WHITE PAPER

THE BENEFITS OF OPEN APIs ENABLING RAPID INTEGRATION

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In the past, financial institutions relied on large complex systems that made enhancements to the existing code cumbersome and challenging. A change in one place could break seemingly unrelated functions elsewhere. New features often required one-off customizations. Development was generally slow and unable to react quickly to market shifts. Banking application programming interfaces (APIs), in contrast, shorten development cycles leading to more innovation through the ease of integrating new ideas with existing systems and data.

Benefits of Rapid Integration

Open banking APIs enable rapid integration of banking data to new digitized, personalized online applications. The benefits created by the technology are significant and sustainable. Financial institutions can respond much more quickly to customer expectations, tailor new innovative experiences per each customer persona, and better attract and retain desirable relationships. Responsiveness to bank customers becomes imperative as technology expectations rise.

Meet Rising Customer Expectations

Customers expect tasks performed at a bank to be available online or through mobile – they see no reasons to be forced down any particular route. They expect banks to offer apps in the same fashion other technology providers do. These apps should work for personalized products that have a simple application and acceptance mechanism, such as “one click” to buy.

Bank customer functionality expectations can be met with rapid development and integration creating simple and intuitive financial products. Open APIs help banks and fintechs combine forces for these types of apps with intuitive user experiences. Innovative new products help banks level the playing field against non-traditional competitors.

Create Unique Customer Experiences

Customers also seek tailored and evolving banking experiences. Consumers expect organizations to have enough insight to know them, look out for them and reward them – especially when the relationship is digital in nature. According to the 2017 Global Consumer Pulse Research published by Accenture, 48 percent of consumers expect specialized treatment for being a good customer, with 33 percent of those consumers who abandoned a relationship doing so because personalization was lacking.

Bank customers understand their financial providers have the data and analytics available to tailor their experiences with their bank. Despite firms across all industries stating that “improving the customer experience” and “delivering customized experiences” is a top priority, only 22 percent of global consumers acknowledge that the companies they do business with tailor experiences based on their needs, preferences and past interactions.[1] Open APIs’ ability to quickly create new solutions allows banks to rapidly build new products leveraging analytics and customer preference data. Product development cycles become drastically reduced with the rapid integration offered by open APIs. Banks can quickly reach more granular segments of customers with product features fed by analytics and driven by APIs.

[1] Digital Banking Consumers Demand Hyper Personalization, Financial Brand, December 11, 2017

Address the Importance of Millennials

Bankers must use tailored experiences to help them retain and attract a shifting customer-base, especially the youthful emerging market. Millennials are now the largest generation in the workforce in the U.S., shaping major new trends. This impacts financial institutions. Banks need to develop their strategies to lure and keep millennial customers. Research from Bottomline Technology found that nearly two-thirds of millennials are contacted personally at least once a month by a business looking to sell their services. But an in-person meeting isn't likely to be as convincing to millennial professionals as it is to older generations, researchers found, with just 16 percent of millennials preferring an in-person meeting to decide on a banking provider.[2]

This new generation of decision-makers, while they may be more demanding and fickle than other generations, isn't a death sentence for banks. "The bottom line is that commercial banks and credit unions and their business clients need each other and possibly more than ever before,"[3] the report stated that banks must capitalize on their trusted advisor advantage while developing compelling and rapidly introduced digital products for the millennial business market.

Besides helping meet millennials' expectations, rapid integration provided by open APIs allows banks to respond more quickly to emerging consumer markets. They introduce innovation and collaboration with a new generation of fintech firms attune to the needs of the new generation of financial services customers.

Respond Nimbly to Competitors

Open APIs enable banks to rapidly respond to changing competitive market conditions. This is critical as consumer trends change at an increasingly more rapid pace. Technology consumption spreads faster today according to a Harvard Business Review article. With faster consumption of technology comes rising consumer expectations. Speed rules in business, and banking is no exception to this rule.[4] Open APIs provide needed development speed given their simple, intuitive nature and significant ease of use for developers.

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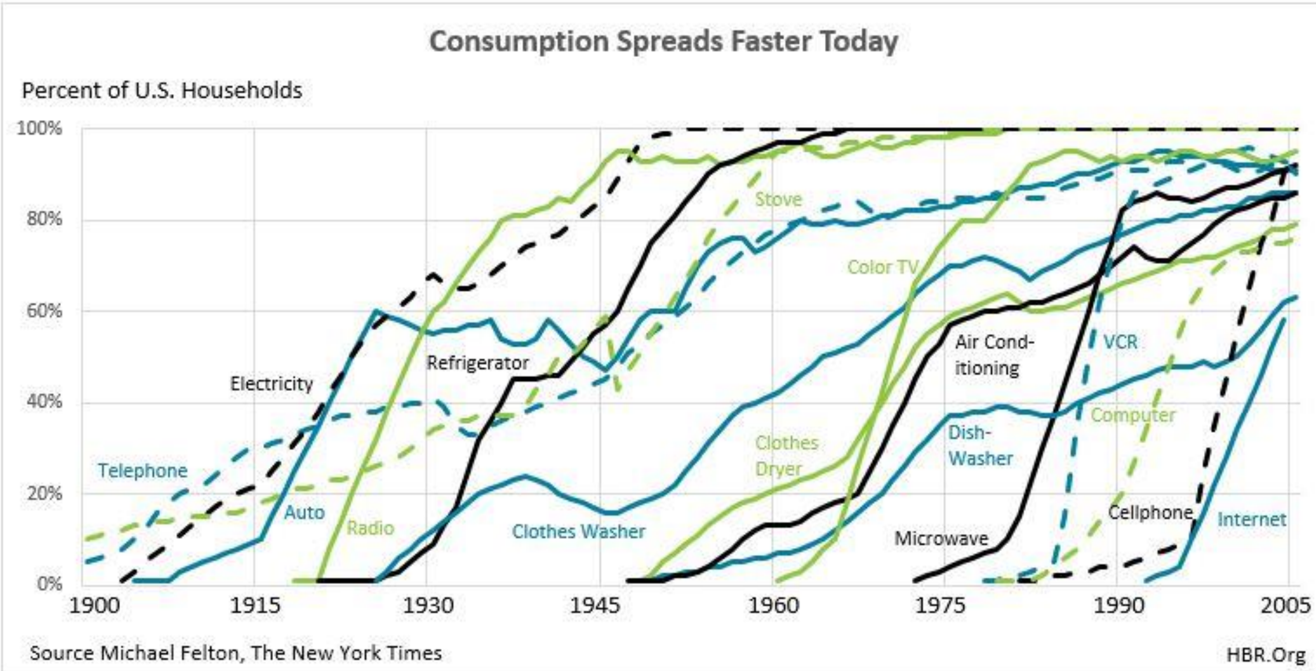
[2] Why Millennials Both a Threat and Opportunity, PYMTS, October 2016
[3] ibid
[4] The Pace of Technology Adoption is Speeding Up, Harvard Business Review, November 25, 2013



Partner More Easily

Transaction banking is receiving heightened attention from fintech companies, which impact traditional wholesale banks in similar ways to how automation impacted manufacturing, particularly in terms of staff reductions. The march to greater levels of automation is inevitable, so banks must choose whether to embrace automation and gain the benefits, or reject it and potentially be replaced in the market.[5] Embracing a relationship with fintech partners advances automation and creates greater monetization opportunities for traditional banks.

API monetization is "driving revenue using APIs". There are many business models under this definition and charging per API call is only one of them. Plenty of monetization examples exist in other industries that can be leveraged by banks and fintech partners. For instance, Google turned the Web into its platform when it taught publishers to use search engine optimization (SEO) and then paid them back with AdSense.[6] For financial institutions, by enabling fintechs, they not only monetize via selling APIs, the financial institutions also benefit by the deposit or loan that is now generated on the bank's balance sheet.

Grow Loans and Deposits

Ultimately to keep shareholders satisfied, banks must grow deposits and loans, and expand other services in creative ways across different and unique channels. Loan growth and increasing revenue are consistently the number one challenges of bank CEOs in the Top Issue Survey conducted annually by FIS. Any technology strategy that supports rapid integration and product monetization will resonate within a C-level audience.

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[5] Corporate Transaction Banking API Vendors, Aite, September 2017
[6] TechCrunch web site, November 2017

	Very Important/Important
Growing Loans	92%
Reducing Non-Interest Expense and Managing Costs	85%
Improving Lending Margins	84%
Improving Customer/Member Service Margins	83%
Increasing Non-Interest Income	80%
Responding to Compliance Requirements	75%
Increasing Core Deposits and Customer Acquisition/Retention	71%
Leveraging Data and Analytics for Strategic Decisions	61%
Implementing New Systems and Technologies	56%
Realigning Delivery Channels; Branch, Internet, Mobile, Call Center, Self-Service	56%
Minimizing Impact of Non-Traditional Competitors	51%
Responding to Potential Changes to Capital Requirements and Reserve Calculations	44%
Implementing a Risk Management Program	38%
Consolidating New Acquisitions and/or Operations	24%

Source: FIS CEO Top of Mind Survey 2017

Summary

IBS Open APIs allow financial institutions to respond much more quickly to customer expectations, tailor new innovative experiences per customer segments, and better attract and retain desirable relationships. Ultimately, APIs help bankers address the issues listed above, starting with improving margins. Future revenue potential starts to become a reality as banks look to monetize API technology that is re-mapping the future of the industry.

Note that this white paper is the first in the series on APIs and rapid integration. A future paper will look at integration from the developer's perspective.

Contact Us

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