

Open APIs and the Transformation of Banking

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Open APIs

- More than a technology: “Boundary resources” (Ghazawneh & Henfridsson, 2013)
- The emergence of networked markets: “platform revolution” (Parker et al., 2016)
- Open data has the potential to increase transparency and encourage innovation (Janssen et al., 2012; Zuiderwijk & Janssen, 2014). In that context, standardization is of immense importance.

Paradigm shift

- Regulatory pressure (PSD2, OBWG, etc.)
- Enhanced competition (CMA)
- Technological transformation (open APIs, security, networked economy, etc.)
- Fundamental consequences to the current banking business model:

“PSD2 requires reimagining the entire value chain for traditional banking.”

- Changes in products/services, channels of communication with customers, pricing and revenue streams, etc.
- **What are the key themes emerging?**

Who “owns” the customer?

**Modularity
in services –
the “unbundling
of the bank”**

**Customer data
ownership?**

**Wider access
to customer
intelligence and
the “sharing of
the customer”**

Brand equity

- For Open Banking, *“branding is a big challenge... I am seeing the logo many times, getting frequent reinforcement of the relationship that I have with my bank. If I start to do that somewhere else, that reinforcement is gone.”*
- APIs open the possibility of “white labeling” (e.g. Wirecard Solutions)
“The battleground will be either on the channel and customer engagement side [choice of platform or marketplace] and the services provided [value proposition].”
- Challenges for smaller players as they try to establish their brand and compete with incumbents:
“...one negative experience can be very hard to over come.”

Transparency

- Banks and other providers will need to revisit and justify **pricing** of their services as APIs will expose costs:

*“if you look at all the regulation – PSD2, IDD, etc. – they are all specific about how you have to be very explicit regarding how you charge for your financial services... how [you] justify the cost... you have to **unbundle** so it has to be very easy for me to buy only what I need...”*

- Banks and TPP will compete on **service quality** as comparisons will be much easier to communicate via APIs.

Establishing Trust

- Scale and trust are on the side of the incumbents

“Banking, no matter how fun they make it, isn’t really fun - ideally what you want is peace of mind and minimal interaction. This gives large and established banks a huge advantage.”

- Smaller players may struggle to “convince” customers to trust them with their money

Building an Ecosystem

- A future where banks will potentially need to compete with technology / platform providers (e.g. Amazon, Facebook, Alipay, Apple) at a more leveled playing field.
- This may be a particular challenge for banks as they have much less experience than these other players in building ecosystems.

Collaboration with Smaller Players

- Collaboration is a relatively new concept in banking
- Will banks be able to let go of their dominant position and security standards to collaborate?
 - API's have been within closed systems so far
 - Lessons from mobile payments
- Will regulation make it easier to co-create products and services?
 - *API standardisation* will ease the process of working with developers

Collaborate or Acquire?

- Will banks go the route of acquiring or partnering with competitors?
 - Lessons from academic studies on *coopetition*

Beyond the UK

- “A lot of the regulation is still at the hand waving stage”
- Which elements will be standardised across Europe?
 - “Without standardisation, the value will be much much less”
- Can banks do more than pressuring local governments to move faster
 - a. to turn the directive into national law?
 - B. work across EU to obtain international legislation?

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Questions

