Beyond Banking
Through Open APIs

IDC
ANALYZE THE FUTURE
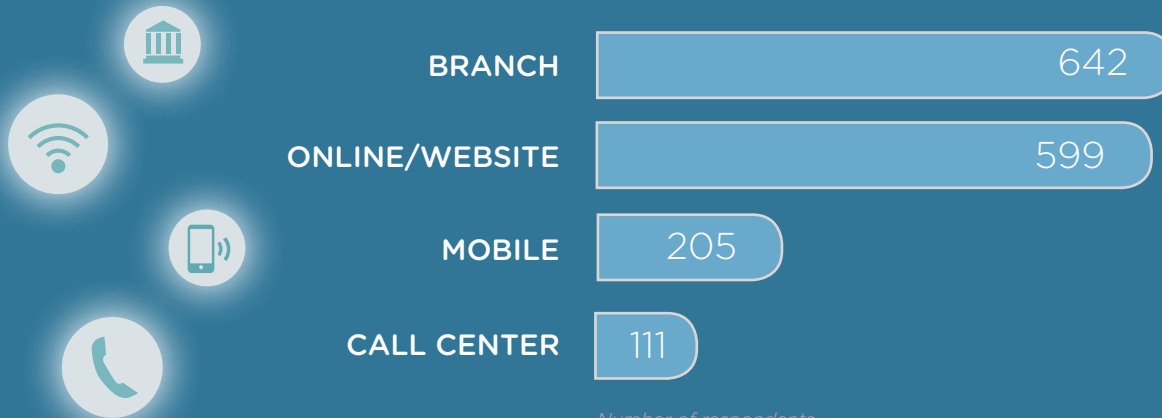
Executive Summary

We live in an increasingly connected world. Mobility has allowed us, as consumers, to connect not only with each other, but to services that make our lives easier and more enjoyable, whenever and whereever we choose. In banking, customers want to access their financial lives through a variety of channels, at their convenience, 24/7. Account opening, arguably the most important interaction a bank can have with a consumer, shows the "omni-aspect" of what consumers want.

Account Opening Channel Usage

Channel	Number of respondents
BRANCH	642
ONLINE/WEBSITE	599
MOBILE	205
CALL CENTER	111

Number of respondents

Source: IDC Financial Insights' U.S. Consumer Banking Channel Preference Survey, 2017

Executive Summary

The closed legacy platforms at most banks are like "unwinchable" anchors that severely restrict the ship's movement in shifting currents. Open APIs represent the multiple sails that racing yachts deploy dynamically as conditions change. **IDC encourages consideration of an "API-first" mentality in any financial institution.**

Voice of the Customer

API-first

" DBS embarked on a journey to transform our tech infrastructure nine years ago. With that early start, we are now ahead of many others in being digital to the core. This has given us an edge – enabling us to operate with fintech-like agility and nimbleness, and also platform-like inclusiveness. This will be transformative in ways not imagined previously, both for the customer and the bank. "
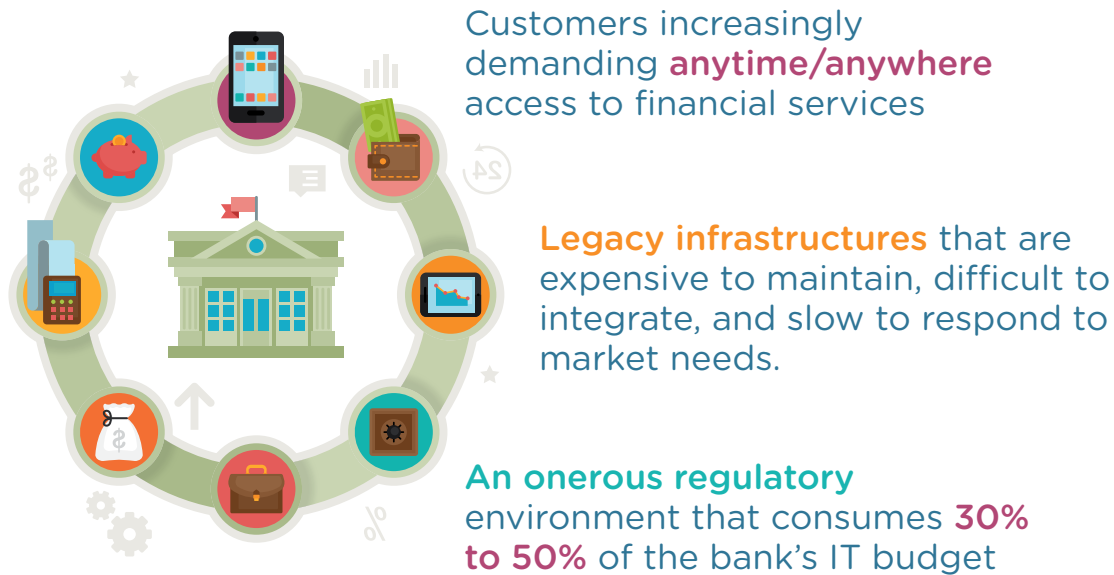
--David Gledhill, DBS Bank CIO (created the world's largest API developer platform)
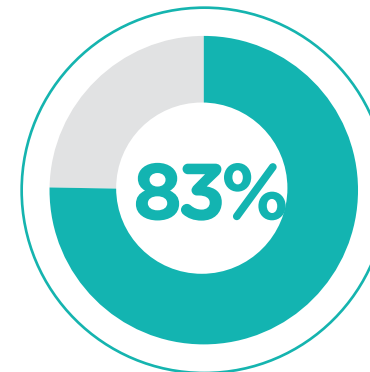
Open APIs are considered by most banks to be **the transformational technology** that will not only solve multiple constraints that exist today, but to launch banks into the future of financial services.

Creating Opportunities from Challenges

Bank IT executives are beset by a number of drivers and constraints that affect their ability to support the continued success of the bank, and that put innovative business models out of reach:

Customers increasingly demanding **anytime/anywhere** access to financial services

Legacy infrastructures that are expensive to maintain, difficult to integrate, and slow to respond to market needs.

An onerous regulatory environment that consumes **30% to 50%** of the bank's IT budget

In a recent series of interview conducted by IDC Financial insights,

83%

of banks view **open APIs** as a way to modernize their legacy systems,

improve customer experiences,

address regulaory compliance requirements

eventually break into new business models.

Regulations as DX Driver

As an example, the **PSD2 regulation** in Europe is perceived by many institutions **to be a threat** as it forces banks to allow access to the institution's data by third party payments providers.

But Nordea bank - making its **first open APIs available** in December 2017, sees it as an opportunity:

Voice of the Customer

" We view PSD2 as an opportunity, which is why we have made a significant effort in the building of the Open Banking platform. We see possibilities to offer our customers new services together with partners, and we could offer our customers services in geographies beyond our home region. "

--Erik Zingmark, co-head of transaction banking, Nordea Bank

Digital Transformation (DX) as Business Strategy

Digital Transformation: The continuous process by which enterprises adapt to or drive disruptive changes in their customers and markets by leveraging digital competencies to:

Blend digital, physical, business and customer experiences

Innovate new business models, products, and services

Improve operational efficiencies and performance

90% Over 90% of banks worldwide have **established strategies** for digital transformation.

60% of those have **achieved repeatable results** in digital initiatives and/or have **introduced innovation** into the industry as a result.
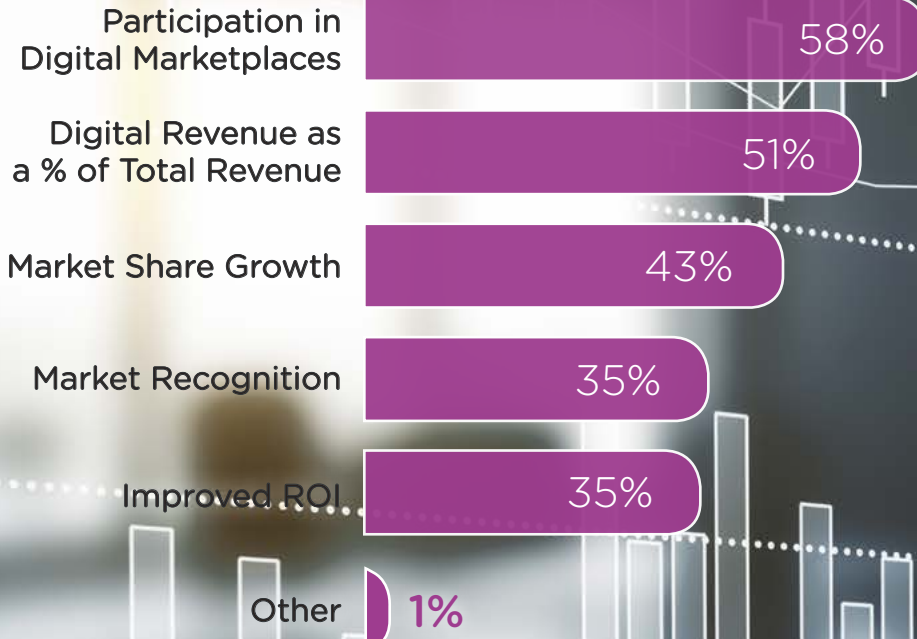
8% of banks worldwide are **considered disrupters** in the industry due to their high levels of adoption of digital transformation

Source: IDC's Digital Transformation Benchmark Survey, May 2017

Success KPIs and Goals

When IDC asked banks globally how they measured success of the DX programs, 58% of them pointed to participation in digital marketplaces as their primary indicator of accomplishment.

KPIs Used to Meausure Digital Transformation Success

KPI	Percentage
Participation in Digital Marketplaces	58%
Digital Revenue as a % of Total Revenue	51%
Market Share Growth	43%
Market Recognition	35%
Improved ROI	35%
Other	1%

Participating in marketplaces outside of traditional banking accomplishes some important goals:

It increases the reach of the bank's brand through partnerships

It provides more products and services to its customers, faster

It improves customer service and increases revenues

Only through **digital transformation** can institutions look Beyond Banking into **the future of financial services.**

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Open API is the New Foundation Technology

As one of the first steps toward digital transformation, banks worldwide are using open APIs to overcome a number of challenges and to open the doors to new opportunities:

Line of business executives are using open APIs to improve access to historically slow and cumbersome legacy systems that limited their ability to respond to customer needs in a timely way

Data managers are using open APIs to aggregate information residing in silos, enabling them to improve their decision-making capabilities

Banks are able to monetize select data in a controlled and secure way by opening access to external partners

Technology executives are better able to attract and retain IT talent who prefer to work using modern development methodologies

The Difference Between Survivors and Thrivers

The variety of open API characteristics means that banks must have robust governance of an API environment to achieve success without sacrificing reliability and quality of service.

Survivor

Defensive approach to changing markets. Views regulations like PSD2 to be threatening. Adopts change only when necessary due to an overly risk-averse culture. Will argue against opening the bank's assets in order to protect itself.

Thriver

Early adopter embraces change, looks for the opportunities in uncertainty. Sees technology not in terms of cost and risk but in terms of improvementsand revenues. Are already investing in open API as a critical tool.

Not All Open APIs Are Made the Same

Many banks fear the term "open" in "open API" envisioning a lack of control and security. There are, in fact, many different kinds of open APIs, each with their own consumers, providers, goals, and controls. IDC Financial Insights broadly categorizes them into 3 areas:

"Private" Open API

These are programmatic interfaces that are exposed and used in order to create and maintain applications completely within the institution. They could be low-level APIs that integrate with the core banking systems, or higher-level APIs that are used by business analysts to compose new functionality.

"Partner" Open API

These APIs are created in order to integrate with a select ecosystem of partners, typically to implement specific functionality, products, or services on behalf of the consumer. These are operational points of integration which can include SLAs, governance, and security.

"Public" Open API

In order to encourage innovation, or to monetize institutional data, banks may create public APIs to allow 3rd party firms to access those resources. These access points are more limited in access, and are tightly secured.

The variety of open API characteristics means that banks must have robust governance of an API environment to achieve success without sacrificing reliability and quality of service.

Deploying the New Paradigm

Control

As the saying goes, "with great power comes great responsibility." While making it easier to produce points of integration into multiple systems and increase the general agility of the enterprise, the greater number of connections and the sensitivity of those systems mandate that banks create new governance models to maintain control over the API environment at all times. This new governance model would include bringing information security and operations into DevOps during the design, build, and deploy phases of APIs to reduce risk.

This includes control over:

- API access and authentication
- Data security
- Reporting
- Orchestration and dependencies
- Developer support

Skills

The move to an open API environment also requires a shift in IT staff training, development methodologies, and governance. According to discussions IDC Financial Insights has had with industry executives, most banks are struggling to find the right people for a number of skills, such as data science, AI, open API, and Agile development.

Where skills can't be built internally, institutions must build trusted partnerships with technology providers to help create and maintain the API environment.

IDC Essential Guidance

Digital Transformation is a business strategy that is opening the doors to innovation, market agility, and future business models for banks worldwide. Banks are on a steady pace to transform, and there remain many opportunities to disrupt the industry from within

An Open API environment is a critical component to open the bank, in a controlled way, and enable the institution to create new products and business models faster, reduce the costs of legacy system integration, and monetize the assets that have traditionally been locked in.

Governance of the open API environment is an absolute requirement to liberate the bank's potential without increasing its vulnerability to breach and misuse of its systems and data:

- **Setting an API strategy** (Including setting LOB priorities)
- **Settingpolicies and procedures**
- **Creating an API management gateway**
- **Monitoring and reporting**

Skills & Support for the new environment is key. Only the largest global banks have the wherewithal to develop all of the skills needed internally. Most banks will have to rely on technology partners that can bring the necessary assets, training, and best practices to ensure success.