WHITE PAPER

Open Banking in Switzerland Part II

SEPTEMBER 2021

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Contents

Introduction

Welcome to Part II of the two-part study on Open Banking in Switzerland.

In the first part, the focus was on providing an overview of Open Banking in Switzerland, namely introducing the concept of Open Banking and its participants, the role of regulation and standardization, and sharing current views of both consumers and market actors on Open Banking. Key conclusions were that, while not clearly visible yet today, market players expect consumer demand to drive the adoption of Open-Banking-enabled services, and that despite the term Open Banking not being recognized by the large majority of consumers, a significant share still sees value potential in the services it enables.

This second part dives deeper into this last insight. It aims to present an outlook on the business opportunities that financial institutions have regarding the monetization of Open Banking services. We chose this as the focus of our analysis, as it addresses key questions that market participants still have about a future Open Banking ecosystem in Switzerland, while keeping in mind that there certainly will be further benefits, such as operational efficiencies, for innovators to consider. The analysis starts with a further exploration of consumer interest and willingness to pay for Open-Banking-enabled services. We evaluated a selection of such services, determining key factors for financial institutions to consider in order to segment and position these services to consumers. We then conclude this study by illustrating roles and potential business models that are available for market actors to position themselves in the Open Banking ecosystem and can be used as guiding criteria for financial institutions to define their respective strategies in their Open Banking adoption journey.

Consumer adoption potential for Open-Banking-enabled services

In the first part of our study, we established that while general awareness of Open Banking among consumers in Switzerland is low, interest grows materially once the related services are explained. General interest, however, does not necessarily indicate willingness to pay. And willingness to pay does not necessarily indicate a purchasing decision made. This part of the analysis therefore aims to further explore consumer interest in Open Banking from different angles, seeking to help estimate demand for future Open-Banking-enabled services, which today is intangible at best and therefore a pain point for market actors to understand monetization potential. As in the first part of this study, the representative results from the in-depth market survey[1] conducted in partnership with LINK Institute serve as input for this section.

Consumer interest and willingness to pay were captured using the following four angles:

1. Consumer interest in Open Banking, when presented with a general description of what Open Banking is.

2. Consumer interest in Open Banking, when asked to indicate interest levels in specific Open-Banking-enabled services, irrespective of pricing.

3. Consumer willingness to pay for Open-Banking-enabled services, when asked for a maximum monthly amount, irrespective of specific services.

4. Consumer interest in Open-Banking-enabled services and willingness to pay combined, as determined by a conjoint simulation of purchasing decisions, when presented with alternative service bundles at varying prices to capture implicit interest levels.

Hence, this methodology was chosen to test consumer behaviour at varying degrees of information and intuition, ultimately aiming to get as close to real-life choices as possible with the conjoint analysis.

The first angle was already covered in the first part of the study – only 6% of consumers revealed they already had heard the term "Open Banking", but when provided a brief description of what it is, 16% identified it as an interesting concept. This illustrated the above-mentioned overall lack of consumer awareness of Open Banking. The low level of awareness undoubtedly is the consequence of the so far undeveloped nature of the retail Open Banking market in Switzerland. We will bridge this gap with the analysis of the remaining three angles in the remainder of this chapter.

[1] Target group: women and men in Switzerland aged 18 to 74 who use the internet for private purposes at least once a week and who own a smartphone and use it daily; sample size: n=1073 interviews; fieldwork: April 9 to April 19, 2021

Relevant use cases in focus

To cover the second angle, 14 Open-Banking-based services were selected to be presented to consumers. Although this list of services is not exhaustive, it was considered to be a reasonable set of use cases to properly identify the potential value that Open Banking is able to bring to them (also including services that go "beyond banking", such as insurance). These services are summarized in the table below and can be further subdivided into "subscription" services for ongoing use and "single-use" services for ad hoc needs.

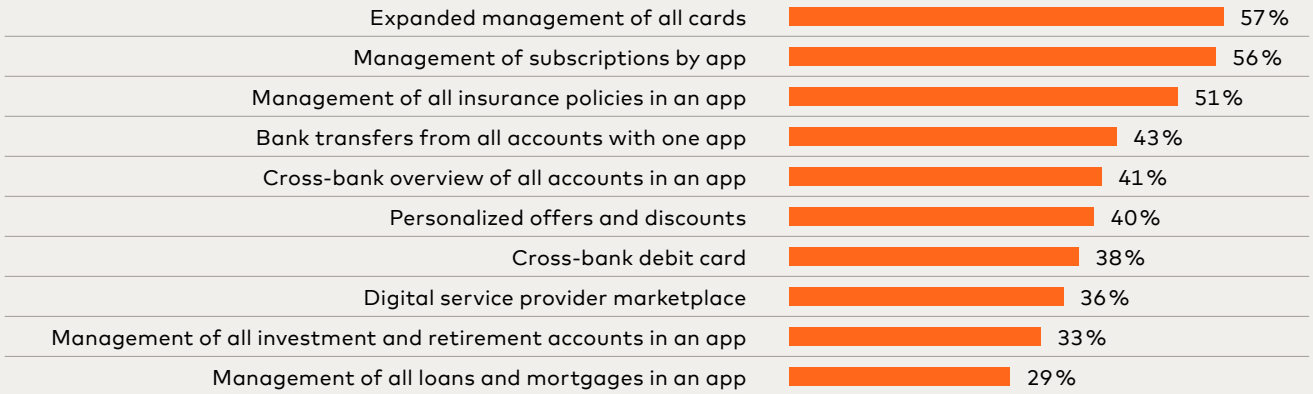
Description of selected Open-Banking-enabled services presented to consumers in the market survey

Service type	Service name	Description
"Subscription" services	**Cross-bank overview of all accounts in an app ("multibanking")**	Consumers can get an aggregated view of all the accounts (including salary and savings accounts) that they have at different financial institutions (e.g. aggregated transaction history and balance). It can also be enhanced with analytical tools, such as budgeting based on overall finances.
	Expanded management of all cards	Consumers can control (e.g. disable, enable or entirely block) any of their cards and change limits (e.g. ATM, contactless payment spending limit) for all their cards at different financial institutions in one single app.
	Bank transfers from all accounts with one app	Consumers can initiate credit transfers/payments from all their accounts at different financial institutions from one single app.
	Management of all insurance policies in an app	Consumers can get an aggregated view of and manage all their insurance policies and coverage in one single app. May also include a tool to show cheaper alternatives.
	Personalized offers and discounts	Consumers can get personalized offers and insights based on their spending habits and financial situation (e.g. lower cost electricity / gas providers, retail offers, lower rate credit products, etc.).
	Cross-bank debit card	Consumers can aggregate all their current accounts across financial institutions under one single debit card. Payments are deducted from the respective account according to their preset preferences (can be adjusted in-app at any time).
	Management of subscriptions by app	Consumers can track and manage all their subscriptions (e.g. Netflix, Spotify, newspapers) in one single app, monitoring how much they are charged on a monthly basis, with the option of also starting/cancelling subscriptions.
	Management of all investment and retirement accounts in an app	Consumers can get an aggregated view and manage all their investment and pension accounts in one app, regardless of which provider they are with. New investments can also be executed, and analytical tools can be applied.
	Management of all loans and mortgages in an app	Consumers can get an aggregated view of and manage all their loans/mortgages in one single app, regardless of which lender they are from. It can also include repayment and refinancing tools with cost comparison.
	Digital service provider marketplace	Consumers can have access to financial (e.g. automated tax returns) and non-financial services (e.g. ticket booking, groceries shopping) from one single app.
"Single-use" services	**Fast opening of a new account with a previously verified identity**	Consumers can open accounts at other financial institutions by using their current banking credentials. Verified personal information is unnecessary because the new bank can access the information at the old bank with the consumer consent.
	Fast account switches	Consumers can switch their bank account from one bank to another within minutes, including transferring payment partners / recurring payments / direct debit payments. Payment partners are notified about the closure of the previous account and receive the details of the new account.
	Fast application process for loans, credit cards or a leasing agreement	Consumers can apply for a credit product online and get an instant credit assessment and decision; they do not need to submit any data in paper or PDF formats. Paper forms are unnecessary, as the platform can directly check their financial circumstances with their consent via account access.
	Faster insurance policy conclusion	Consumers can apply for an insurance product online and get an instant insurance assessment and decision. No need to submit data in paper or PDF form or visit a branch, as the platform can access relevant information with their consent and independently verify that they qualify for insurance.

In this study, we chose to focus our analysis on the "subscription" services, as those are the most likely to generate recurring revenues for the service provider offering them, while the economics of the "single-use" services would be very different, as, for example, it may not be the consumer paying the fee.

In this instance, consumers were asked to assess their interest[2] in each one of these services separately, without pricing being considered. As a result, there were three services that clearly stood out in driving interest: "Expanded management of all cards" (57% of respondents revealed they would use it), "Management of subscriptions by app" (56%) and "Management of all insurance policies in an app" (51%), followed by "Bank transfers from all accounts with one app" (43%) and "Cross-bank overview of all accounts in an app" (41%). It is interesting to note that out of the top five preferences, three are directly related to banking while the remaining two are "beyond banking" services. This is an indication that many consumers like the idea of a holistic experience, in the sense that they see value in services that require data beyond what only banks can provide.

Share of consumers that reveal interest in each "subscription" service



On the other side of the spectrum, services related to management of investment and retirement accounts, along with management of loans and mortgages in an app were the ones that consumers found the least interest in, but still had a fairly significant interest share of 29% or beyond.

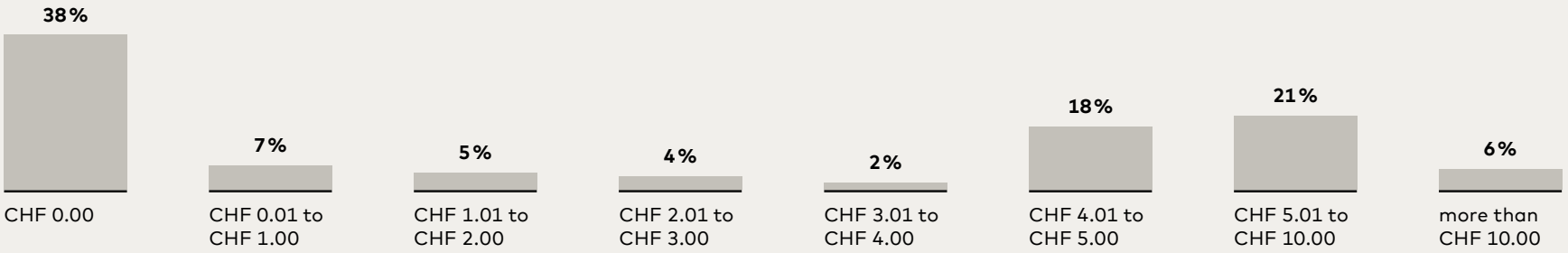
[2] Consumer interest was measured by posing the closed question "How extensively do you think that you would use the following service?". The presented results refer to the share of consumers that answered "I definitely think I would use it" or "I think I would use it".

Willingness to pay for Open-Banking-enabled services

Consumers showing interest in Open-Banking-enabled services is clearly a good sign for their business potential, but what happens if this interest encounters a price tag? Specifically, do interest levels remain high if consumers are required to pay a monthly fee to access these services? For a first answer to this question we asked survey participants to indicate their maximum willingness to pay for any Open-Banking-enabled services as described so far. It became clear that despite the introduction of a fee, Open-Banking-enabled services did indeed still capture consumer interest. In fact, a majority of consumers (62%) indicated that they were willing to pay a non-zero amount, and as many as 45% were willing to pay more than CHF 4 on a monthly basis. This was especially true for younger demographics.

Interestingly, compared with the previous section – outlining the second angle, where 57% of consumers indicated a high likelihood of using the most popular service – this third angle represents an increase in the interest level from the consumers. We found that even among those whose interest was not quite as high, some still indicated a willingness to pay, albeit at lower levels than others.

Share of consumers willing to pay for Open-Banking-enabled services (maximum fee per month)



Implicit Open Banking interest and willingness to pay

In the last step of our study, we simulated purchasing decisions, and with that implicit interest, through a conjoint analysis. This analysis applies a statistical methodology that leads respondents through a series of questions to derive a consistent assessment of their intuitive preferences.

Methodology note on the conjoint analysis

The conjoint analysis is a method used to elicit consumer preferences implicitly. Within the analysis, each respondent faced ten choice situations in which they made a purchase decision between three different bundles of Open-Banking-enabled services. The bundles included a different number of services and had different corresponding prices. To avoid data bias, respondents also had the option of choosing none of the bundles in each choice situation (the "no-buy" option). The price per bundle was the sum of the prices of the included services (between CHF 0 and CHF 2/month per service) – varied by a percentual amount to ensure flexibility in the price optimization afterwards.

As an additional safeguard to the quality of results, we used LINK Institute's "switching factor", calculated for each respondent separately based on questions related to the frequency at which the respondent switched their health insurance provider, dentist, internet provider, etc. within the last five years. In the conjoint simulations, the probability with which a participant decides in favour of a "new" product is then weighted with their individual switching factor. This reduces the possible overestimation of the purchase probability that can arise in the hypothetical setting. By weighting the conjoint outcomes with the individual switching factor, a conservative modelling was ensured.

The fundamental outcome of this analysis was the identification of consumer segments distinct from one another based on their Open Banking interest level and willingness to pay. The categories defined were as homogeneous as possible within their own groups, and as heterogeneous as possible when compared to the others. Based on this, we identified four segments: sceptics, fans, price-conscious proponents, and price sensitives, each of them exhibiting different preferences towards Open Banking.

Summary table categorizing consumer segments derived from the conjoint analysis (values do not add up to 100% due to rounding)

Sceptics
Older individuals with high change barriers

51 % share

LOW INTEREST in Open Banking, with few purchasing decisions

SCEPTICS are the largest segment, representing 51% of the sample; they tend to be older and have large barriers to change. When presented with a purchasing decision, they tend to show no interest in making one. As their level of rejection is high, the real market potential for this segment is very limited. We therefore focused on the other segments in our further analysis.

KEY TARGET SEGMENTS

Fans
Younger individuals, more often German-speaking

18 % share

STRONG INTEREST in Open Banking, with purchases of extensive bundles at premium pricing

FANS are the most attractive segment, as they are highly interested in the concept of and services enabled by Open Banking. Representing 18% of the sample, they are usually younger and more often from the German-speaking part of Switzerland. Given their strong interest, their willingness to pay is the highest of all the four categories and they demand as many services as possible. Several types of bundles including various services can be developed. Overall, fans represent high market potential.

Price-conscious proponents
Younger individuals with the tendency of higher income

19 % share

SELECTIVE INTEREST in Open Banking, willing to pay for the right services

PRICE-CONSCIOUS PROPONENTS represent 19% of the sample and are more likely to be younger, with comparably higher income. Their moderate willingness to pay makes them a segment with market potential, but purchase decisions depend on the offering of bundles with features tailored to their preferences.

Price sensitives
Younger individuals, more often with higher education

13 % share

MODERATE INTEREST in Open Banking, willing to pay up to a max. amount regardless of services

PRICE SENSITIVES have an interest in Open Banking; however, their willingness to pay is comparably low. They represent 13% of the sample and are more likely to have higher education. Price drives their purchase decisions to a disproportionate extent, and they are unwilling to go beyond a maximum amount, no matter what services are offered. Price sensitives therefore can represent some, although more limited, market potential to be explored.

The key question to then be answered is what the ideal approach to address these three segments based on their different behaviour could be. Is a tailored approach necessary for each segment, or are their needs similar enough so that standard offerings can cover all segments? To answer this question, we first ranked the services by the impact that they had on inducing a purchasing decision of service bundles they were included in.

Ranking of Open-Banking-enabled services by impact on purchasing decision (labelled A–J in order of priority of fans)

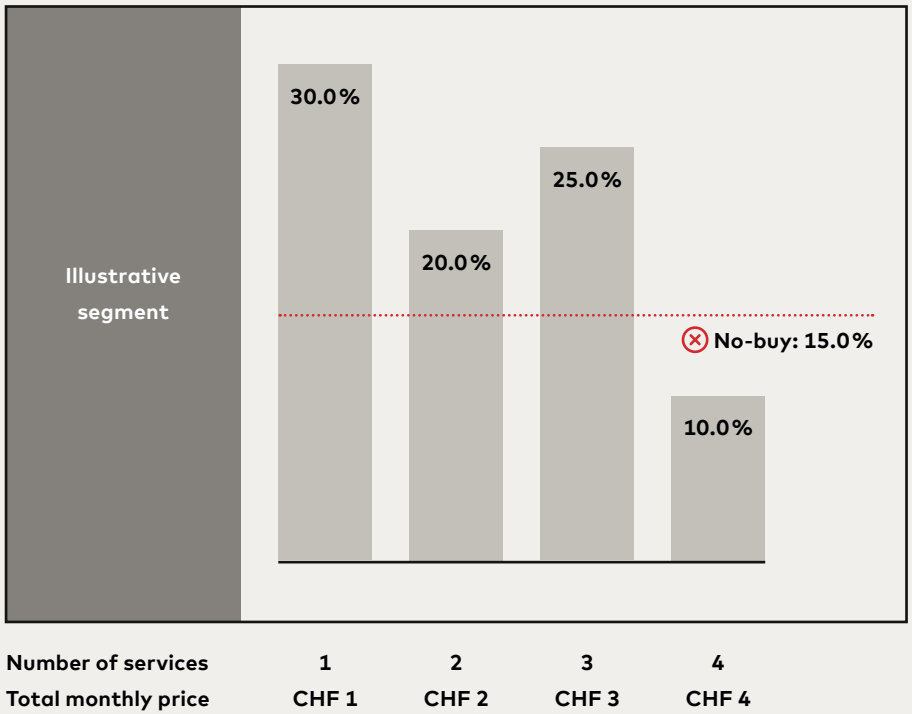
CONSISTENT TOP FIVE (except service B for Fans)

Rank	Fans	Price-conscious proponents	Price sensitives
1	A Cross-bank overview of allaccounts in an app	C Management of all insurance policies in an app	E Management of subscriptions by app
2	B Management of all investment and retirement accounts	A Cross-bank overview of allaccounts in an app	F Expanded management of all cards
3	C Management of all insurance policies in an app	E Management of subscriptions by app	C Management of all insurance policies in an app
4	D Bank transfers from all accounts with one app	F Expanded management of all cards	A Cross-bank overview of allaccounts in an app
5	E Management of subscriptions by app	D Bank transfers from all accounts with one app	D Bank transfers from all accounts with one app
6	F Expanded management of all cards	H Digital service marketplace	I Management of all loans and mortgages in an app
7	G Personalized offers and discounts	J Cross-bank debit card	J Cross-bank debit card
8	H Digital service marketplace	I Management of all loans and mortgages in an app	H Digital service marketplace
9	I Management of all loans and mortgages in an app	B Management of all investment and retirement accounts	G Personalized offers and discounts
10	J Cross-bank debit card	G Personalized offers and discounts	B Management of all investment and retirement accounts

As illustrated in the table, there are clear similarities across segments in Open-Banking-enabled services' impact on purchasing decisions. For instance, the services included in the top five are the same for the price-conscious proponents and the price sensitives, and the same as in the second angle we took on consumer interest above. The only exception is with fans, where the management of investments and retirement accounts drove purchasing decisions significantly more often, although the other four services in the top five remain consistent. Nevertheless, the order of importance does vary by consumer segment as well. When compared to our second angle, the combination of interest with pricing and purchasing considerations clearly had an impact on the services' priority. It also becomes obvious that there is no sole Open-Banking-enabled service that would clearly drive interest and purchasing decisions ahead of all others and across all segments in the Swiss market.

With this information about which services had the largest general impact on each segment's purchasing decisions, we conducted a subsequent analysis to understand their behaviour at varying prices. The summary of the results, along with an illustrative example, is shown below. As part of the analytical approach, ten Open-Banking-enabled service bundles were designed for each of the three customer segments. The first bundle (shown on the left-hand side of the graph on page 13) thereby contained only one service, being the one driving purchase decisions the most for each respective segment, as shown in the table above. The second bundle added another service, being the second most impactful, and so on. In the first iteration, each service was priced at a monthly price of CHF 1. Each bundle adding one more service therefore became more expensive by that amount. Subsequently, the graphs show the purchase decisions that were made within each consumer segment, illustrating the share of consumers that chose to purchase each respective bundle. They also show the share of consumers that decided not to buy any one of them (the "no-buy" share), either because they were too expensive or did not contain the right set of services.

Illustrative example on reading the conjoint analysis

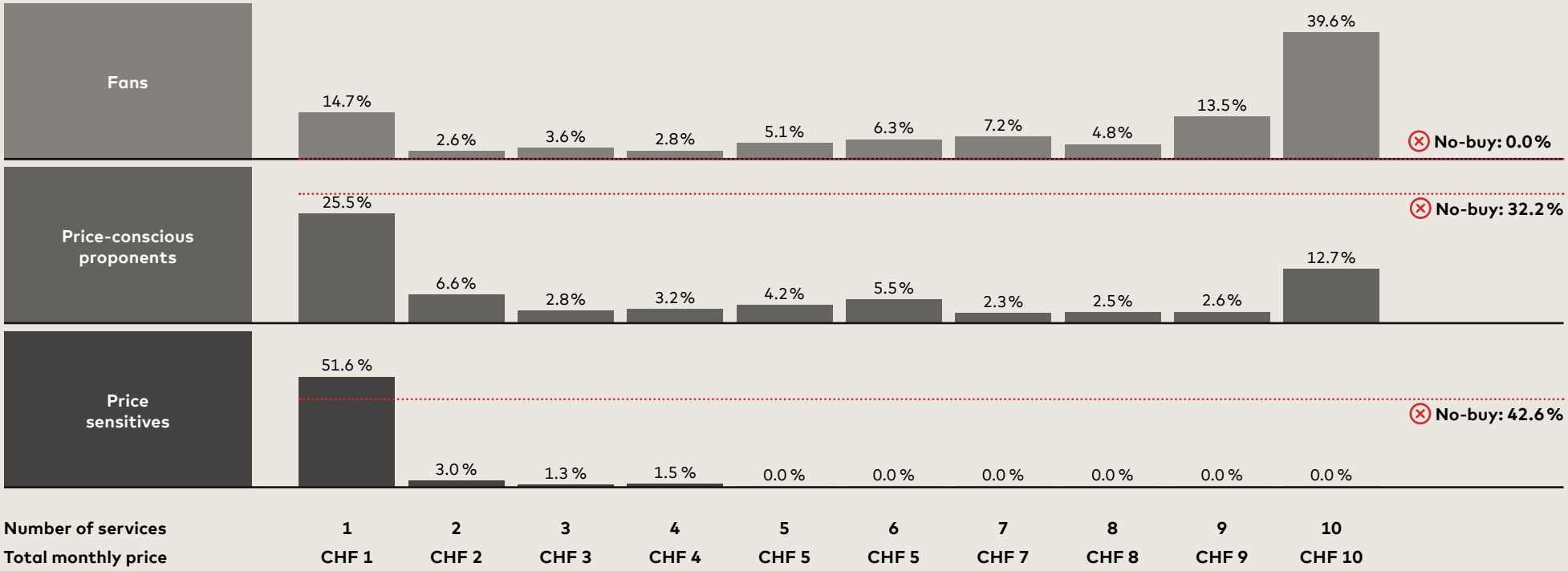


In the illustrative example of a conjoint analysis shown on the left, four different bundles of Open-Banking-enabled services are available for consumers in that segment to choose from in making a purchase decision. Along the horizontal axis, the bundles differ in number of services included and total monthly price for the respective bundle (although the price per service is fixed at CHF 1). Consumers can also choose not to purchase a bundle.

The results show that given the choice of these four bundles, 30% of consumers choose to purchase the one-service bundle, instead of the other options available. The same logic applies to the other bundles offered. Additionally, those consumers that do not wish to purchase any of the available service bundles are represented by the "no-buy" share – in this case, 15% of consumers fall into that category.

The sum of all the shares (including the "no-buy" share) amounts to 100%, as everyone in this customer segment either chooses to purchase one of the service bundles or does not make a purchase decision at all.

Conjoint analysis: share of consumers purchasing each service bundle per segment



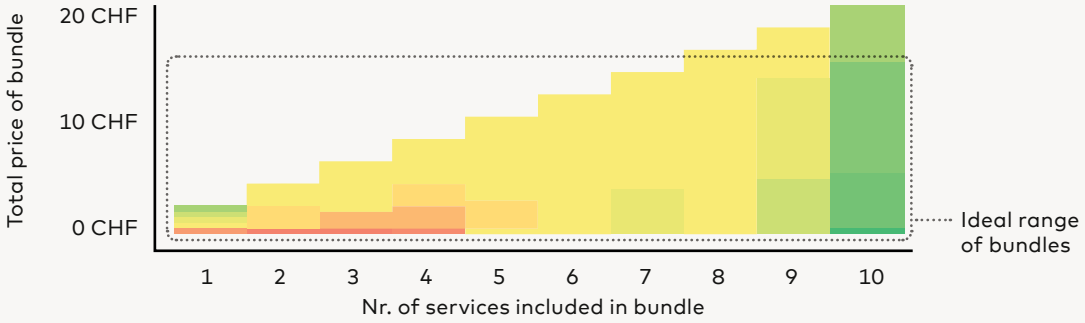
The result, to illustrate with the example of the fans segment, was that, when faced with the choice between all ten bundles, 14.7% would select the one-service bundle priced at CHF 1; 2.6% would choose the two-service bundle priced at CHF 2, and so on. 39.6% would, however, buy the most extensive one, with the highest price. Finally, there were no fans that did not purchase one of the bundles tested, as the "no-buy" share was at 0%. In further iterations of this analysis, we began varying the price per service, in order to assess the change in purchase rate. When observing the "no-buy" share, it became evident that fans had almost no sensitivity to price while the other two segments' purchasing decisions varied to different degrees. Price sensitives clearly reacted at low price points already. As a last step, we mapped the service bundles and total bundle prices on heat maps. The illustrations below summarize all the simulations at different prices and show the relative purchase rates for each segment.

⊗ No-buy shares as a function of the price

Monthly price per service	Fans	Price-consious proponents	Price sensitives
CHF 0.0	0.0%	5.4%	6.6%
CHF 0.5	0.0%	17.7%	33.1%
CHF 1.0	0.0%	32.2%	42.6%
CHF 1.5	0.0%	38.1%	48.3%
CHF 2.0	1.0%	51.3%	55.0%

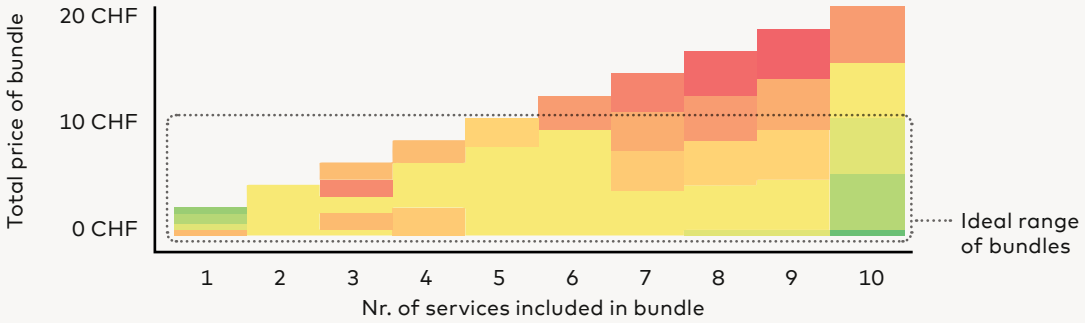
Purchase rates for each bundle, per consumer segment

Fans



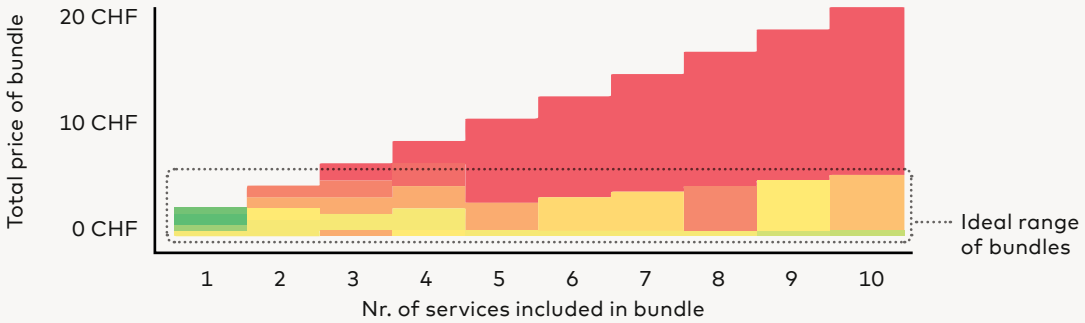
Bundle with **extensive services** at **premium price point,** up to CHF 15 / bundle

Price-conscious proponents

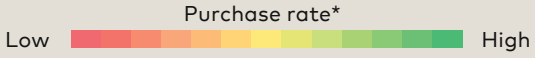


Bundle with **1-6 or extensive services** at **basic or premium price points** respectively, up to CHF 10 / bundle

Price sensitives



Bundle with **few services** at **basic price point**; most prefer CHF 1-CHF 2, but next to no purchases beyond CHF 5 / bundle



* Share of consumers that decided to purchase the respective bundle; colours are relative across all segments and price point simulations

This allowed us to pinpoint where the highest relative purchase rates were concentrated, and we could understand consumer segments' purchasing decision behaviour in greater detail:

- **Fans** are enthusiastic about Open Banking – and willing to pay for services it enables – as bundles encompassing several services showed high interest levels, as already described above. Fans indicated very little sensitivity to price increases in the price points tested. Therefore, fans present a good opportunity for financial institutions to drive monetization across a wide range of services, with premium pricing up to about CHF 15 per month, as seen in the heat map. Beyond that, purchase decisions started falling more materially, but still remained comparably significant up to CHF 20.
- **Price-conscious proponents** are not as straightforward as the fans. At the monthly CHF 1 price point per service, we observed that there could be space for two different types of offers. One basic offer (where consumers would select bundles composed of up to six services) to capture the interest of almost 50% of this segment. At the same time, there also is space to market a premium bundle similar to the fans segment, as 12.7% of price-conscious proponents still chose a bundle with the largest number of services. The main difference when compared to fans therefore was the price sensitivity. When we varied prices, we could see that purchase rates were comparably high for a basic offer that totalled up to about CHF 5 and, with more extensive services included, still remained significant up to CHF 10 per month. A share of the price-conscious proponents remained receptive to premium pricing at all price points, albeit not quite to the same extent as fans, with the only exception of the very highest one.
- **Price sensitives** differ from the rest mainly – as their name suggests – in their very high sensitivity to price, in that beyond a maximum pricing threshold no purchase decision is made anymore irrespective of what services are included. Accordingly, price sensitives exhibit the highest increase of the no-buy share together with increasing prices. In fact, while most prefer to remain with bundles that are priced at maximum CHF 1 to CHF 2 per month, no purchase is made at all anymore at CHF 5 and beyond. This remains consistent, no matter what the price per single service is. Price sensitives will therefore always choose the lowest-priced services, and only as many as fit into their maximum overall price.

In summary, while consumer interest in Open Banking might still be difficult to gauge today, our analysis clearly indicates that it is likely to be material – although naturally varying by customer segment, the service in question and respective price. Most consumers in these focus segments are willing to pay for multiple services at low price points, while especially among fans additional services at premium prices are feasible. To maximize the coverage of their addressable customer base, financial institutions may therefore want to consider what services they would like to offer to the broad masses at low prices in the future, while offering additional premium services for those with particularly high interest levels and bundling them in meaningful ways. Furthermore, the four covered angles of our analysis clearly show that customer education to convey tangible value of these services will be key.

Strategic options to consider by financial institutions

Roles within the Open Banking ecosystem

To recap our analysis so far, the global evolvement of Open Banking across the financial services industry has a fundamental impact on long-established value chains, with their disintermediation expected to create a paradigm shift capable of altering the way financial services are provided and who they are provided by. In Switzerland, this progress is seen as eventual but inevitable, as consumer interest for such services is likely to be material – though not clearly visible today. Financial institutions will need to adapt to succeed in this new ecosystem. Successful strategy adoption can lead to win-win scenarios for the involved market actors, with expanded market reach and access to new revenue streams. The time therefore certainly is right for financial institutions to consider their strategy towards Open Banking, and what roles and associated business models are the best fit for their respective goals and capabilities.

As the Swiss Bankers Association outlined in their recent overview-paper on Open Banking, there are four main roles[3] that participants in the ecosystem can adopt to position themselves in the Open Banking environment: **integrator, supplier, aggregator and/or orchestrator**. These four roles differ from one another in two dimensions: the production and the distribution of services. For each one of the dimensions, market participants can decide whether to conduct them internally (using their own resources) or externally (using resources from third parties).

Integrators follow the traditional financial services value chain. They internalize both the production and distribution of services, aiming to achieve a high level of loyalty by customers, as they position themselves as the service provider of choice for all the customer's financial needs. Although this role maximizes direct operational control, for financial institutions to remain competitive in the long-term, it requires high investment for both innovative production and distribution assets that maintain a strong and flexible position in an Open Banking ecosystem. Integrators may also choose to selectively use the aggregator role for specific services, while not fully embracing it.

A market actor has a **supplier** role when it produces services internally and distributes them externally (i.e. to the customer base of another entity). This allows financial institutions to be at the forefront of product innovation and leverage TPPs to increase the reach of their services. While this model aims to maximize scalability, it leaves the customer interface to the distributing party.

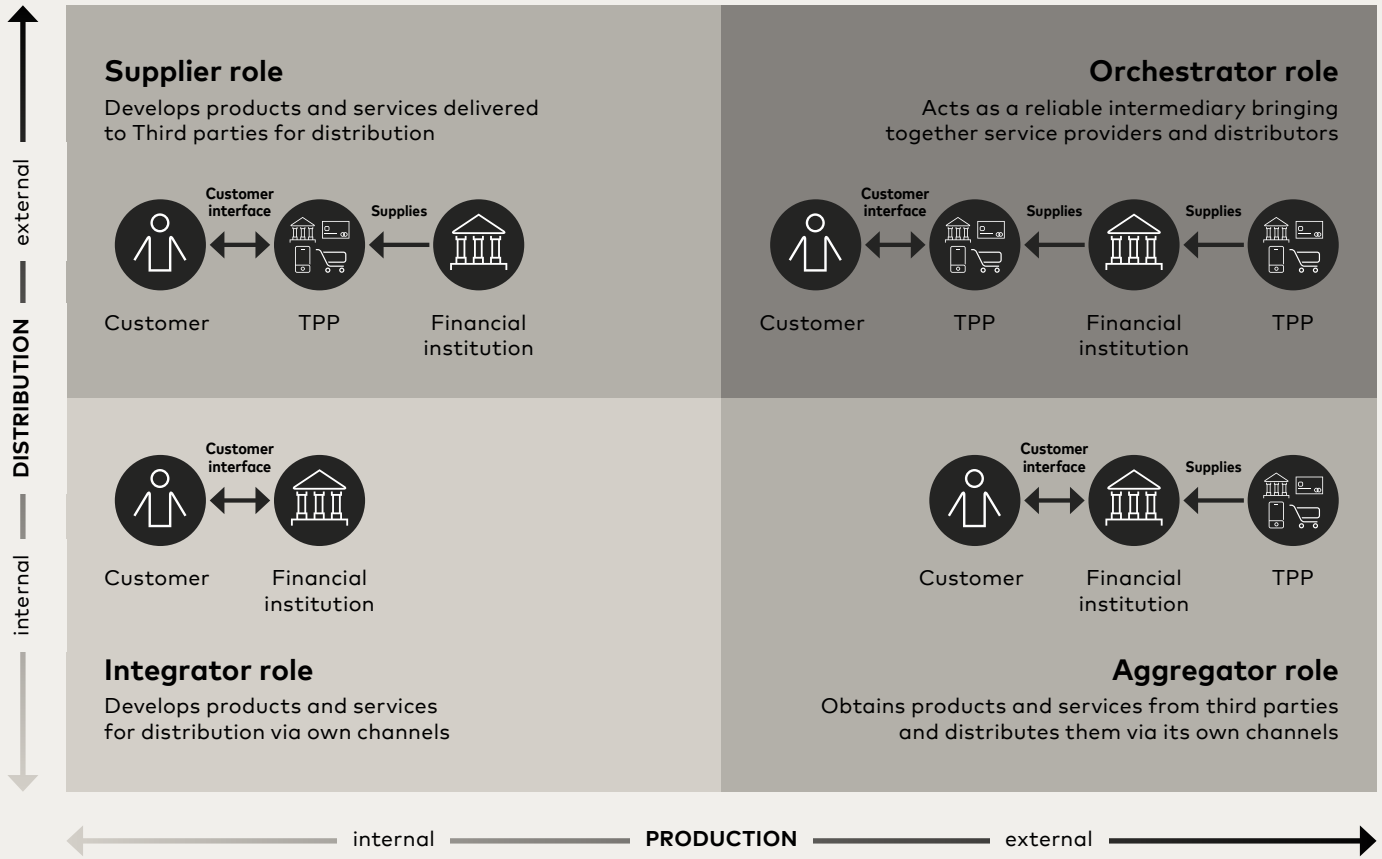
Aggregators distribute services through their own channels; however, they rely on external parties to develop these services. This role is usually best suited for market

[3] Source: Swiss Bankers Association, based on Capgemini (2020). World FinTech report

players that highly value direct consumer contact, as aggregators hold the customer interface. Due to its high importance, aggregators focus on user experience capabilities to better be able to compete in capturing consumer attention and maintain loyalty across a broad set of consumer segments – and subsequently be able to increase their services' reach to new segments and to cover new trends as needed.

Orchestrators externalize both the production and the distribution of services. They bring distributors and service providers together, serving as a reliable intermediary party. In its purest form, this role hence neither owns the customer interface nor service production capabilities, but serves as a key element for the scalability of the ecosystem. Often, however, orchestrators do choose to serve an own customer base directly as well, combining this role with that of an aggregator.

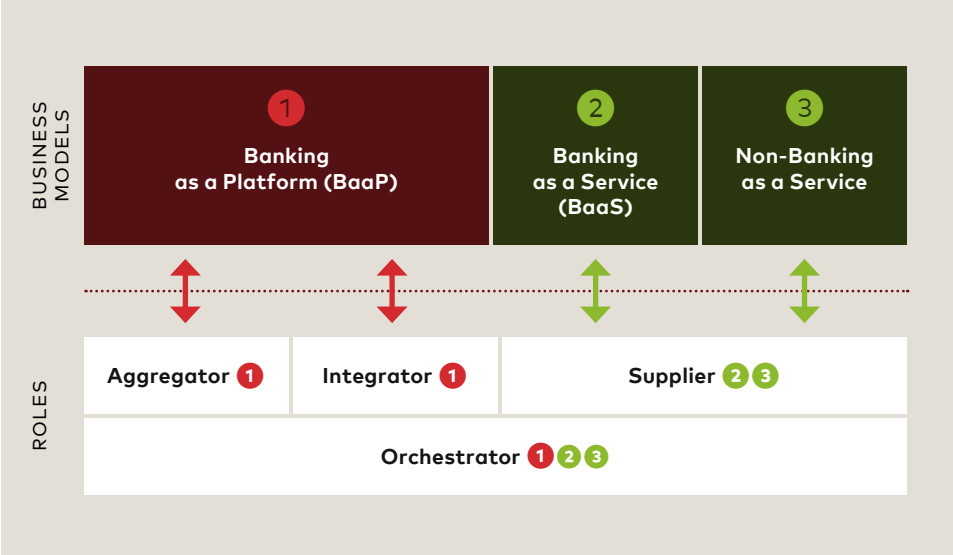
Roles of financial institutions in the Open Banking ecosystem



These four roles represent a high-level view on the different ways to provide innovative services for financial institutions to consider when deciding on how to address the Open Banking ecosystem. They can choose to focus on just one role or explore a combination thereof, with differing approaches for different services. Underlying those choices is the determination of what strategic business model to pursue when implementing Open Banking initiatives.

Business models

Key parameters such as current unique selling propositions (USPs), IT infrastructure, financial resources, customer needs, production resources and the overall strategic positioning of the respective market participant, to name a few, will be important elements in determining which business model is the most suitable one to be adopted (or whether introducing more than one is feasible). Broadly speaking, there are three different business models that can be considered by financial institutions in the context of an Open Banking ecosystem: **Banking as a Platform (BaaP), Banking as a Service (BaaS)**, and – where services provided go beyond the traditional ones within the finance industry – what we will call **Non-Banking as a Service.**



The **Banking as a Platform (BaaP)** model contrasts with the traditional model of financial institutions, under which the majority of the components of the value chain are developed by and distributed through internal resources and channels. BaaP can be seen as a way to increase financial institutions' flexibility in addressing consumer needs and becoming more agile in terms of internal processes and external interfaces. BaaP opens the traditionally closed – and internally serviced – banking infrastructure, to incorporate TPPs (such as fintechs, other technology providers, or other financial services) in a modular ecosystem, bringing their own services and technical capabilities. In its most developed stage, this model transforms traditional banking into a marketplace of services – it enables the creation of a customized ecosystem aiming to better service increasingly challenging consumer needs. Under the BaaP model, as the financial institution is the central platform for the various marketplace participants, it also holds the customer interface, which is one of the major assets in this model – financial institutions can leverage this for monetization, as they provide third parties the possibility to access their customer base. BaaP allows financial institutions to attract new customers or customer segments (via new products and services brought by third parties), increase loyalty and reduce costs as well as time-to-market of new

product development. On the other hand, in order to implement this model, legacy systems and infrastructure need to be evolved to house an ecosystem that facilitates this required third-party integration through the necessary APIs and middleware. Additionally, as the customer interface and the UX that comes with it is key under this set-up, it is a further area expected to drive investment costs.

The BaaP business model is suitable for both established financial institutions with a large and diverse consumer base that possess the ability to build such a streamlined user interface and for challengers that aim to expand their service offering to cover new market segments and establish their presence through a range of innovative services. In terms of the previously described roles, BaaP is the typical business model of an aggregator. It can, however, also be used by an integrator or orchestrator, as an extension of their current value proposition.

On the opposite side of the BaaP business model is **Banking as a Service (BaaS).** BaaS describes the set-up where licensed financial institutions, that provide specific or a wide range of financial services, offer those services on behalf of third parties that wish to provide them to their end customers. This approach allows such TPPs (e.g. challenger banks without a banking license) to enter the financial market or expand their product offering, while financial institutions are able to scale their services' reach without needing to invest in end customer acquisition. For incumbent financial institutions, BaaS opens new monetization opportunities, as the business model would often be used as an extension to serving their own pre-existing customer base. Usually, services provided through BaaS would be integrated in the TPPs' customer interface. The potential drawbacks of this model therefore are the lack of interaction with end customers (especially less control of how services are being offered to them) and potentially empowering today's partners to become future competitors.

The BaaS type of business model suits financial institutions that are capable of scaling infrastructure without impacting existing operability, possibly through the use of cloud-based services, and are also able to quickly develop products to meet the needs of evolving diverse customer segments in a streamlined manner. The business model typically corresponds with the supplier role, but it can also be used by orchestrators.

The **Non-Banking as a Service** business model presents itself as an expansion of BaaS, with a similar underlying logic, but covering products and services that fall outside those traditionally considered as such within the banking spectrum

(e.g. merchant partnerships, loyalty platforms and holistic data insights integrating these). Hence, this business model inherently requires the integration of entities beyond the financial ecosystem. Its technical complexity therefore is comparably higher, as the high standards of the financial industry regarding data security, privacy, etc. need to be upheld. At the same time, it is an opportunity for financial institutions to further differentiate themselves and create USPs through the integration of financial and non-financial products and services, although strategic discipline needs to be maintained to ensure clear value for the targeted customer segments. As such, Non-Banking as a Service fits financial institutions which position themselves as a disruptor in the market, leveraging a broad network of partnerships, but that at the same time are highly focused on data security, and may also have a strong ability to build analytical tools and platforms. This business model especially corresponds with the role of an orchestrator.

In summary, each of these business models requires specific technical, product and distribution capabilities. And while they should be the fundamental approaches to be included under each market actor's strategic considerations, they can be seen as an extension rather than a complete reconfiguration of their business model today.

Conclusion

In the first part of our study, we demonstrated that, while awareness today is low, a material share of consumers care about Open-Banking-enabled services and that, going forward, they are likely to play an important part in decisions that consumers make about their banking relationships. In this second part, we dove deeper with a data-driven methodology, illustrating that, while not quite as visible at present, consumer demand and willingness to pay for future Open-Banking-enabled services can indeed be expected to a significant extent – especially once the value they can provide becomes more tangible. We did so with a detailed analysis of consumer preferences, coupled with a conjoint analysis.

Key takeaways were the following:

- In the cross section of consumers, there is clear interest and willingness to pay for Open-Banking-enabled services. This finding holds true both in isolation for individual services as well as for service bundles, and those services consistently seeing the most interest include such both from the traditional banking space and beyond.

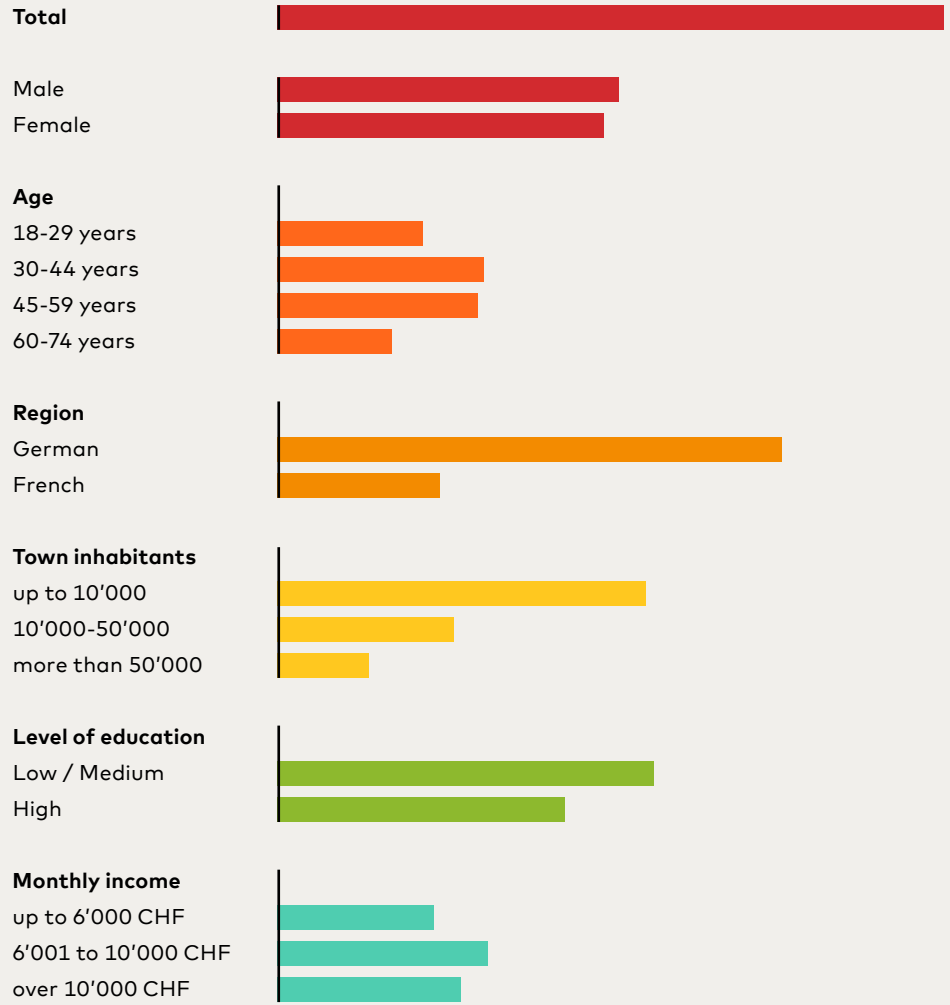
- The demand for Open-Banking-enabled services is driven by specific consumer segments that exhibit differing preferences and sensitivity to price, and there is a segment that has very little interest in purchasing these services at all. Market participants should therefore make sure to tailor their future offering to the needs of their customers, such as with basic and premium services that are priced accordingly.

- There are distinct roles and, based on those, business models that market actors can contemplate in their strategic positioning, differing in their approach to service provision and distribution. Careful consideration of factors such as current capabilities and USPs should play a defining role in the model (or models) chosen.

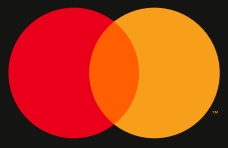
With that, we conclude our analysis on Open Banking in Switzerland. On a closing note, the introduction of Open Banking services in Switzerland is unlikely to remain an optional luxury that financial institutions can consider, but rather is an inevitability that will drive competitive advantages and monetization opportunities for those that manage to build their strategy the most effectively on the strengths they have today. Further progress in standardization initiatives should incentivize current followers to join in on these efforts, as ultimately those that do not will place themselves at risk of disruption and with that, loss of customers or share of wallet. Pioneering profits will be available to the innovators in the space, in what is unlikely to be a zero-sum game with winners and losers, but through the emergence of win-win propositions a growing opportunity set for everyone involved. Those that consider the implications of these developments in their strategic decisions already today are those that stand to benefit the most from them in the future.

Appendix

1073 consumers, women and men from Switzerland aged 18 to 74 who use the internet for private purposes at least once a week and who own a smartphone and use it daily, were questioned in field research from April 9 to April 19, 2021. The computer-assisted web interviews were conducted by LINK Institute.



Total	**1'073**	**100%**
Male	549	51%
Female	524	49%
Age		
18-29 years	234	22%
30-44 years	332	31%
45-59 years	323	30%
60-74 years	184	17%
Region		
German	812	76%
French	261	24%
Town inhabitants		
up to 10'000	593	55%
10'000-50'000	284	26%
more than 50'000	148	14%
Level of education		
Low / Medium	606	56%
High	462	43%
Monthly income		
up to 6'000 CHF	252	23%
6'001 to 10'000 CHF	338	32%
over 10'000 CHF	295	27%



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