The Not-So-Quiet API Revolution Comes to Banking

2017 has been dubbed the year of the API economy. Organizations are increasingly tying executive performance results with the creation of new business models that rely on new technology and IT platforms. This is a trend that is expected to accelerate in the near future. Various technology companies have disrupted their respective marketplaces, having utilized Application Programming Interface (API) technology, and today’s financial services industry is just now embracing these new technologies that promise to transform the business.

While certain digital innovations, such as smart contracts, distributed ledger technologies and instant payments dominate the headlines, a not-so-quiet revolution is now gaining momentum and is front and center as the business landscape demands real-time transactions and access to invaluable data. As a result, the adoption of APIs is transforming how corporations manage banking services at a very tangible level.

As hyper-connectivity becomes the norm, corporate banking APIs are expected to proliferate rapidly, enabling banks, Fintechs and corporates to readily combine services. The future of the digital world may lie in platforms that connect to each other through multiple API services, creating opportunities for greater automation, efficiency and a superior customer experience.

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Corporate Banking Close on the Heels of Consumer Banking

Consumer banking is leading the charge, having already adopted API technology that allows customers to scan a check on their smartphone and have it deposited into their account, or initiate a mortgage refinance online. These examples demonstrate the power of APIs, and their underlying robotics and analytic capabilities.

Corporate banking has begun to adopt API technology, partially in response to new regulations, such as the European Union’s Revised Payment Services Directive (PSD2), India UPI. Faster payments in the U.S. and other markets allow businesses to use APIs to access account data from banks. To stay relevant, banks are beginning to explore direct, real-time integration of services with clients’ treasury workstation applications and ERP systems, using APIs to eliminate brokers or services bureaus, as well as to provide a superior client experience.

A Better Way to Engage

Businesses of all stripes are focused on creating a better working capital experience, and APIs offer an effective means of accomplishing this important objective. For banks and corporates, a main goal is to remove friction from cash management processes. The financial services industry is looking to make it easier for customers to connect and integrate treasury functions in a safe and secure way. APIs are opening the door, allowing customers to conveniently manage services at their bank, such as accessing balances and sending instructions – all from the convenience of their own applications and legacy systems.

Because APIs can be embedded in a treasury organization’s software of choice, it reduces the dependency on banking portals. Rather than having to master the complexities of various banking portals in order to obtain critical data, APIs can enable treasury staff to access that information more easily, allowing them to be more efficient and ultimately freeing them up to focus on more strategic tasks, all directly from the convenience of their preferred treasury application.

The adoption of APIs holds tremendous potential benefits for corporates and Financial Institutions. These potential benefits may range from the convenience of real-time access to bank services directly from applications; cost reductions made possible by cutting out any middle-men; reduced risk resulting from having fewer parties involved in transactions; improved reconciliation facilitated by direct access to account data; and a shift from reactive to proactive functions that leverage dynamically exchanged workflow data based on events, patterns or time.

A practical example of how the latter benefit might work is the way banks can improve the customer experience as it relates to enquiries. For instance, currently, when a customer wants to check on the status of a payment, they must log-on to the banking portal and start an inquiry search, or call the help desk which first requires navigating a time-consuming authentication process. APIs have the potential to disrupt this very static process.
Instead, corporates can use APIs to build advisory services within their treasury application that can automatically and proactively alert the user of payment status based on information directly queried from the bank. APIs simplify development and increase customizability of applications, enabling connectivity with all types of systems including big data environments. In addition to providing information for better business decisions, the improved workflow made possible by such APIs is expected to be a dramatically improved customer experience, while maintaining the privacy of sensitive information.

Focus on Innovation Breeds Meaningful Partnerships

Today’s focus on innovation is fostering important new partnerships and collaboration across the financial industry. The advent of real-time access to bank services is creating new ecosystems and business models that can better serve corporate needs. By embedding APIs into corporates’ native work processes, these technology advancements are making it easier to conduct business.

And as new players such as Fintechs lead many of these advancements, banks are increasingly finding opportunities to collaborate and co-innovate, leveraging APIs and open banking to deepen connections with corporate clients and improve the ease and effectiveness of cash management services.

As the digital transformation juggernaut impacts nearly every industry, the drive for increased agility and speed of delivery make APIs a prime tool for experimentation, leading to rapid commercialization. Banks, Fintechs, corporates and regulators all have an important role to play in realizing the full potential of this digital evolution.

When bank accounts are accessible in real time through clearing systems and/or APIs, a powerful new layer in the banking infrastructure is created. This means regulators must build schemes based on open standards, such as ISO 20022, while also driving strict standardization in Open Banking models. Banks must follow a proactive business strategy, not a compliance only approach. APIs can enable banks to unbundle services, and bring real-time payments capabilities to the point-of-sale (POS) and B2B segments.

At the same time, Fintechs build frictionless payment experiences on top of banks’ APIs and fill in any gaps needed to meet marketplace needs. And of course, corporates will need to engage with the new real-time payment schemes and actively engage with financial industry partners to move these technology advancements forward.