



OPEN **FOR BUSINESS**



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CHOOSING DIGITAL BUSINESS MODELS FOR BANKS TO DRIVE NEW GROWTH

THE **INTER CONNECTED** BUSINESS

Open banking—a platform-based business approach—could revolutionize how banks generate value. Born out of the increasing pressures from regulations and competitors, open banking offers leading banks the opportunity to expose data, algorithms and processes through application programming interfaces (APIs) and create new revenue streams, in the same way as today’s successful digital giants.

Although some international financial institutions, such as Citi¹ in the United States and Fidor² and bunq³ in Europe, are using their APIs to open up their data, processes and other business functionality to an ecosystem of customers, employees, third-party developers, vendors and other partners, many are still entrenched in their traditional operating models. If banks are to restore profitability and successfully compete with their banking and non-banking peers, open banking is one option that could make all the difference to their digital transformation programs.

Tell me more about APIs

An API is a proven technology that can help provide access to open data (such as a list of products that a bank offers) and secure shared access to private data (such as a list of the transactions in an individual’s bank statements).⁴

THE CASE FOR **BEING** OPEN

Banks are at risk if they fail to address open banking.
They could:

MISS OUT ON THE PLATFORM OPPORTUNITY.

Outside the banking domain, industry leaders like Google, Apple, Facebook, Amazon and Alibaba (GAFAA)⁵ are unleashing technology's power by developing platform-based business models and taking advantage of the strategies they enable. The top 15 public platform-based companies represent US\$2.6 trillion in market capitalization worldwide.⁶ And according to the 2016 Accenture Technology Vision for Banking, 84 percent of bank executives believe platforms will be the “glue” that brings organizations together in the digital economy.⁷ By 2018, sharing proprietary data with third parties will not be an option for European banks, with PSD2 in the European Union and Open Banking Standard in the United Kingdom. Investments are being made to make this a reality; almost US\$1 billion was invested in PSD2 enabled services in 2016 (up 200 percent from 2015).⁸

FAIL TO MEET CONSUMERS' DEMANDS.

GAFAA and FinTech companies are offering consumers seamless digital experiences by integrating multiple ecosystems. Banks are not immune to new experiences that are blurring the lines between different industry sectors and meeting flexible, changing consumer expectations. Consumers are rejecting banks' traditional, rigid command-and-control structures; almost one-half of consumers in North America (41 percent)⁹ said they are comfortable giving online bank account credentials to a third party.

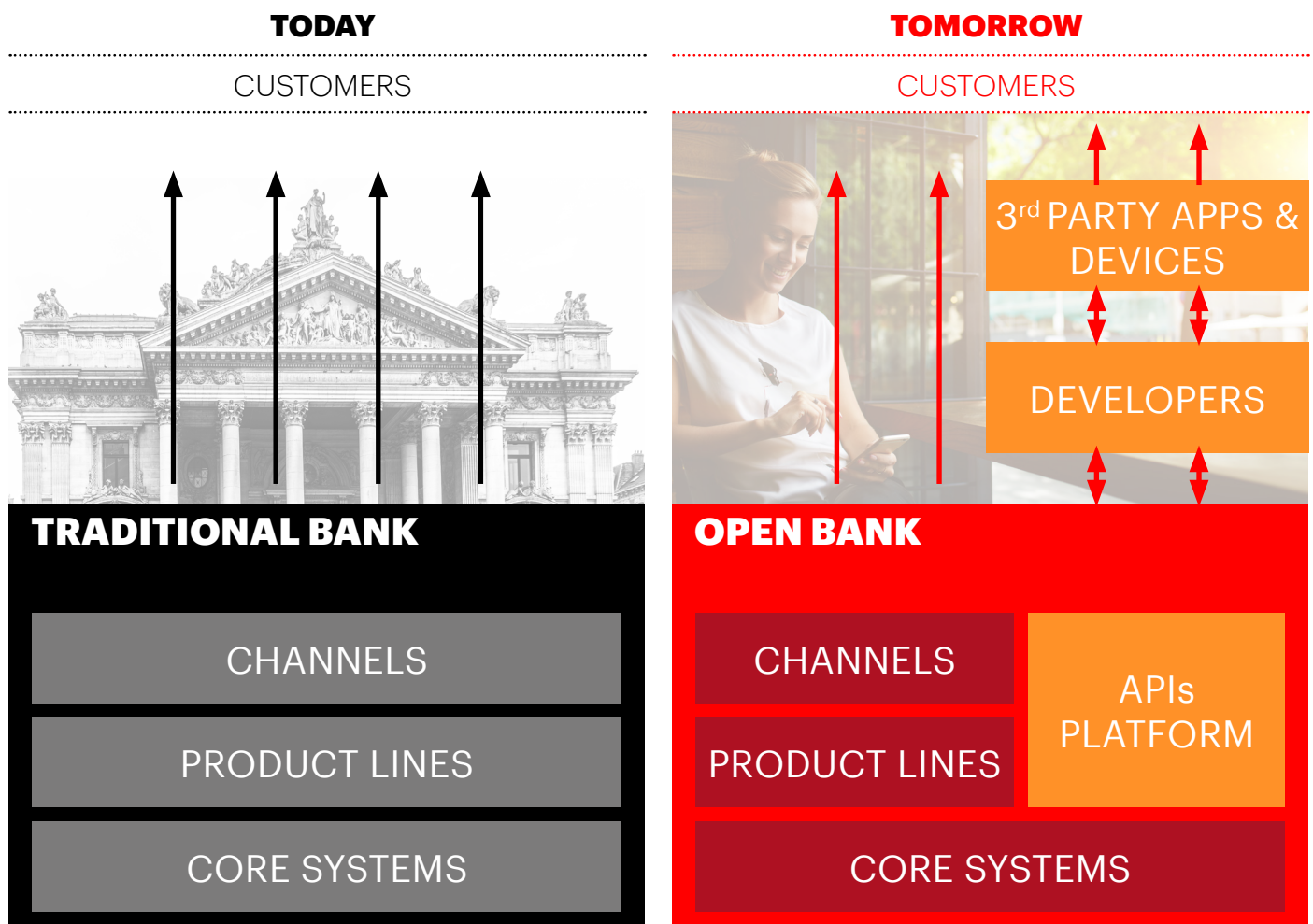
TELL ME MORE ABOUT THE REVISED PAYMENTS SERVICES DIRECTIVE (PSD2)

PSD2 is a European directive that aims to drive increased competition, innovation and transparency across the European payments market, while enhancing the security of Internet payments and account access. Banks must grant third-party providers access to a customer's online account or payment services in a regulated and secure way by January 13, 2018.

BECOMING AN OPEN BANK

Being an open bank means operating like a platform company, with a business model that connects people and processes with assets and a technology infrastructure to manage internal and external users' interactions (Figure 1).

FIGURE 1
Open Bank business model



Source: Accenture Research.

Becoming a successful open bank requires that they:

COLLABORATE

HOLISTICALLY FROM THE OUTSET

Encourage a cultural shift so that everyone in the C-suite is involved in the conversation about open banking and understands how it can help to achieve the bank's objectives. Highlight the gains in **revenue growth**, cost reduction and talent management. Revenue growth can result from generating value from the "outside-in" using APIs to offer services, such as data brokerage and authentication services.

Cost reduction can be achieved as open banking helps to reduce time to market and application delivery costs, easing integration with traditional technology providers, such as payments processors, credit bureaus, FinTech companies, data providers, or core banking vendors.

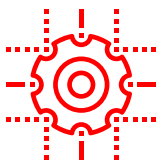
Finally, open banking can help the process of **talent management**, leveraging skills in mobile content design and mobile app development to give banks an innovative, tech-savvy and customer-focused image that, in turn, attracts the best talent.

In short, open banking has the potential to be a key initiative within a digital transformation program and an investment priority for the bank.

SPLIT

THE BANK INTO TWO ORGANIZATIONS

While open banking and traditional banking will coexist, they are different businesses. Splitting the bank into two different organizations and choosing from four digital business models to implement the industry vision of open banking, each with different investments and implementation risks, can offer the best combination of traditional and API-centric banking (Figure 2):



UTILITY PROVIDER.

While PSD2 will enable open banking mandating banks to enable third-party access to their accounts, its implementation can mean executives focus only on the regulatory requirements and not on the opportunities for new business strategies. Banks seeking minimum compliance with PSD2 risk a loss in volumes and the quality of customer interactions, giving away critical assets and gaining nothing in return.



DIGITAL RELATIONSHIP MANAGER.

API consumption and subsequent repackaging—blending multiple services within a single application—fuels disruptive innovation. Banks, especially smaller banks, can tap into external innovation through data and logic exposed through third-party APIs to digitize the customer experience, enhance loyalty and increase their share of wallet.

Visa released a product API to enable issuers to offer “card control” features to customers so that they can set spending controls, receive alerts, and turn their accounts on and off.¹⁰

Combining external data accessible through APIs with proprietary data, banks can also improve the customer experience and ease access to products with better, more personalized offers. Banking CIOs can directly contribute to revenue generation, acquiring new banking customers and improving cross-selling of traditional banking services. This leads to plug-and-play with new and emerging industry platforms where the bank acts as a participant, not owner, of the customer experience and relationship. Banks implementing this model must ensure the third-party partnership does not result in a fragmented customer experience or impede the bank's ability to pursue innovative operating models.



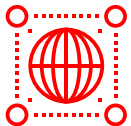
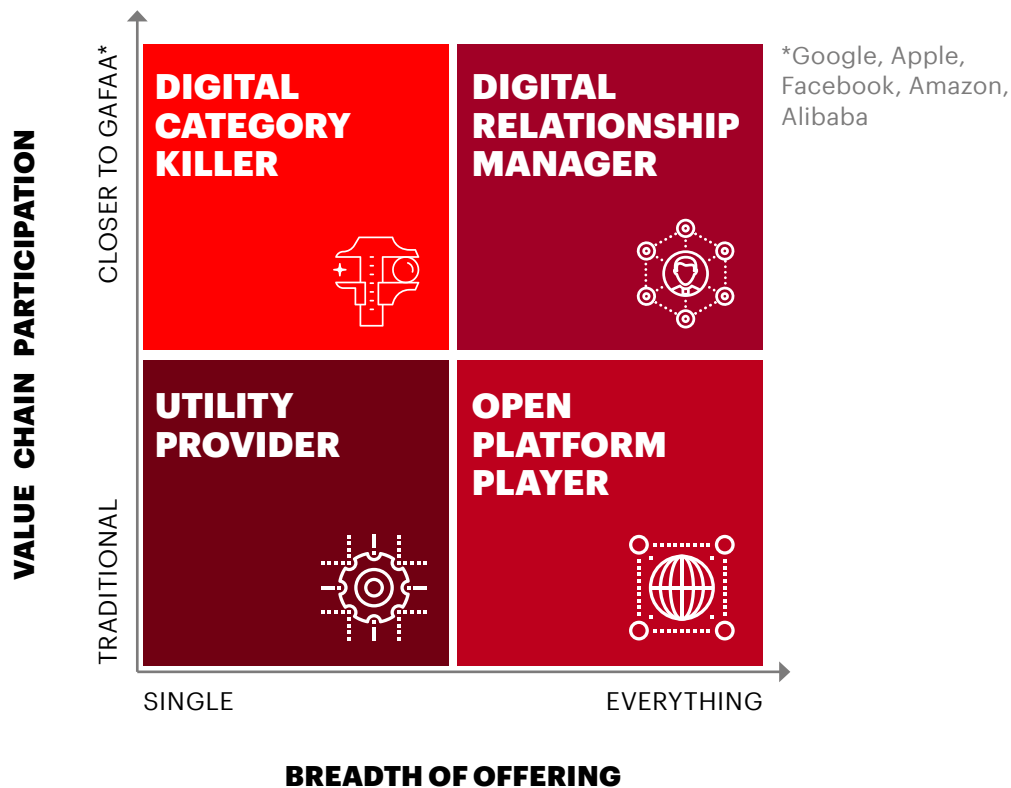
DIGITAL CATEGORY KILLER.

The creation of internal APIs can enhance processes, cost efficiencies and accelerate innovation. Internal APIs are Web APIs used exclusively within the bank. Permission to use these APIs is granted to internal developers or partners on the basis of a business agreement. Internal APIs enable banks to increase business agility, reducing time-to-market by delivering new capabilities faster—such as reducing partner integration and onboarding complexity. Banks' traditional IT approach to bringing new business ideas to market takes 18 to 24 months, less using third-party solutions. APIs can reduce the capability delivery cycle down to a few weeks, especially for new mobile apps or channel applications.

PayPal has reduced time to go from code concept to live to site from 74 days to one day using APIs.¹¹

FIGURE 2

API-centric business models in banking



OPEN PLATFORM PLAYER.

Here, the bank consumes APIs from multiple organizations to create a service that can then be resold by others further down the value chain. Ecosystem partners, in turn, can repackage the service, or enrich the offerings with suitable value-added services for sales to a different set of users.

Fidor Bank, setting up a separate Fidor Solutions organization, has designed its services to be implemented behind APIs, enabling developers to white-label the bank's operations and generate rapid expansion. It also uses third-party APIs to facilitate services the bank had no desire to provide directly.

SEEK OUT

CUSTOMER DIFFERENTIATION

Banks must spell out the business goals that will drive API creation, consumption or both as they seek out how to offer differentiated services to their customers. To do so, banks need to design **engaging API experiences** that appeal to developers through user-friendly developer sites, enhanced self-service capabilities, good API documentation and “sandboxes” for testing and monetizing APIs. Operating models are essential to delivering value. **New operating models** are needed to take into account organizational structures that blend together product development and IT operations to enable open banking. An effective IT architecture should include a developer portal to manage the relationship between the bank and its API users, a business administration portal, and an API getaway for reducing API-related risk—enforcing identity and access management and security. **Mind-set and culture** are vital to driving customer benefits from open banking. Strong C-suite support backed by a sound mix of different layers of knowledge and expertise will be critical.

Finally, **business processes** must not be forgotten; to manage partner ecosystems effectively needs fast decisions based on a large amount of data from API users. Artificial intelligence tools can help to reshape and adapt the process as it executes in runtime.

OPEN TO BEING OPEN

Digital disruption is the driver that enables banks to keep pace with customer demands. By adopting the right digital business model, banks can take advantage of open banking to unleash new business value.

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NOTES

¹ CitiConnect.

² Fidor Solutions.

³ bunq Public API.

⁴ "Introducing the Open Banking Standard,"
The Open Banking Working Group, 2016.

⁵ "2016 North America Consumer Digital
Payments Survey," Accenture.

⁶ Alibaba, Alphabet, Amazon.com, Apple,
Baidu, eBay, Facebook, JD.com, LinkedIn,
Netflix, Priceline.com, Salesforce, Tencent,
Twitter, Yahoo.

⁷ Technology Vision for Banking 2016.

⁸ Accenture Research analysis on CB Insights
data.

⁹ "2016 North America Consumer Digital
Payments Survey," Accenture.

¹⁰ "Visa Puts Consumers in Charge of Security,"
February 9, 2016.

¹¹ Transcript from Morgan Stanley Technology
Media & Telecom Conference, March 4, 2015.

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