A Point of View by Oracle Financial Services

Achieving a Head Start in the API Economy

How should banks prepare for the Open Banking Future?

Open Banking stands to redefine banks' relationship with customers, in terms of how they engage with them, the services they provide, as well as the channels through which they do so. With Open Banking, customers will have more options to interact with their bank, based on where they are at in the digital ecosystem.

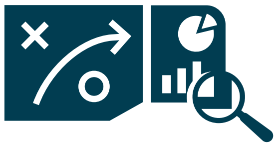
Essentially, the bank becomes a platform, on which third-party companies can build applications using the bank's data. This integrates banking deeply into the digital ecosystem, making banking a seamless experience to the customer. Open banking will usher in an "omnipresent" experience to customers, delivering services on-the-go and fulfilling requests in real time.

The enabler for Open Banking is the application programming interface (API). While APIs have been around for close to two decades, they used to be proprietary – developed for specific purposes within organizations and fully controlled by internal IT departments. In recent years however, their proliferation through standardization, in tandem with the rise of startup innovators and the growth of cloud computing has spurred new entrants, who have capitalized on this to eat into traditional revenue streams of banks, starting with the payment space.

Non-banks are Leading the Charge in The Shift to Open Banking

FINTECH

Financial Technology (FinTech) companies specializing in specific products or services are able to provide them at significantly lower costs, compared to corresponding bank offerings.



Financial data aggregators such as Mint.com, who currently aggregate product information and offer budget planning tools to customers, will look to further extend their value proposition, initiating payments directly.

PSPs → PISPs

Payment Service Providers (PSPs) such as Visa, MasterCard, WorldPay etc. will aim to become Payment Initiation Service Providers (PISPs) and offer payment schemes, becoming closer to the PayPal model.

Technology companies such as Google, Apple, Samsung, and Facebook, will have further opportunities to expand their service propositions in the open API economy. Some of them are already offering payment services linked to customers' debit and credit cards.

Retailers or merchants such as Amazon can become full-fledged PISPs, removing the card networks from the value chain, thereby reducing the total costs to customers. They can also retain the fees charged by banks.

Neo Banks such as Fidor and Mondo are more open to collaborate with third party developers to create more customer-centric service experiences.

Drivers for Change

In the open API economy, banks need to be forthcoming about providing customer account information, as well as access to systems to third party developers, who can then build their own interfaces for the banks' customers. Banks need to reconcile with the fact that customers in the near future will be accessing transactions and accounts through applications that were not in fact set up by them.

We conducted a survey across 129 executives in the Banking and Financial services, FinTech and Consulting space, measuring the readiness of Open API adoption and the key drivers for Open Banking.

Top Drivers for Open API Adoption

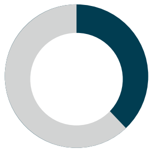
47% Real-time Service Experiences

40% Banking as a Platform

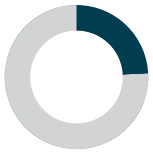
21% Regulatory Push

Top Areas where FIs are Incorporating Open APIs

45% Improve Customer Experience



38% Payments, Loyalty, e-Commerce & Wallets



24% Investing, Trading & Brokerage, Wealth Management

01 Regulatory developments

The tribe of progressive regulators who are changing regulations to provide a level playing field between banks and FinTech innovators is growing. Their aim is to drive innovation and better banking for customers. There are currently a number of initiatives across the world mandating banks to move to the open API economy. The following are two of the more notable ones:

UK's Competitive and Markets Authority (CMA) is leading the change, and has **given the country's nine largest banks a year to develop and adopt an Open Banking API interface for customer data sharing in a final order, on February 2nd, 2017.**

Alasdair Smith, chairman of the retail banking investigation, says: "Open Banking will make a transformational change to banking for personal customers and small businesses. For the first time innovative and secure apps will provide personalised services and information to cover all financial needs in one place, and make it easy for people to find out what bank account is best for them."

The European Union's second Payment Services Directive (PSD2) requires banks to provide third party developers with access to accounts, payment flows and customer data. This directive consists of two key parts – i) payments and ii) data aggregation.

PSD2 will lead to increased competition, innovation and transparency across the European payments market, as well as enhance the security of internet payments and account access. It is hoped that PSD2 will create a level playing field between banks and third party providers, ensuring that banks are not left behind in a business that is core to them.

MAS Monetary Authority of Singapore

Singapore central bank leads the way by embracing open APIs

"MAS has been encouraging financial industry players to publish open APIs on their datasets, to allow users to connect information and offer innovative solutions. MAS is leading by example through the launch of these 12 APIs. MAS will progressively publish more datasets as APIs in the coming months."

- Lawrence Ang, Executive Director of Information Technology, MAS

02 Demand for New Revenue Streams

The open API economy presents banks with huge opportunities to drive innovation, by collaborating with third party innovators. Banks will be able to deliver products and services that create new revenue streams, and capture or retain customers. It will also facilitate collaboration within the bank, across business units, as well as between banks, and with other sectors of the economy.

Spanish bank BBVA is an early mover in making the jump to Open Banking. Viewing APIs as critical to its future, BBVA has created an API market for external developers. One of the conveniences they are delivering to customers, enabled through APIs, is real-time payments, even on weekends, instead of waiting two days or more for processing at the automated clearing house, as is the current industry norm. This was made possible through BBVA's partnership with FinTech company Dwolla.

The critical mindset shift that banks need to make is to treat APIs as not just technology interfaces or compliance requirements but as revenue generators in themselves. No doubt, FinTechs are disrupting the industry and pose a threat to banks. However, it is critical that banks treat FinTechs as part of their ecosystem. Such an approach will help garner the innovative spirit of a broader group of people, beyond the corporate walls of the bank. Ultimately, it is the bank's customers who will be the beneficiaries.

Where there was a branch previously, the open API economy will usher in an omnipresent service experience to customers, delivering services on-the-go and fulfilling requests in real time.

Specifically, customers will have benefits such as:

- Personalized financial advice
- Harmonized and unified view of all bank accounts, using a single banking app
- Easy comparison, providing for the ability to choose the most ideal banking product
- More control over funds, allowing customers to manage cashflows better and avoid overdrafts

03 The Changing Customer

Millennials are already the world's largest demographic, and the largest consumer base for banks, with financial power that is only expected to grow. One key millennial attribute is that they desire real-time fulfillment of service and information needs.

FinTechs have made considerable inroads into this demographic group, many of whom (in particular the mature millennials, aged 26-30), being already users of mobile wallets and mobile money. Young millennials (aged 18 – 21), for their part, are likely to use peer-to-peer payment platforms and alternative payment providers. Both these segments are increasingly open to non-traditional modes of payment services, rendered by non-bank entities.

However, banks have an advantage – they are seen as the most trusted service providers for holding funds, and in providing advice and management of personal finances. By capitalizing on this trust equity they have earned, banks have an opportunity to provide personal financial advice, and design customized products and services that enable them to make decisions easily and seamlessly, without leaving their digital ecosystems.

One area of lack which can well be turned into an opportunity is that millennials currently do not see banks as being involved in their lifestyles. By analysing millennials' spending patterns, and surveying relevant moments in their lives, banks can gain insights into services and products of value to them.

There are a whole range of lifestyle decisions that banks can value-add to millennials. These include shopping, budgeting, travel and career, surrounding which revenue generating propositions can be designed.

Our Recommendations

1. Adopt a Domain-Driven Design Approach

The approach to identifying and packaging APIs should be domain-driven. For banks, this means going back to the drawing board and scrutinizing all relevant business processes. This approach requires banks to look at processes from a 'customer in' perspective and rationalize them for digital experiences. It also ensures a progressive buildup of an API repository without losing sight of the key drivers of the program.

Operationally, a domain-driven design approach entails looking at every single business process, internal and external facing, and breaking them down into smaller "building blocks" in an iterative manner.

This approach is radically different from a bottoms-up, inside-out approach that looks at the capabilities of the current application landscape, which results in limiting the possibilities to sustain future innovations.

While the domain-driven design approach has been used in the software development world for a while, it has found new relevance and importance in the open API economy.

2. Subscribe to APIs

Building every single API ground up is not only unnecessary but also tends to affect the pace and economics of an API program. After all, no one builds social APIs – we subscribe to them via Facebook, Google or Twitter. There are wide repositories of APIs available today for subscription from FinTechs and technology companies that are focused on business domains. The fact that these organizations are focused on a single business problem or domain and very often bring global experience, helps incorporate globally recommended practices into an API program.

Subscribing to APIs (and if required extending them, which is very easy) helps accelerate not only the API program per se, but also indirectly turbo-charges other digitization initiatives that are linked to it.

3. Business Driven and Management Oversight

For an API program to be successful, it needs the commitment and cooperation of the relevant business stakeholders. The most successful API initiatives have support from the CEO himself.

In the long term, adopting a tactical approach to APIs, for the sole purpose of running accelerators and incubation programs, may not yield the best ROI.

Any API initiative should be long-term focused and based on innovative business and revenue models. This should be further backed by an enterprise-wide governance team and a progressive plan that is broken down into short-term goals.

Winning in the Open API Economy

As regulations and customer trends will have it, FinTechs are poised to become a force within financial institutions. The open API economy is expected to upend the traditional model of technology integration within banks, from a "corporate" initiative to a grassroots movement.

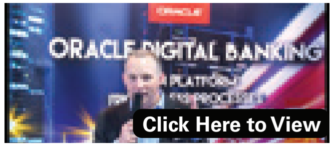
This democratization of product and service propositions is a win-win for all. This new model will unleash the innovative spirit of developers, who can exploit the multiple APIs from multiple vendors to create new functionalities for banks. However, the banks (at least the more progressive ones who see the immense opportunities in this upcoming revolution) will be none the worse for it, as they would be better positioned to build their loyalty with customers, through the digitalized, seamless experience that they provide to them.

Most importantly, the open API economy will usher in a more customer-centric business model within banks, delivering new services, greater transparency, and accessibility of product features and costs in real time, along with a higher degree of personalization. Transactions can be sped up significantly, and feedback from customers can be incorporated, resulting in faster time-to-market.

In the final analysis, while change is ultimately going to come as a result of a regulatory push, banks should treat moving to the open API economy as less of a compliance objective, and more as an opportunity to deliver superior value propositions to customers.

This requires banks to review their operational models, and revamp them to cut across business divisions and product lines. APIs as such, are destined to assume a central role within the technology organizations of financial instituitions.

Industry Viewpoint



Power up for the API Economy

Aubrey Hawes
Senior Director, Digital Banking, Oracle Financial Services
https://youtu.be/aJF2daz3hL4

Open APIs: Top 10 Retail Banking Trends and Predictions for 2017

Jim Marous
Co-Publisher, The Financial Brand
https://youtu.be/yl8cgu1C97s

Open APIs are Heating Up the Future of Banking in Asia

Zennon Kapron
Founder & Managing Director, Kapronasia
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