



WHITE PAPER

REVENUE OPPORTUNITIES CREATED BY OPEN APIs

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Financial service providers must embrace new technologies and leverage data held in their systems to secure their long-term futures. Open Banking initiatives, using Application Programming Interfaces (APIs), enable banks and FinTechs to improve their customer's experience, while increasing their revenue streams.

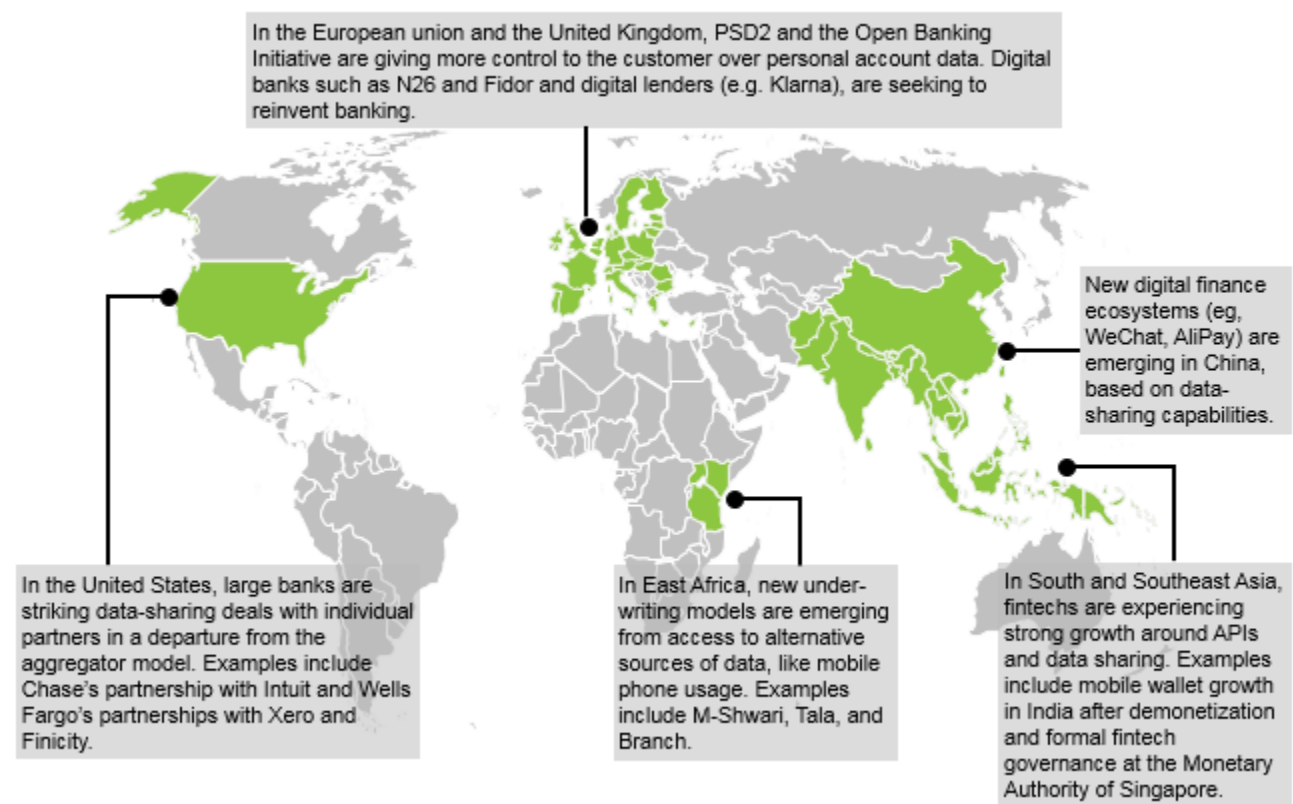
New revenue sources from Open Banking

Open Banking with APIs not only leverages data held by the financial service providers, it also offers opportunities to build innovative new products. This provides new revenue sources in the form of license and usage fees. Collaboration between FinTech providers and banks will grow revenue for both partners.

In Europe, due to the Payment Services Directive 2 (PSD2), a new European-wide regulation that requires European banks to make it easier to share customer transaction and account data, Account Information Service Providers (AISPs) and Payment Service Providers (PSPs) will need access to customer and account data. This will necessitate APIs for developers to build necessary applications and interfaces. The effect of this European regulation will likely extend into the United States banking community.

Open Banking – API economy

The financial world is embracing the Open Banking idea at a rapid pace due to technological advancements, business model changes, and regulatory compliance. In Europe and the UK, this is being driven not only by PSD2, but also the General Data Protection Regulation (GDPR) to open banks' data to third-party service providers.



Source: McKinsey

This will create an Open Banking economy with new revenue channels based on the API-enabled products and services. Financial service providers must develop a strategy to create competitive offerings. It should be based on the design, development, and management of cost-effective, agile, and innovative APIs.

Key API revenue opportunities

The key to identifying and maximizing revenue from the API offerings depends on the API product management strategy of a bank. The potential of their financial data can be unlocked only if the revenue opportunities are defined to monetize the value of new services.

Some key areas that can drive revenue, based on sharing the data by secured means and authentication, include:

Customer and transaction data – Insights and raw data

Banks will need to become aggregators and providers of customer and transaction data (e.g., debit card and credit card usage, footprints across channels, customer spread across demographics) with necessary encryption and security measures. This will enable them to collaborate with FinTechs to provide financial products and services, which in turn, will increase revenue stream for banks. Based on transaction data and customer demographics, apps can be designed to provide focused marketing and customized products. Retail footprint data could help banks provide partnered reward points or drive a loyalty app for credit card use.

Payments and account information

Banks will need to enhance their role as Payment Information Service Providers (PISP) and enable third-party providers to offer flexible payment options using digital channels. This could create unique customer experiences and new revenue opportunities for financial institutions. Banks will be able to authorize payments originating from multiple digital and social media, and e-commerce sites. This will provide straight-through processing and seamless payment experiences for customers based on payment authorization APIs.

Customer identification and authorization

Know Your Customer data for customer identification and validation will improve customer experiences and increase speed-to-market of deposit products. Banks could make revenue by using their internal customer data to provide validation and authorization services. The Millennial expectation of minimum paperwork and agile processes can create an improved customer experience, with faster customer individual validation.

Financial planning and forecasting

Monthly spending patterns on various expense categories, managing cash flows for short-term and long-term requirements, and planning for key milestone events create opportunities for financial advice. Deep dive analysis of customer financial behavior will help drive financial planning and forecasting apps to provide suitable lending, investments, and savings products. Insights from customer data will help in customizing and tailoring the financial planning products with improved turnaround time and value. Custom widgets and dashboards could provide the visual immersive experience for customers based on the data insights provided by the APIs.

Loan origination and servicing

The commercial lending area within most banks represents a significant majority of their revenue. APIs that can speed-up originating loans or streamline the servicing of these loans could lead to more income. Faster origination becomes a selling point against lending competitors. Better customer service leads to more repeat lending customers. This area is fertile ground for productivity-improvement, driven by new APIs.

Behavioral and reporting analytics

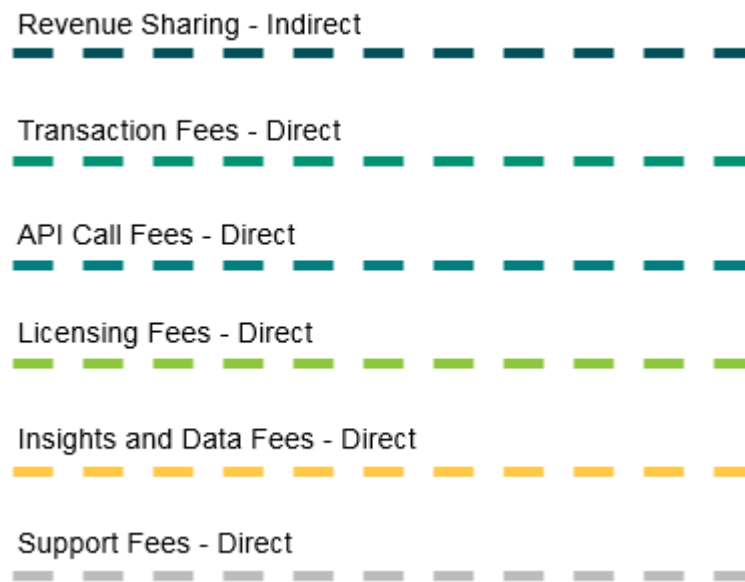
APIs that would enable predictive and cognitive insights to provide deeper insights on customer buying patterns, financial discipline, savings, and spending patterns provide useful tools for customizing products for specific customer groups. Based on spending patterns, relevant products can be suggested throughout the customer key life milestones (e.g. student loans, home equity financing, consumer finance).

Regulatory compliance and tax planning

Banks could need to provide account aggregation and payment information to comply with regulations. Transparency in banking services and comparison of products across channels can provide necessary account data to support more open marketing practices. This transparency supports product comparisons and better value for customers' decisions. Transaction data can also be used by apps to assess income patterns and help customers in tax planning.

API revenue types

Potential API revenue models include both Direct and Indirect revenue sources based on industry standards. Examples of both include:



Developing your API revenue model

No specific revenue model fits all banks. The key questions to answer before adopting a “right-fit” API monetization model are:

- Who are the target customer segments that will use the APIs?
- What is the likely volume per target segment that will consume these APIs?
- Are you able to componentize and make products from the API offerings?
- Do you have an API product management strategy to build partnership models?
- Are there options for revenue sharing by enhancing use of the APIs?

Assessing the API revenue opportunity for your bank

As multiple options are available for developing usage and revenue models at your bank, it's better to begin with exploratory actions if your experience with APIs to-date is limited. Here are a few initial tactical steps you can take to get started:

1. Evaluate current integration plans for your bank's current product set.
2. Survey both consumer and commercial clients for apps they would like to see your bank offer.
3. Consider holding small focus groups to obtain more precise feedback on the apps identified.
4. Evaluate the APIs that larger, global banks are currently offering to their customers. Consider apps your bank could offer and improve upon based on that investigation.
5. Develop a small group of trusted FinTech partners with whom your bank is comfortable working. Look for sources of partners in online portals such as FIS Code Connect Marketplace.
6. Prioritize the list of APIs developed from the preceding steps and meet with the IBS Open API team to overlay plans and discuss mutual strategies.

Summary

Open Banking APIs and supporting business models are still evolving. There is no "one-size-fits-all" model available for pricing and revenue. But there is no doubt that financial service providers and FinTechs can increase their revenue by embracing and adopting Open Banking to develop innovative products.

Contact Us

For additional information on IBS Open APIs, and the benefits banks derive from this robust tool set, contact Amit.Aggarwal@fisglobal.com or call 414.815.1182