization of financial transactions has been widespread and quickly adopted. Whether customers will provide full financial transparency to various financial institutions remains an open question.



### Regulators

Regulators will need to monitor the progress and adoption of open banking services and processes to protect consumer interests.



## THE BOTTOM LINE

Canada will witness significant changes in the delivery of financial services, including new market entrants, product offerings, and the entrenchment of digital service delivery models.

**The implications of open banking for talent and skills management at the executive level are profound.**





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