FINASTRA

TCMpartners

Corporate banking: Benefits of moving to open APIs

Tapping into innovation to embrace change

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Systems are holding back change and stopping opportunity

The COVID-19 crisis has fast-tracked innovation and the digitalization of processes in the banking sector – but it is not the "Black Swan" event it may first appear. Banks face the ongoing challenge of being prepared to respond to cycles of change and crisis, from banking crashes to Brexit. Yet, our global survey* reveals more than two thirds (67%) of banks feel they are still being held back by legacy systems.

These unprecedented times have accelerated the need for innovation, and corporate banks have risen to the challenge. Almost three in four (72%) banks have seen an increase in the integration of corporate banking APIs since the outbreak of COVID-19.

Innovative banks that are tapping into open APIs to offer new products and services are extending their market lead. There is a real divide between the innovators and those that are increasingly being left behind. As the innovation gap widens, the survival of the left-behinds is far from guaranteed.

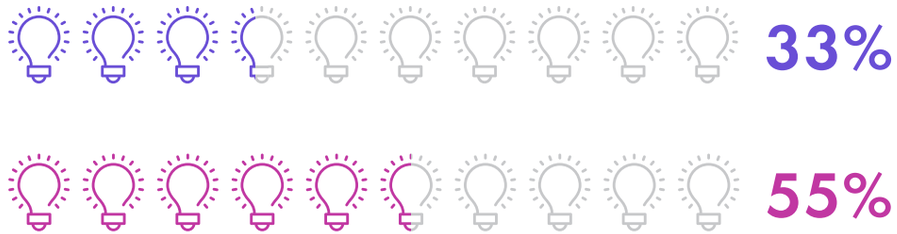
The implications of our research are stark. Banks need to drive digitalization, not just to achieve cost efficiencies but to be ready to respond to change and compete in a fast-moving sector.

* This research, conducted by FTI Consulting, is an expansion on a survey intiated by Finastra on its website, which gathered 141 respondents. The supplimentary research was conducted online from 6th to 7th August 2020, gathering responses from an additional 180 global senior decision makers in operational, financial or IT positions in financial institutions, across the Americas, APAC, Europe and MEA.

For your corporate bank to effectively move to open APIs and work closer with fintechs, what would need to fundamentally change?

Hover over the bars to enlarge its percentage

Integration of corporate banking open APIs has greatly increased since the COVID-19 outbreak



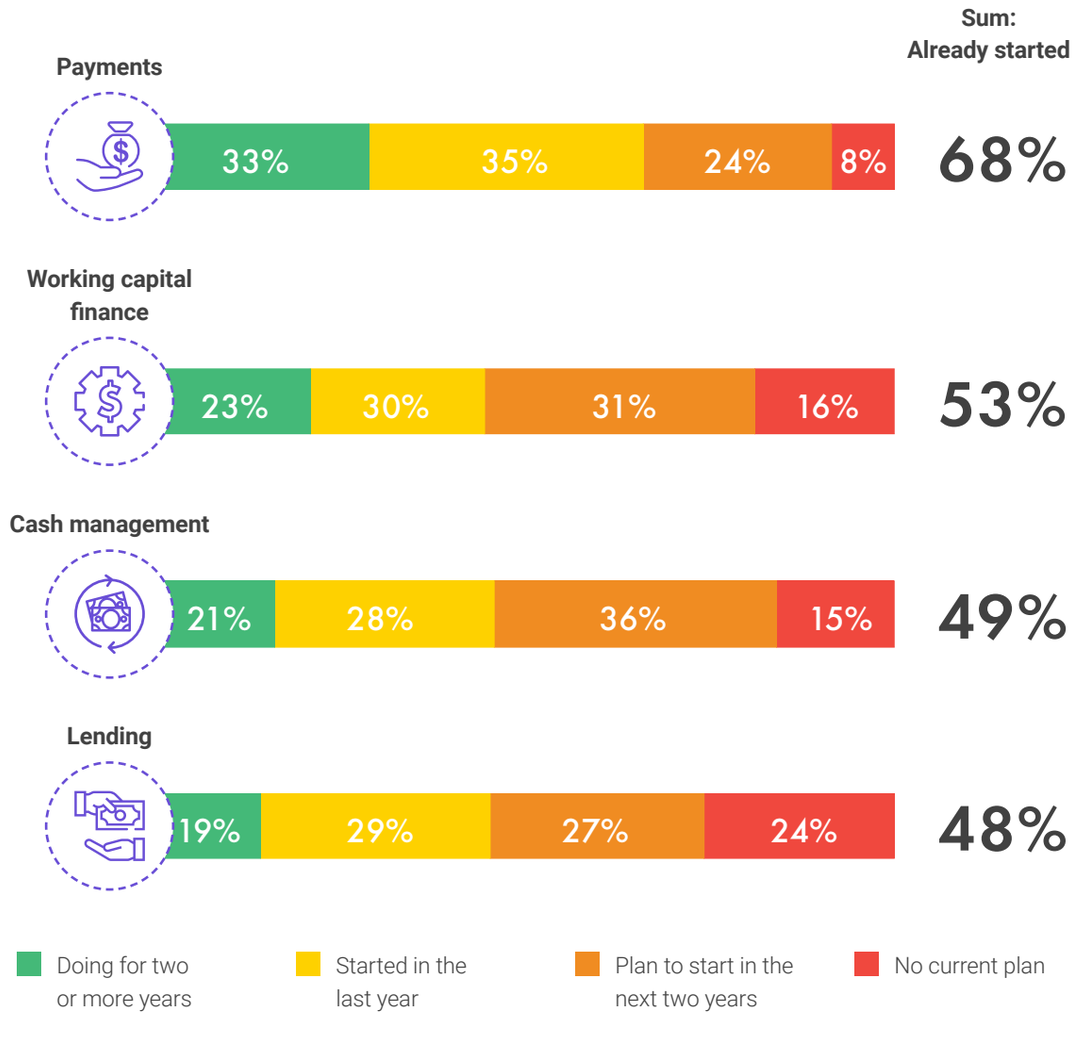
Our global survey, identified 'innovator banks' as those that said 90% or more of their goods or services were new or improved over the past three years. Those defined as 'non-innovative' had 80% or fewer new or improved goods or services over the same time span.

Corporate banking strategy focus

When looking at moving to open APIs, what is your corporate banking strategy focused on?

	Americas	APAC	Europe	MEA
Improving internal corporate banking, processes, workflows and product management	75%	70%	52%	73%
Collaborating with third-party providers and fintechs to create new products and services	58%	64%	59%	53%
Building bank-owned enhanced products and services	46%	72%	46%	58%
Offering better corporate treasury services and connectivity	54%	67%	47%	48%
Moving to open APIs to adhere to relevant regulations	22%	41%	34%	28%

To what extent is moving to corporate banking open APIs a priority in your strategy?



APIs and the innovators

Open banking is making headway

Efficiency and creating new products and services by working with fintechs are both key drivers for banks who are moving to open APIs.

Banks that are ahead of the pack are reaping the benefits of their digital investment. They have maximized their platform for innovation in goods and services by tapping into open APIs. Our global survey, identified 'innovator banks' as those that said 90% or more of their goods or services were new or improved over the past three years. Those defined as 'non-innovative' had 80% or fewer new or improved goods or services over the same time span[1].

The main reasons banks are moving to open APIs are to:

- Improve internal corporate banking processes, workflows and product management (65%).
- Collaborate with third-party providers and fintechs to create new products and services (59%).

Adoption of open APIs varies across the sector. Payments has been a key initial area of focus, with only 8% having no plan on moving towards opening their APIs. More than two thirds (68%) of banks said they have already started work on moving to corporate banking open APIs as part of their payments strategy.

In contrast, only around half of banking professionals said open APIs were already a priority in their strategy for working capital finance (53%), cash management (49%) and lending (49%). Cash management is an area many banks are turning their attention to, with 36% saying they plan to start moving to open APIs for cash management in the next two years.

Our survey uncovered some significant variations in these drivers in different regions of the world. In the Americas, 75% of respondents were focused on improving processes – this was by far the most important factor driving change for both the Americas and in MEA (73%).

In Europe, the ability to collaborate with third-party providers and fintechs to create new products and services (59%) was the key driver. In the APAC region, a strategy of building bank-owned enhanced products and services (72%) was viewed as just slightly more important than improving internal processes (70%) and significantly more than any other region.

Barriers to open banking

Across the globe, the factors holding back organizations when it comes to moving to open corporate banking APIs are:

- **Security concerns - both proprietary customer data and risk of cyber attacks (51%)**
- **Legacy infrastructure limitations (48%)**
- **Lack of in-house knowledge/expertise (44%)**

Often-cited barriers to moving towards open APIs, such as lack of buy-in from senior leaders (37%) and not seeing any benefits for the bank (31%), are not generally the main issues, except in the US where respondents cite the issue of lack of buy in from senior leadership as the major barrier.

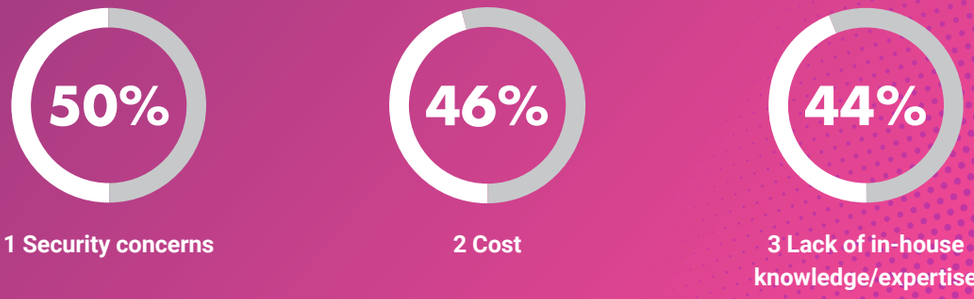
Top three barriers for innovative organizations

1 Legacy infrastructure

2 Security concerns

2 Lack of buy-in from senior leaders

Top three barriers for non-innovative organizations

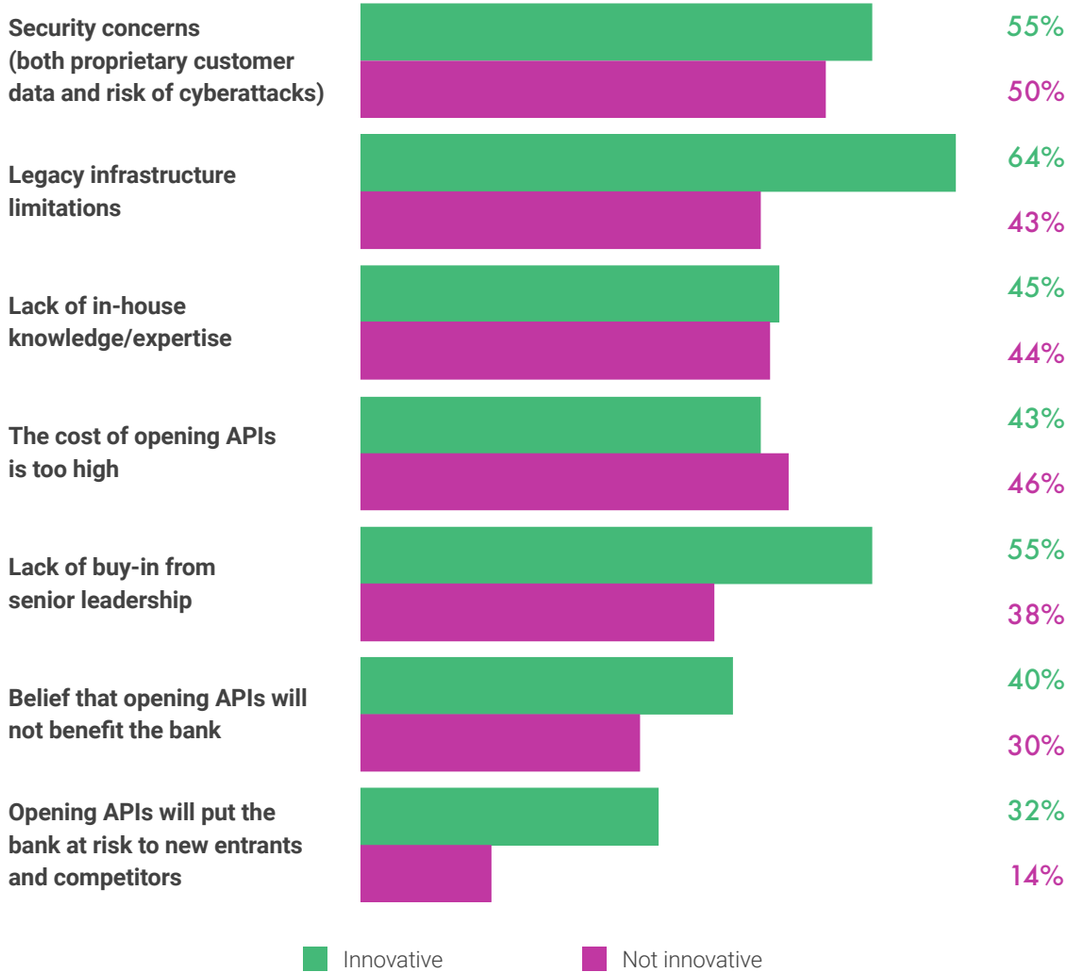


1 Security concerns

2 Cost

3 Lack of in-house knowledge/expertise

What are the key challenges/barriers to moving to open corporate banking APIs in your organization?



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Top three barriers to implementing APIs

US

1. Lack of buy-in from senior leaders (54%)
2. Security concerns (51%)
3. Legacy infrastructure (51%)

APAC

1. Security concerns (69%)
2. Legacy infrastructure (59%)
3. Lack of in-house knowledge/expertise (54%)

Europe

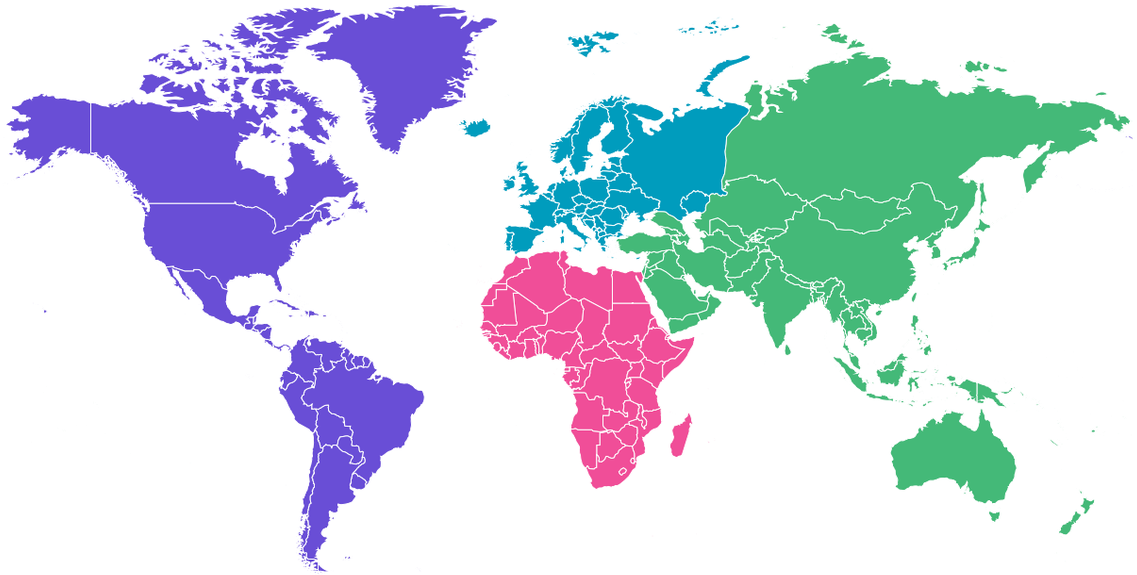
1. Security concerns (48%)
2. Lack of in-house knowledge/expertise (43%)
3. Legacy infrastructure (42%)

MEA

1. Security concerns (55%)
2. Legacy infrastructure (53%)
3. Cost (45%)

What are the key challenges/barriers to moving to open corporate banking APIs in your organization?

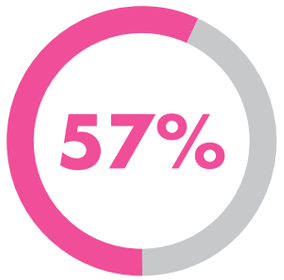
Click over the box to show the percentages for each region



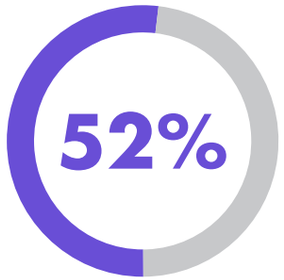
Benefits in moving towards open APIs

The main motivations for corporate banks moving towards open APIs are to reap the benefits of:

Faster innovation, with contributions from an ecosystem of third parties



Increased productivity and efficiency



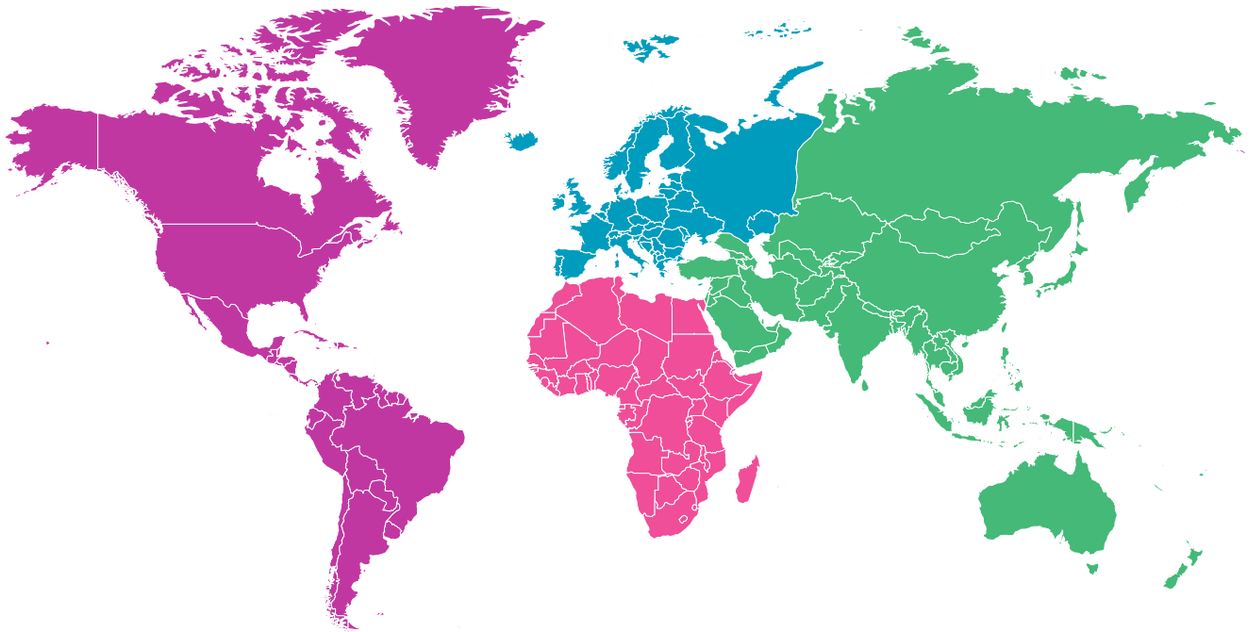
Better user experience and connectivity

The APAC region appears to expect the most from open APIs, responding positively to all potential benefits. Almost three quarters of APAC respondents (72%) were expecting to see better user experience and connectivity, with 67% looking forward to improved productivity and efficiency, and 66% hoping to see both faster innovation and real-time access to, and processing of, accurate data. MEA (68%) and US (60%) respondents were most looking forward to faster innovation, with contributions from an ecosystem of third parties.

European decision makers were most subdued in their responses, with only just over half (57%) seeking the benefits of faster innovation, with contributions from an ecosystem of third parties, and (51%) improved productivity and efficiency. Less than one third (32%) believed moving towards open APIs themselves would help them keep up with or stay ahead of competitors that are making corporate banking APIs available.

What are some of the benefits you seek in moving toward open APIs?

Click over the box to show the percentages for each region



What needs to change?

A single API standard could be the key to unlocking opportunity

Approximately two thirds of corporate banks (67%) are still being held back by legacy systems. Senior peers across the globe widely believe their organization needs to see fundamental transformation towards a flexible and modern IT infrastructure to allow effective movement to open APIs.

The second most common mentioned requirement to support effective transition to open APIs is stronger/more progressive regulations (51%). There is, however, a significant regional variation. 63% of US decision makers said stronger/more progressive regulations were needed but European counterparts did not think this was as much of a priority, with only 37% calling for better regulatory support.

As the open API ecosystem takes shape, standardization will be key to how it develops. Almost half (47%) say they need a single API standard in their geographic region. Concern about this is particularly high in the APAC region (57%). APAC decision makers were especially receptive to all the suggestions of changes that could support effective transition to open APIs, with more than half of respondents agreeing that improvement and change was needed in all areas.

Changes needed for effective transition to open APIs

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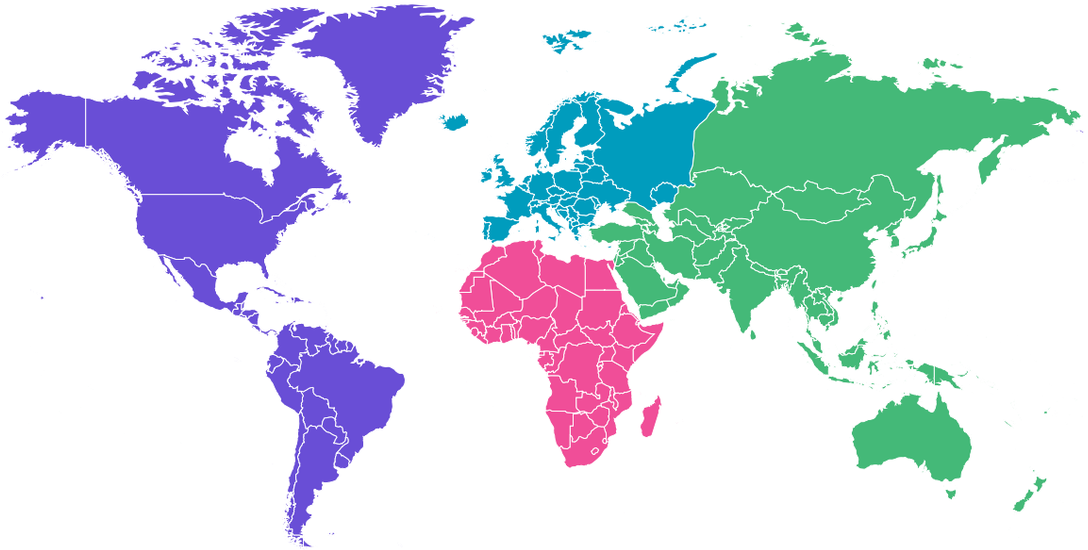

Developing a platform to meet future banking needs

Having a modern and flexible IT infrastructure is vital. But it is only one step on the journey to open API readiness. There are multiple priorities to take into account. Many organizations acknowledge that they do not have the skills and know-how in-house to cover all bases. There is a clear recognition that such a major transformation cannot be achieved in isolation.

The penultimate question in our survey was, "Who are, or would be, your trusted partners in developing your open APIs, and your future in moving toward further open API strategies?" By far the most trusted partners were technology and infrastructure service providers (63%), with consultants and/or analysts coming in second (50%). This suggests a prioritization of technical expertise. 'Innovative' companies appear to seek consultation with a broader range of external parties, scoring higher than 'non-innovative' companies on all options for partnership apart from industry bodies/trade associations.

The findings of our global survey highlight two key action points for corporate banks:

1. Develop a strategy to expose open APIs to build in-house solutions, create greater internal efficiency and enhanced customer and user experiences.
2. Invest in a platform that best addresses the challenges facing your organization, enabling open innovation to create an ecosystem where all financial service providers and partners can collaborate in developing the future at pace and scale.

Most corporate banks have begun work on these priorities. But the gap between the leaders and laggards is widening. Banks that maximize the benefits of open APIs in the context of a broad ecosystem of partners are increasingly leading the field. The time to innovate is now.

Trusted partners in developing open APIs

Who are, or would be, your trusted partners in developing your open APIs, and your future in moving forward further open API strategies?

	Americas	APAC	Europe	MEA
Technology and infrastructure service providers	70%	67%	59%	62%
Consultants and/or analysts	54%	64%	43%	55%
Advisors, such as legal and auditors	37%	62%	39%	45%
Regulators and other relevant government bodies	45%	56%	41%	48%
Industry bodies and trade associations, international and local	25%	43%	30%	30%

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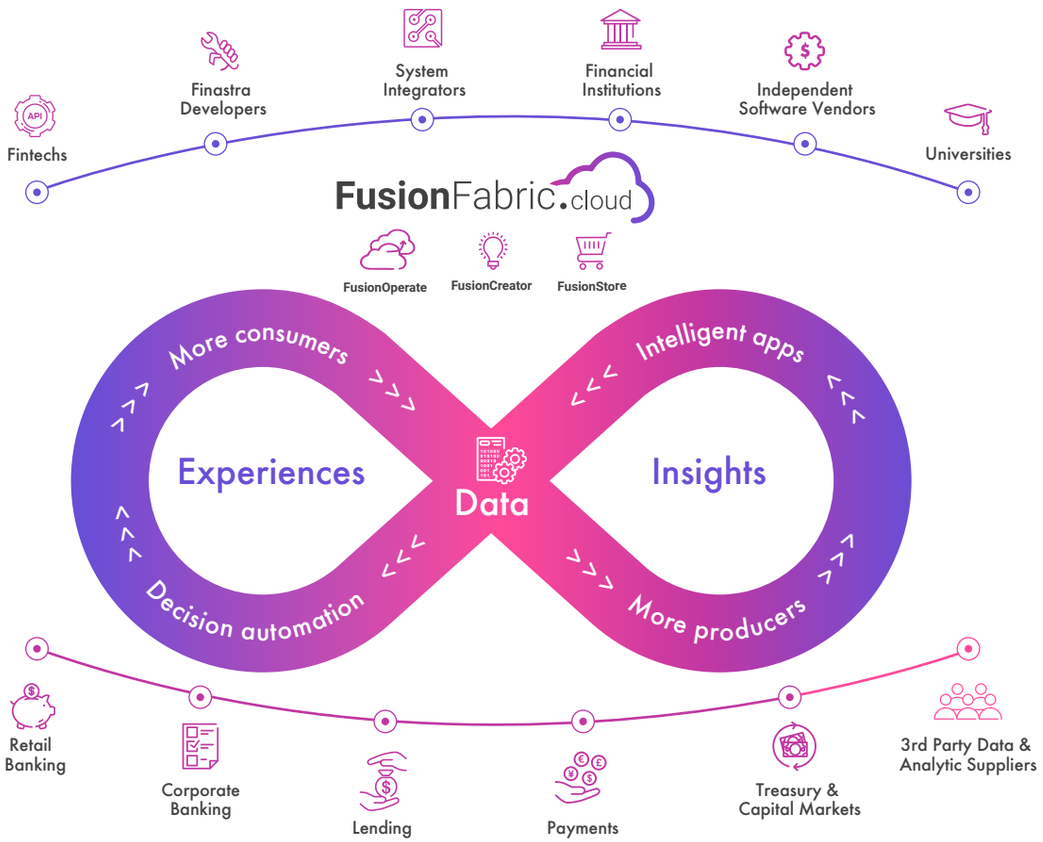
THE FUTURE OF FINANCE IS OPEN

Finastra is unlocking the power of finance for everyone by creating a platform for open innovation in the world of financial services.



Selecting the right platform

FusionFabric.cloud: enabling open connectivity and innovation

How can Finastra help financial institutions and banks?

Our FusionFabric.cloud platform connects 'creators' in the fintech industry with those who want to 'consume' those services.

By creators we mean fintechs, banks' in-house developers, universities and other independent software vendors – essentially anyone who is developing applications for financial services. The consumers are the banks and financial institutions who will purchase and implement those applications.

The platform supports the burgeoning fintech community, giving them a place to develop, test and certify their applications, as well as providing a marketplace for them to reach the banks and financial institutions. There are numerous reasons why banks should care about this proposition including:

- It accelerates their capacity to innovate and bring new solutions to their customers quickly.
- It demonstrates their appetite to innovate by exploring the benefits of apps, cloud, platforms, APIs, low code and app stores.
- It will enable their own in-house development teams and business analysts to innovate and build their own solutions.
- For further information please contact us.

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About TCMpartners

TCMpartners was founded in January 2014 in response to regulatory changes and the demand for advanced services in financial markets, risk management, and technology.

With a presence in Latin America and Europe, TCMpartners integrates world-class solutions that digitize financial institutions' business processes with their clients. Learn more at **tcmpartners.com**

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