


# The monetisation of open banking

The background of the page is a dark blue gradient with a fine grid pattern. Overlaid on this are several glowing, neon-like lines and shapes. A prominent feature is a large, glowing blue line that starts from the bottom left and extends towards the right. Another glowing line, in shades of red and purple, forms a jagged path across the middle. A glowing blue rectangle is positioned in the lower right quadrant. The overall aesthetic is futuristic and digital.

## Executive summary

7



Open banking represents the biggest banking transformation in a generation. Regulatory initiatives, such as PSD2 and Open Banking from the UK's Competition and Markets Authority (CMA) empower customers to share their data and payment mandates with third parties so they can deliver new compelling services that are rich in functionality and increase customer convenience.

Technology is also a major driver of open banking: application programming interfaces (APIs) enable secure data sharing and integration on an unprecedented scale, which is already happening in many other industries. Open banking also encourages new market entrants – such as fintechs - who can compete with traditional banks on the strength of their technology and agile approach. In this new competitive order, how should banks react?

Although banks and fintechs are at various stages of adoption, open banking is clearly much more than a regulatory compliance issue. Some regard fintechs as direct competitors, whilst many others increasingly choose to work with or acquire fintechs to increase their agility and gain new capabilities: the new age of intense

competition is also one of increased collaboration. However, the daunting question faced by all banks is how to make money out of open banking?

In the new era of open banking, customer journeys can be unpacked and bank products and services disaggregated and made available through APIs. Over time, APIs can become bank products that are marketed to generate new revenue streams and reach new customers, however, this also creates challenges and potentially threatens existing revenues.

Here we explore some of the key commercial issues surrounding open banking. Our views have been developed over an extensive period of working with many of the world's leading banks. After a brief overview of the drivers of open banking, we examine how banks can monetise this opportunity, including API pricing and revenue options.

Although it may be too early to define a best practice approach towards open banking, adopting a “wait and see” option is not a viable option. We hope this paper offers a practical summary of some of the options available and that you are encouraged to join the discussion.

## A global banking phenomenon



**Open banking heralds a seismic change in global financial services. The UK led the way but similar data-sharing initiatives are happening around the world, including Europe, Australia, Asia, Africa and Latin America. Why? All open banking initiatives seek to promote competition and improve customer choice by allowing customers to share their data.**

In practice, open banking is all about data and access to data. The ability to share data promises to boost innovation, encourage new market entrants and transform the banking value chain.

Technically, open banking is facilitated by open application programming interfaces (APIs) that allow data sharing and integration in a secure, standardised way. APIs have been used in many industries for over 20 years and touch the lives of consumers daily. Open banking brings banking into line with other industries that use APIs to facilitate collaboration and to offer a richer customer experience. In an open banking environment, APIs are effectively ‘products’ in that they deliver real customer value and allow banking to become componentised. This has obvious commercial implications that we will discuss here.

Open banking is closely associated - but not synonymous with - near real-time technology, which is critical to its success. Near real-time data and instant payments are necessary to bring open banking to life. With over 40 live instant payment schemes worldwide and many more in development, progress towards open banking becomes inevitable, as it enables banking services to be positioned where and when people need them.

### Promoting competition, enabling choice

PSD2 is driving open banking throughout Europe and similar legislative programmes are underway in other geographies. However, although many open banking initiatives are legislative in origin, it is about much more than compliance. Open banking challenges traditional bank operating models and promises to redefine how banks generate revenue. Banks will no longer be the sole manufacturers and distributors of financial products, but must choose which role(s) they wish to play in the entire value chain.

APIs also create a new bank ‘customer’ in the development community that provides the technology to enable open banking interaction. Many banks have traditionally designed, built and run their own technology stacks, promoting a ‘closed’ culture. Success in open banking requires collaboration and competition throughout the entire value chain. So, open banking is as much about culture as anything else.

In addition to their traditional banking competitors, banks face competition from a new breed of small, agile, tech-savvy fintech firms as well as corporate giants that include Facebook, Apple, Microsoft, Google and Amazon. So how should they react?

Banks must look both inwards and outwards to understand their core strengths, costs and how to monetise or embrace alternative services. Some banks have already made good progress, including established players, such as BBVA and Citi. But they must also compete with a new wave of advanced digital-only banks - including Fidor Bank, Starling Bank, Monzo and Revolut - as well as service providers such as Ezbob that can offer value services at significantly lower cost than established players.

### Banks, brands and products

Among many changes, the use of APIs challenges the traditional product-led banking model. Instead, customers now have the potential to choose from a range of financial products and services offered by multiple manufacturers and distributors. Banks must decide where to invest and build capacity to deliver a quality customer-centric experience. In some cases, this requires some back-to-basics thinking to ascertain core strengths and what type of business they wish to become.

### APIs as products

Open APIs are about a lot more than technology – they are about integrating new services and collaboration with partners. This requires fresh thinking on many different levels. APIs can help create significant opportunities for banks to monetise their core competences and generate new revenue streams as well as consume the services of other providers.

APIs empower a bank to disaggregate its business model and market individual elements as discrete services, for example: know-your-customer (KYC), payments, anti-money-laundering (AML), fraud detection or risk scoring. These services may be bank-branded, or white-labelled and marketed under partner brands. The critical factor is for banks to understand where they add most value.

The conclusion of many will be that existing technology is simply not up to the task of delivering near real-time services, due to constraints in data management and legacy systems. This is driving responses such as the development of new digital bank platforms and brands, increased investments to decompose legacy solutions into microservices, facilitating the delivery of next generation operational data stores (ODS) and gateway technology to better facilitate the demands of customers.

## The search for value – unpacking the customer journey



**The future of any open banking offering will ultimately be determined by the value it provides. Banks must bear in mind that financial products are almost always part of a larger transaction: for example, people tend to shop for a new car before they finance the purchase. The challenge is how to position financial products where and when people need them.**

Most customer journeys begin online or using a mobile device. Against this background, open banking creates the opportunity to develop an entirely new market for financial products that includes:

- **Near real-time decisions for personal lending** - for example in the car showroom, with the option to include bid loans and possible third-party escrow services such as those provided by Shieldpay

- **Mortgages** - finance offers can be positioned earlier in the customer journey, for example, when browsing a selection of properties, utilising machine learning technology to improve and validate data quickly
- **Geo-sensitive advertising** - promoting products where and when they are needed
- **Initiating payments** - as part of a seamless customer experience or providing greater customer control on when to make a payment

- **Harnessing transaction data** - in order to enrich and improve the customer experience or align spend with opportunities to sell additional products or to advertise benefits from third parties to improve disposable income

In practice, delivering an open banking experience is about unpacking the customer journey. Banks are free to choose their entry point, for example, by working with estate agents or lawyers to enter the house financing market.

## API pricing and revenue models



Banks must consider how to monetise their investments in open banking. Although some legislation, such as PSD2, prescribes what has to be made available through APIs, it seems likely that most banks will wish to offer a menu of APIs, segmented by service levels, such as real-time, streaming or premium. Although progress has been slow so far, many banks are excited by the unique opportunity to offer tiered access to banking services. Banks are also motivated to gather more useful customer data in a systematic way.

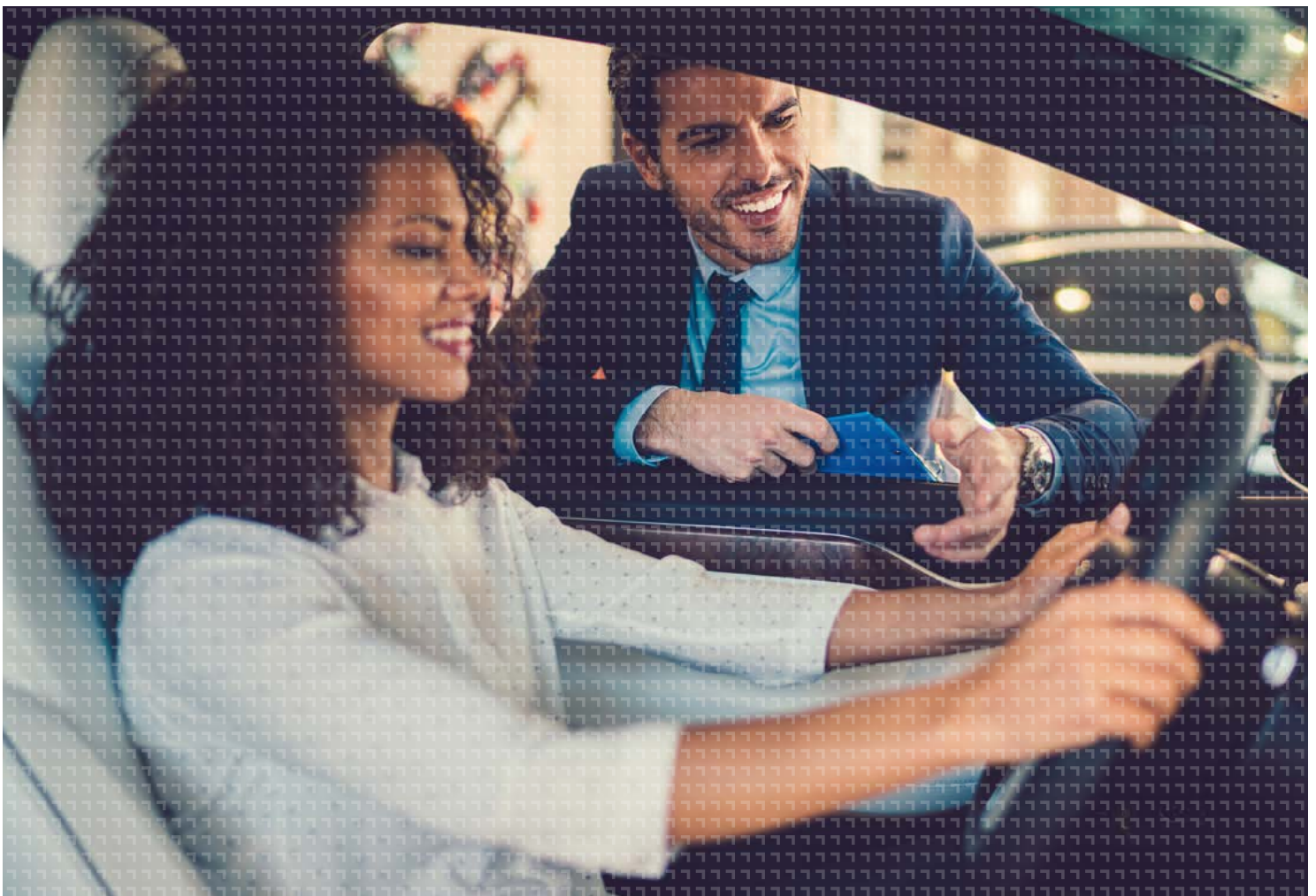
While open banking is new, API pricing models exist in other markets. Banks must consider how and what to charge partners in their own ecosystem, including: developers, enterprises and business partners. Although revenue is important, partners must also have sufficient incentive

to deliver success. The offering of products to third parties may be aligned to driving market share, improving deposits or cross-selling into a customer's purchase journey.

The following table presents some potential API pricing models and demonstrates the advantages and disadvantages of each.

MODEL	DESCRIPTION	ADVANTAGES	DISADVANTAGES
Free	No charge	Incentive to use	Need to find alternative revenue, e.g. advertising or increased market share for a product through a new channel
Premium	Free to a certain level, then tiered pricing	Encourages use - good for testing (sandbox)	May not progress to production mode
Subscription	Monthly fee for a predetermined amount of API use	Simple and transparent to understand	Deters use; not suitable for evaluation of APIs
Pay-per-use	Pay per quantity of data consumed	Simple and transparent to understand	Users may be unable to predict use; the potential of an unexpected large bill
Pay-per-transaction	A single transaction may call on a limited number of APIs	Attractive to developers who want to deliver an integrated solution	Difficult to predict API use over time; may deter serious use
Revenue share	Revenue split between partners	Provides a universal incentive to succeed	May be difficult to support and require a bespoke API-management solution
Pay for enhanced service	API is free, but consumer pays for enhanced service	Encourages increased use	Usage may not exceed basic, free level

Graphic: Advantages and disadvantages of API pricing models





## Getting started on the road to new revenue



It seems likely that, in addition to the traditional product-focused approach, banks can generate new revenues from value-added API services. Some banks, such as BBVA, are making good progress with customer-focussed value-added services, as are the new challenger banks.

However, all banks considering an entry into open banking must address a number of strategic issues. It is only by answering the following questions that a bank can successfully monetise its APIs and confidently enter the world of open banking.

### Technical considerations:

- How/where will APIs be marketed and supported?
- Does the API operate on its own or require other APIs to add value?
- How is deployment and version control to be managed?

### Business considerations:

- Is there a sustainable business case?
- How does the API strategy support the bank's business strategy?
- What are the business risks, including threats to existing revenues, the costs and benefits?

### Legal considerations:

- Are there potential data licensing issues?
- Are legal responsibilities clear?

### The value of security



The value of open banking is greater than monetary. Banks already share customer data but methods are often crude and potentially insecure. In practice, this often means using a customer's ID on other sites to extract and share data through 'screen scraping'. A key benefit of open banking is that it empowers the customer to share data without disclosing their security details and gives total control of the data to the customer. With legislative programmes such as GDPR raising the profile of customer consent, open banking offers an opportunity to adopt a more systematic approach to customer data, whilst increasing transparency and control.

## A role for partners



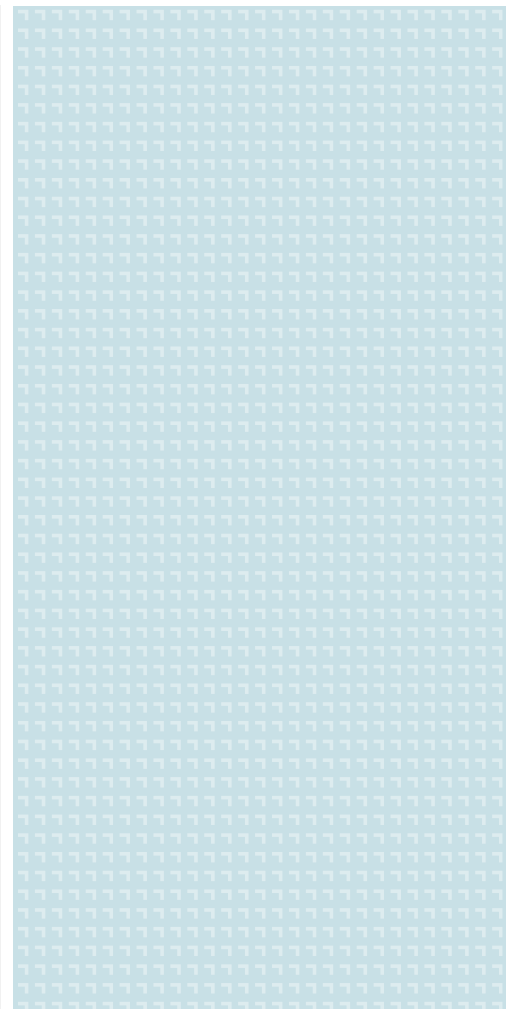
Open banking is about doing new things and it is also about doing things differently. Banks are increasingly reliant on vendors and partners across the entire range of functions to achieve their objectives. Open banking and APIs enable banking to be componentised, with individual components marketed or integrated within third-party applications. For many banks, open banking requires fresh thinking and a new approach to ascertain who are the best partners to achieve the objective.

In future, the successful banks are likely to be those that are willing to listen and learn from their customers. Banks must realise what is expected of them in future, and how to provide the best possible customer experience.

There is also a need to build relationships with developers. Working with a community of third-party developers will enable banks to deliver better services more

rapidly. A working example of such a relationship is international payments firm Transferwise, whose global payments system can deliver international currency transactions for customers faster, more reliably and more cost-effectively than any in-house bank-built and supported system.

However, banks need to consider their relationships with the third-party development community carefully, as customers will demand a consistent, secure and stable service. For any bank, it is crucial to consider which APIs they allow to access their customers' data and they must be clear about what can be done with it.



## How GFT can help



GFT has helped many banks transform their digital services and become more customer-centric. We have been at the heart of the open banking debate since its inception and believe this is the catalyst for banks to deliver a dramatic change in customer engagement, including:

- **Offering a great and more valuable customer experience**
- **Identifying the cost base and the opportunities to radically shift this by utilising third-party services**
- **Providing personalised advice to customers**
- **Leveraging data to gain valuable business insights**
- **Continually improving operational efficiency**
- **Complying with continually evolving regulations**

Open banking provides the opportunity to do things differently and to do different things. It provides the opportunity for banks to move away from their traditional focus on products to a new approach centred on the needs of the customer. New services can be delivered by utilising the additional volume of customer data available to banks, but only if their systems are able to ingest, analyse and interpret data from multiple sources, then tailor it for each individual customer.

At GFT, we believe that new ‘exponential technologies’ play a vital role in enhancing what is enabled by APIs. Artificial intelligence, cloud, augmented reality and computer vision will play a key role in enabling a customer-focused revolution led by an empathetic focus on evolving customer needs.

## What Now?

**To learn more about how your institution can start down the road to open banking utilising GFT’s expertise, visit**

[gft.com/open-banking](https://gft.com/open-banking)

## Our specialist



**Christian Ball**  
Head of Retail  
Financial Services (UK)

Christian is Head of GFT Retail Financial Services across the Atlantic Region, specialising in helping retail banking clients realise their strategic vision for platform banking. He brings extensive experience to this role, spearheading the GFT Retail offering.

He was previously at Meniga, one of the top performing fintech companies in Europe, before which he worked with many of the leading banks to shape their digitalisation strategies – including

positions at Cap Gemini, Fiserv and Accenture, where he led the global Business Development for Accenture Software.

## About GFT



- [blog.gft.com](https://blog.gft.com)
- [twitter.com/gft\\_en](https://twitter.com/gft_en)
- [linkedin.com/company/gft-group](https://linkedin.com/company/gft-group)
- [facebook.com/GFTGroup](https://facebook.com/GFTGroup)
- [www.gft.com](https://www.gft.com)

## World-class specialist in technology and innovation

As an experienced technology partner, GFT is committed to driving digital transformation. We advise the world’s leading financial institutions and develop bespoke IT solutions, drawing on our extensive knowledge of the sector. Our global innovation team develops new business models across all sectors, focusing on topics such as blockchain, cloud engineering, artificial intelligence and the internet of things.

Founded in 1987, the company is now represented with a global team of around 5,000 employees in Europe and North and South America.

This report is supplied in good faith, based on information made available to GFT at the date of submission. It contains confidential information that must not be disclosed to third parties. Please note that GFT does not warrant the correctness or completion of the information contained. The client is solely responsible for the usage of the information and any decisions based upon it.