

HKMA – OPEN BANKING (OPEN API FRAMEWORK)

KEY INITIATIVE OF HKMA DRIVING HONG KONG TO A “NEW ERA OF SMART BANKING”



HKMA introduced seven initiatives to drive Hong Kong into a “New Era of Smart Banking”¹. After the launch of Faster Payment System², the Framework of Open API has been announced³ recently for banks to participate.

To achieve Open Banking – as part of the banks Digitalization approach – banks are to share client’s data with Third-party Service Providers in a safe and effective way, in order to streamline current customer journeys and further embed the banks into clients’ day-to-day lives.

Key Drivers and Objectives

To remain competitive, the Hong Kong banking ecosystem must evolve to catch up with Global trends

Nowadays, digitalization and a seamless customer banking experience has become the major focus across the globe. There are rising aspirations and demands from customers to manage their bank accounts with minimum time and effort. HKMA therefore introduced the Open API Framework, sharing between banks and merchants, in order to enhance a better and easier system. Banking services will be integrated with customers’ day to day lives with Open Banking.

The objective is to provide a secure, controlled and convenient operating environment which allows banks and Third-party Service Providers (TSPs) work together. Aiming to enable Hong Kong Banks to deliver services that marking up with international standards.

Initiation of Open Banking implies a major evolution to the Hong Kong banking industry

HKMA’s 7 initiations aim to drive Hong Kong towards a new era of smart banking. The announcement of the Open API Framework implies a destructive evolution to the banking ecosystem in Hong Kong.

Once the API framework being adapted by the majority of banks and merchants, Hong Kong will become one of the Open Banking cities that provide top class banking services to local customers.

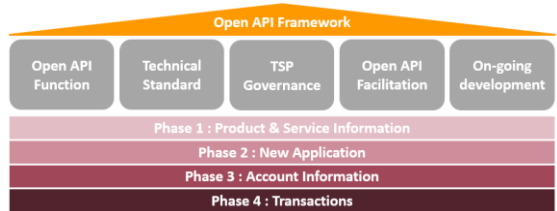
Key Approach and Scope

Open APIs are to be implemented by an industrial approach with common baseline

Based on the results from a six months consultation period with local industries, HKMA had provided their insight whilst publishing the API Framework on 18 July 2018.

It is agreed that Hong Kong will adopt an industrial approach (bilateral agreement between banks & TSPs), rather than following the central entity approach which is being adopted in many other countries (e.g. EU, UK, Australia). Only a common baseline will be given out by HKMA.

The initiative of Open API Framework consists of 5 pillars over 4 phases



The Open Banking will be implemented in Hong Kong by 4 phases:

- Phase 1 covers “read-only” product and service information, useful for services like comparison sites;
- Phase 2 covers new applications and customer acquisition via TPPs and applications for credit cards, loans and some insurance products;
- Phase 3 covers account information;
- Phase 4 covers transaction processing.

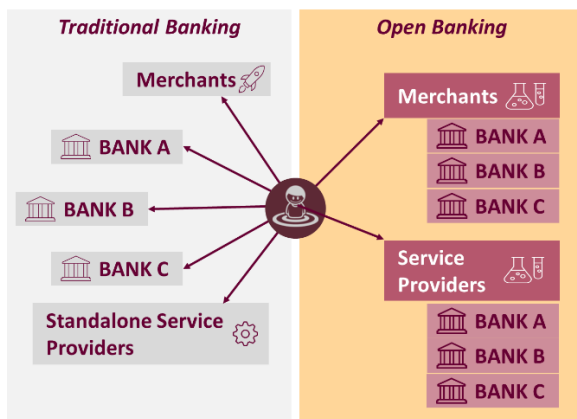
The first two phases are due to roll out in the next 6 and 12 months, while the timeline for the third and fourth phases will be clarified in the future.

Open Banking Business Model

Open Banking enables communication between banks and merchants

This implementation will cause impacts in different perspectives:

- Sharing of relevant customer data between the banks and selected players in the banking ecosystem and also with non-banking players
- Security "Secure" information security architecture of traditional actors and provision of services usable by new partners
- Evolution of the Customer Experience and of its privileged relationship with its bank.
- Enrichment of the bank value chain thanks to the multitude of new services, whether they are coming banks or not, to build a structured and high value-added offer



Destructive Banking Model

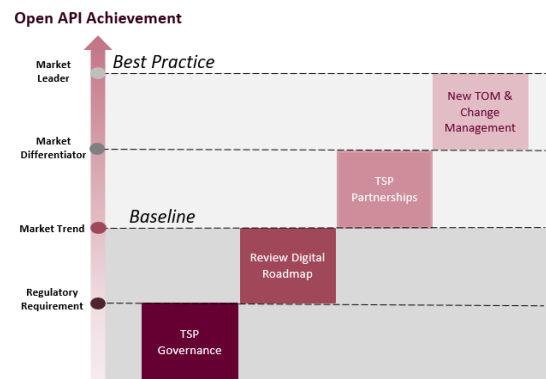
The implementation will hugely restructure the current banking model. Customers will no longer required to go all the way to specific banks to manage their direct debit for certain third-party service providers (TSP), as these payments can now be managed through the TSP directly.

Sia Partners View

A Baseline and Best Practice can differentiate the banks who are market leaders from those who are followers

Open API is an HKMA mandatory requirement and achieved market consensus, therefore all the financial institutions have to meet the baseline requirements. However, banks could go further in different directions in order to make themselves

market leaders that demonstrate industrial best practices.



Completing the needs on TSP registration, due diligence, and an on-going monitoring review can fulfill the regulatory needs.

Further embedding the Open API into banks' existing digital roadmap with leverage on both positive & negative impacts can drive banks to meet market trends.

The more strategic TSP partnerships established, a bank could then increase its brand exposure across various aspects; making the bank a market differentiator.

A clearly defined R&R together with new process workflow are crucial to support Open API. Such a strategy could imply a destructive change for banks' Target Operating Models, leading one to emerge as market leader.

Reference:

1. <https://www.hkma.gov.hk/eng/key-information/press-releases/2017/20170929-3.shtml>
2. <https://www.hkma.gov.hk/eng/key-functions/international-financial-centre/infrastructure/faster-payment-system.shtml>
3. <https://www.hkma.gov.hk/eng/key-information/press-releases/2018/20180718-5.shtml>

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YOUR CONTACTS

DEREK CHEUNG

Senior Consultant
+ 852 6070 9366
derek.cheung@sia-partners.com

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Abu Dhabi

PO Box 54605
Al Gaith Tower #857
Abu Dhabi – UAE

Amsterdam

Barbara Strozilaan 101
1083 HN Amsterdam -
Netherlands

Brussels

Av Henri Jasparlaan, 128
1060 Brussels - Belgium

Casablanca

46, Boulevard Adbellatif
Ben Kaddour, Racine –
Casablanca 20000 -
Morocco

Charlotte

101 S. Tryon Street, 27th
Floor, Charlotte, NC 28280,
USA

Doha

Al Fardan Office Tower #825
PO Box 31316
West Bay Doha - Qatar

Dubai

Shatha Tower office #2115
PO Box 502665
Dubai Media City
Dubai - UAE

Hong Kong

23/F, The Southland
Building, 48 Connaught
Road Central
Central - Hong Kong

Houston

800 Town and Country
Boulevard, Suite 300
77024 Houston, TX

London

36-38 Hatton Garden
EC1N 8EB London - United
Kingdom

Luxembourg

7 rue Robert Stumper
L-2557 Luxembourg

Lyon

3 rue du Président Carnot
69002 Lyon - France

Milan

Via Vincenzo Gioberti 8
20123 Milano - Italy

Montreal

304 - 19 Rue le Royer Ouest
Montreal, Quebec,
Canada, H2Y 1W4

New York

40 Rector Street, Suite 1111
New York, NY 10006 – USA

Paris

12 rue Magellan
75008 Paris - France

Riyadh

PO Box 91229
Office 8200 - 12, Izdihar city
Riyadh 11633 - KSA

Rome

Via Quattro Fontane 116
00184 Roma - Italy

Singapore

137 Street Market, 10-02
Grace Global Raffles
048943 Singapore

Tokyo

Level 20 Marunouchi
Trust Tower-Main
1-8-3 Marunouchi,
Chiyoda-ku
Tokyo 100-0005 Japan



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