

# Inside Talk II: Stepping into the Open Future

In conversation with Anuj Agrawal



With Open Banking initiatives across the world, a new category of assets has made its way into a bank's balance sheet – data and APIs. While most banks have begun tapping into these new assets for benefits of customer-centric innovation and collaboration, their business strategy around APIs is still at an embryonic stage. As these initiatives mature, banks will need to look at their API strategies more holistically. This entails evaluating the business proposition around their APIs, the consumers of their APIs, the pricing strategy around them, and more. FinacleConnect chatted with Anuj Agrawal, Senior Research Manager at IDC Financial Insights to understand these developments and their implications for the open bank of the future. Anuj is the Lead Analyst for Open Banking at IDC Financial Insights, Asia / Pacific. Excerpts from our chat with Anuj follow.

**FC:** How do you see the open banking trend shaping up in the banking space in the next two years? Is regulation still the main driver for banks towards open banking APIs?

**Anuj:** With about 80% of banks are expected to progress with Open Banking by 2020, Open Banking is going to drive the digital transformation in banks for next 3 years. Furthermore, 36% of Tier-1 & Tier-2 banks have already adopted at least 5 external partner APIs in 2018 to improve operational efficiency, increase customer reach or enhance customer experience and this number is expected to increase to 50% by end of 2019.

Unarguably, the regulator's position is one of the most important factors for the development of Open Banking as without strong regulatory clarity on Open Banking in the

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form of firm guidelines addressing various compliance and governance issues, Open Banking will remain an uncertain journey for even the most ambitious financial institutions. This has been evident in Europe and in some Asia/Pacific markets that have seen regulator-initiated framework

accelerating various activities that banks can do in the spirit of Open Banking.

**FC:** The banking industry is undergoing a lot of disruption with raising customer expectations, new competition and emerging technologies. As such times, what are some of the benefits of adopting open banking APIs?

**Anuj:** Open Banking APIs will allow banks to innovate, differentiate, and expand their products and services offerings while working and collaborating with TPPs and fintechs, especially if banks can act swiftly to changing market challenges. Open Banking APIs create new forms of distribution channels and servicing capabilities, provide access to third-party application marketplaces, and comply with emerging regulatory norms through the standardization of APIs.

### 3 Key benefits of adopting Open Banking APIs are:

**Expanding customer reach:** It enables banks to build applications with advanced layers of functionality and that can be opened up to third parties. Banks increase reach through new channels and new ways to meet unserved and underserved customers.

**Create new revenue:** Being a big custodian of customer data, banks will be able to generate deeper consumer insights and come up with a value proposition that enhances their products and services offerings.

**Continuous innovation:** With the help of more agile external partners, banks are able to come up with innovations fast, and ensure that as market dynamics change, innovation projects keep on pace.

**FC:** What are some of the key concerns of banks as they start their journey towards open banking APIs and what are your recommendations for overcoming them?

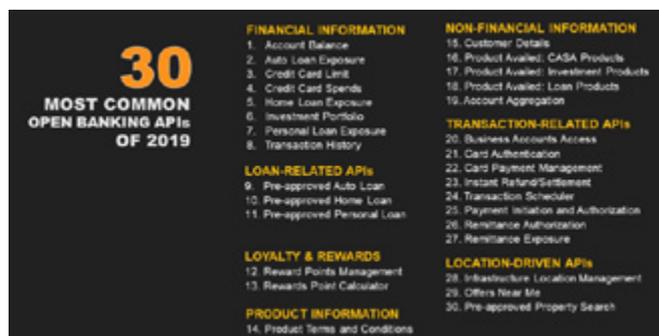
**Anuj:** With more and more new channels for transaction opening up through Open Banking APIs, cyber threats will also multiply as security measures for these new channels will naturally be weaker. In this context, in recent IDC survey on Open Banking, about 4 of 5 banks raised their concern around data security with Open Banking. Other concern which banks have with Open Banking is loss of intellectual and technological advantages as the technological advancement outlook of a bank can begin to shift from being the "most customer-friendly bank"

to the “most customer-secure bank,” wherein customers will not be individuals but TPPs who are interacting with banks through Open APIs. Loss of customer loyalty, brand value and customer insights are other few concerns with banks becoming more of an information and payment platform facilitator and ceding more activities to third party providers, customers could increasingly meet more banking and financial needs through third-party applications without meaningful engagements with the bank.

**FC:** Which are the top 5 public APIs you would recommend banks should offer in 2019?

**Anuj:** Essential APIs would be in the categories of financial information, loan-related, and transaction-related.

IDC has published a list of 30 most common APIs for 2019:



**FC:** What should incumbent banks focus on to monetize their APIs effectively? What are some of the other metrics that banks should track to show progress?

**Anuj:** As banks search for ways to generate new value from their data and APIs, they should start with looking at the basic foundations of data within their institution: the data infrastructure and the business processes that support how data is collected, stored, updated, managed, secured, analyzed, and used throughout the enterprise. Fundamental discussions on governance of APIs, especially in the collection, integration, and use of data and APIs across different business units and product siloes should begin. The more the organization ventures into new things via APIs, the greater the focus will be on the basis of APIs and related data.

Inevitably, the bank will have to consider who owns and controls the data exposed through APIs. A cursory look into recent regulatory guidelines in the Asia/Pacific is already making it clear that the customer has the ultimate ownership and control of his/her data. However, generating new value from data can and should proceed.

**In practice, however, APIs and data must be considered as a key resource to the business of banking. In a culture where APIs is widely accepted as an asset, the drive to get the maximum returns on such data begins.**

Data-fueled intelligence is permeating all aspects of business, and other companies from other industries are generating new value from it. Financial services cannot be the hold-out from this. Several new principles on data utilization and API monetization may drive or hinder value generation, depending on how they are interpreted. These include privacy impact assessment, the right to be forgotten, consent and inference, and data portability.

Increasingly, APIs and data will be seen as an asset. For sure, some parties within the bank will claim the contrary, most likely citing how, in accounting terms, APIs and data is not an asset. In practice, however, APIs and data must be considered as a key resource to the business of banking. In a culture where APIs is widely accepted as an asset, the drive to get the maximum returns on such data begins.

The team leading the initiative to generate new value from APIs (or to monetize APIs) should look at their initiative not just as a theoretical exercise but as an actual build-a-business endeavor. This entails, therefore, decisions on who will benefit from APIs, the terms and rates of exchange of value, pricing models, distribution models — much like how a business creates the business. Many banks at this point are putting this endeavor under the care of their innovation teams or their fintech teams, but as the business scales, this should not be just an innovation project anymore. The bank has to promote this as a real business, in keeping with the new ways of doing business in this vastly different, data-driven marketplace.



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