

# The Race to Maximize Returns with Open API: A Payments Perspective

## Payments ecosystem disrupted

The payments industry is undergoing a rapid transformation. The proliferation of devices, changing demographics, need for financial inclusion, complex maze of regulations and the imperative for innovation are all leading to the emergence of a new class of players in the payments space – Fintechs.

Major economies around the world have been quick to bring fintechs on par with traditional financial institutions and unshackle the 'burden of customer service' away from the Financial Institutions. Today Fintechs epitomize the fabric of innovation and interconnectivity that has come to characterize the payments industry. Apart from Fintechs, a few other key 'non-bank' payment players – such as retail and telecom companies – have emerged on the scene. Regulations such as PSD2 are attempting to level the playing field, placing the customer as the ultimate beneficiary.

Slowly, but surely, this has shifted the payments ecosystem from a commoditized entity to a potential strategic tool that provides a value add for end customers. The PwC Global FinTech Survey 2016 findings, in fact, suggests that the Fund Transfer and Payments is the second most likely financial sector to be disrupted by FinTechs after consumer banking.<sup>1</sup>



## Finding innovative sources of revenue is a differentiator

The need to generate new sources of revenue has compelled banks to tread on the path of collaborative innovation with success hinging on the interconnectedness of multiple stakeholders to satiate customer goals. The Application Programming Interface (API) has become the single most important unit to achieve this interconnected ecosystem. Banks remain at the center of the payments ecosystem as the end-points for transactions but are under severe threat of commoditization if they do not unleash the power of open APIs for differentiation.

Other industries have been no strangers to the wave of open APIs. The retail and travel industries have been pioneering this concept for over a decade now.

Retail	Travel	Fintechs	Banking
<ul style="list-style-type: none"><li>• Amazon</li><li>• Alibaba</li></ul>	<ul style="list-style-type: none"><li>• Expedia</li><li>• Travelocity</li><li>• Airbnb</li></ul>	<ul style="list-style-type: none"><li>• PayPal</li></ul>	<ul style="list-style-type: none"><li>• Saxo Payments</li></ul>



## The shift to Open API is driving down costs

The traditional costs associated with building software from grounds-up are passé. Imagine, a new regulation has kicked in and needs banks to undertake compliance changes at the back-end and front-end. A traditional approach would have necessitated significant time and monetary investments on building the required functionality to meet compliance. Consider now that a third party API already has already addressed this function and it's only a matter of integrating it into the bank's ecosystem. A bolt-on approach of seamlessly integrating this API into the existing software means that banks save significantly on IT maintenance and upgrade costs.

Most Fintechs and third party providers are known to provide payment services that mirror the pace and convenience of consumer applications and devices. Adopting an API bolt-on approach, therefore, is not only beneficial in bringing down cost but also driving up customer satisfaction.

In order to offer real time service experiences the underlying payment infrastructure has to be real-time or immediate, especially in a corporate payments scenario. Organizations and applications need to exchange data in real time, and they would do well to adopt an open API model as opposed to a bulky file upload sharing model such as FTP.

Saxo Payments, a UK-based financial institution, has been pioneering the API marketplace model. The model, called The Banking Circle is open to any FinTech business (card acquirer, payment gateway, P2P lending business) or other third party enterprises. Businesses can provide bank transfer capabilities in their own name, competing directly with banks.<sup>2</sup>





## The imperative for banks is to move the needle now with revenue maximization

The threat of banks losing out revenues to disruptors is real and here. Banks in the UK, for example, could lose up to 43 percent of their current payment-based revenues by 2020<sup>3</sup>. In such a scenario, embracing the open API model is a necessity rather than an option.

Banks, however, have been embarking on innovative models of collaboration with third-party players (and Fintechs) through open APIs, to not only preserve their revenue base but also in some cases, enhance it.

**Compliance:** Financial institutions are mandated by regulatory authorities to share data with third party companies. This is a straight-forward case of charging the third party for the APIs used, in either a subscription model or a metered model.

**Complement:** In some instances, banks are looking to share data with certain value added third party applications such as an analytics engine, in order to derive better insights, through the third party application, on the customer data they possess and right-sell their products to customers and improve effectiveness



### Typical Third Party Data Sharing Goals to Achieve Revenue Maximization

**Complete:** One of the most effective ways of maximizing the impact (and therefore revenues) of open APIs is to share data and provide APIs to specialist third party vendors such as an authentication service, that helps complete the transaction workflow. This significantly reduces the burden and complexity of the existing system while leveraging the functionality of the specialized engine, thereby increasing revenue potential for the payment provider. An extension to this approach is to make certain functionalities (such as a payment-processing engine) that reside within a bank's ecosystem available to a third party that needs the functionality and monetize the service

## Conclusion

Banks have been dabbling in various models - bank as a platform model, the aggregator model or the pay-per-use API model – when collaborating with third party companies as well as Fintechs to build competitive differentiation. Regardless of the model adopted, the immense potential of Open API banking is a game-changer for financial institutions, both in terms of enhancing customer satisfaction as well as maximizing revenue.

## References

- <sup>1</sup> <https://www.pwc.com/gx/en/financial-services/publications/assets/pwc-emerging-markets-12-July.pdf>
- <sup>2</sup> <https://www.saxopayments.com/banking-circle>
- <sup>3</sup> Accenture: Driving Innovation-Payments-APIs

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