Open APIs: Reshaping the Payments Landscape

ACI Worldwide
Real-Time Payments

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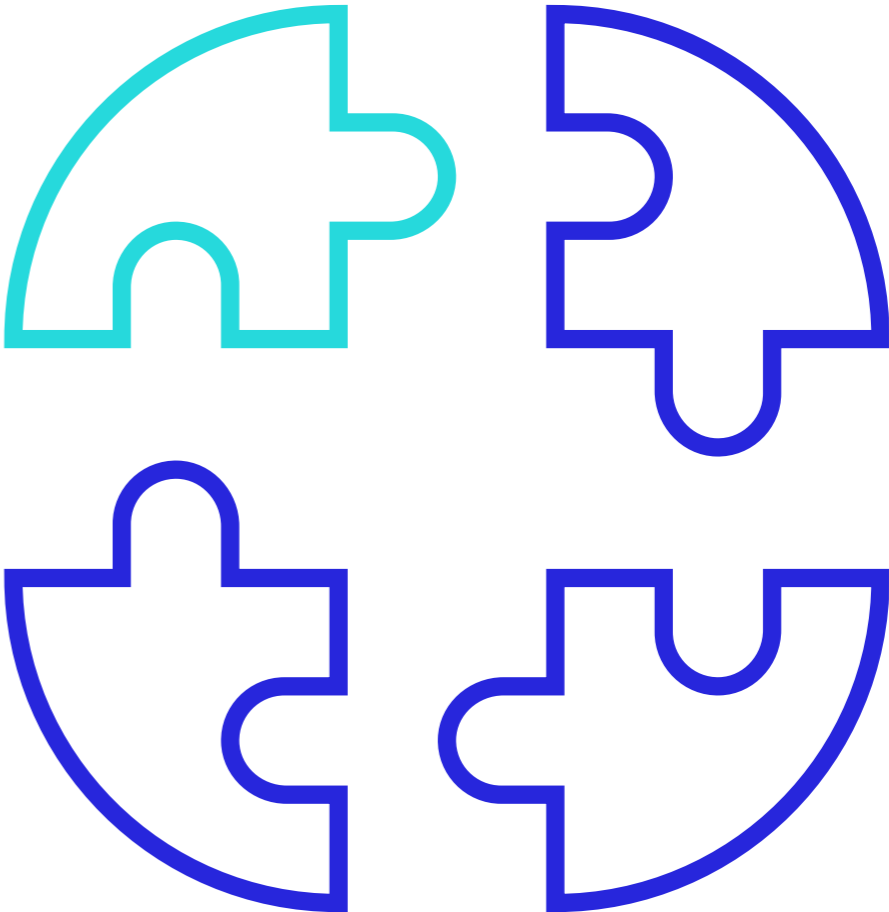
Executive Summary

The new digital economy has increasingly led customers to expect a frictionless user experience from their banks, causing widespread disruption to the industry. If banks hope to retain their traditional role at the center of the customer's financial universe, they need to adapt by creating and solidifying new channels for delivering that frictionless experience, for both third-party providers and banking customers.

Perhaps the most promising of these channels is Open APIs or application programming interfaces. APIs create an enormous — and enormously lucrative — opportunity to accelerate innovation and lower costs, particularly through mobile apps and personalized user interface (UI) portals. To take full advantage of APIs, however, banks must build out use cases and embrace cultural changes that empower this transformative technology.
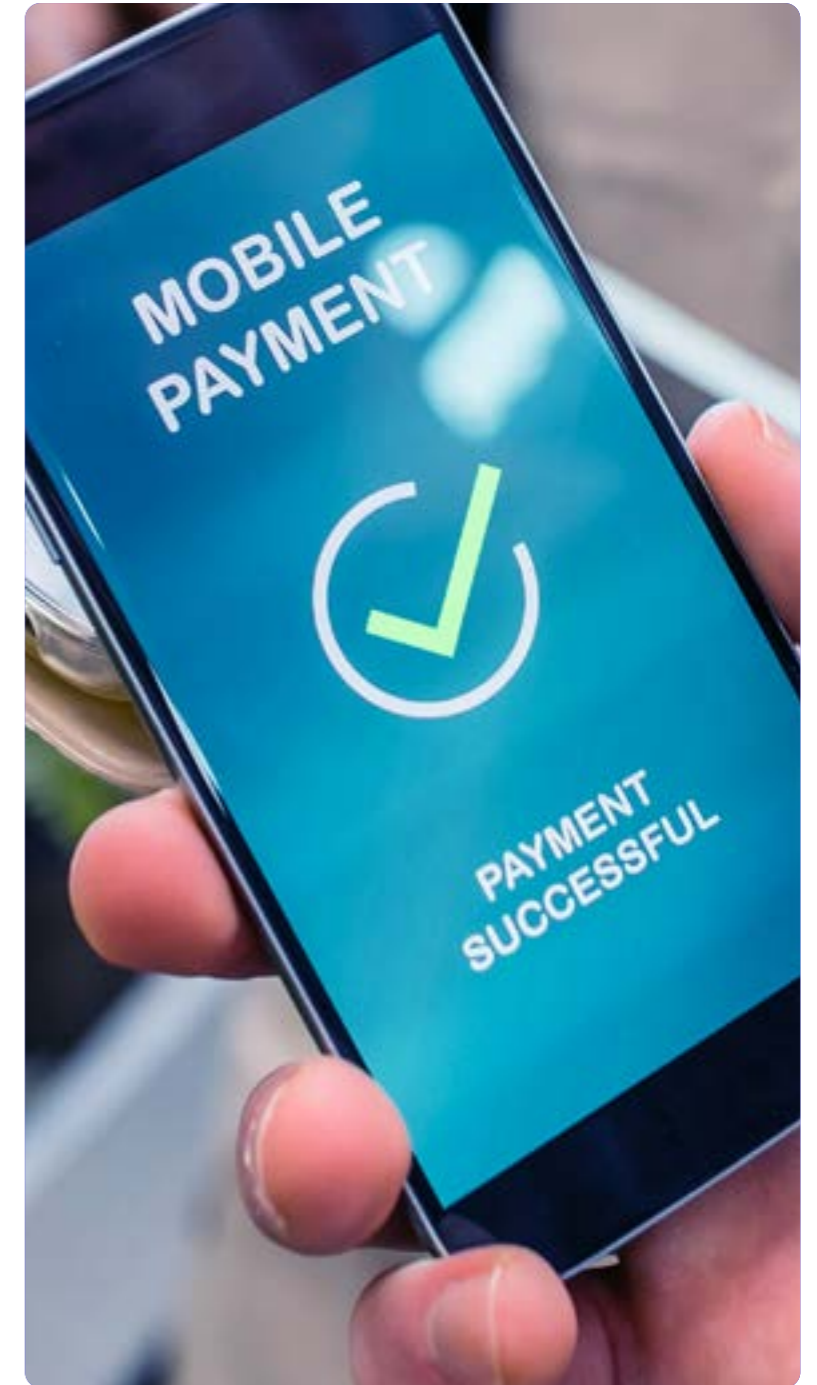
1. Why Open APIs

APIs create untold possibilities for technology innovation and cost savings. Foremost, APIs make it possible for banks to realize the benefits of the cloud right now by securely integrating exciting new solutions into their legacy systems. Instead of being a threat, fintech becomes a potent opportunity for banks to aggressively reassert themselves into this new financial ecosystem.

The Next Frontier in Transaction Banking
The core of transaction banking is cash management. For five decades, cash management banks have consistently relied upon major technology advances to reduce friction in payment systems. In exchange, they collected fees or paid a sort of "pseudo interest" on non-interest-bearing accounts.

Banks have grown highly adept at this conventional business model of commercial cash management and its time-tested technologies: batch file transmissions, logging into browsers, daily polling by customers for balance and transaction updates via complex treasury workstations.

Traditionally these transaction banking solutions share two common elements:

Friction: They use the latest technology to reduce friction — i.e., time and expense — in the payments system.

Context: By their nature, these solutions — bank portals, apps, websites, FTP, mobile apps and similar — require customers to present themselves to the bank in the context of a physical or virtual bank "site."

Let's examine how APIs stand to change these elements of traditional commercial banking and cash management.
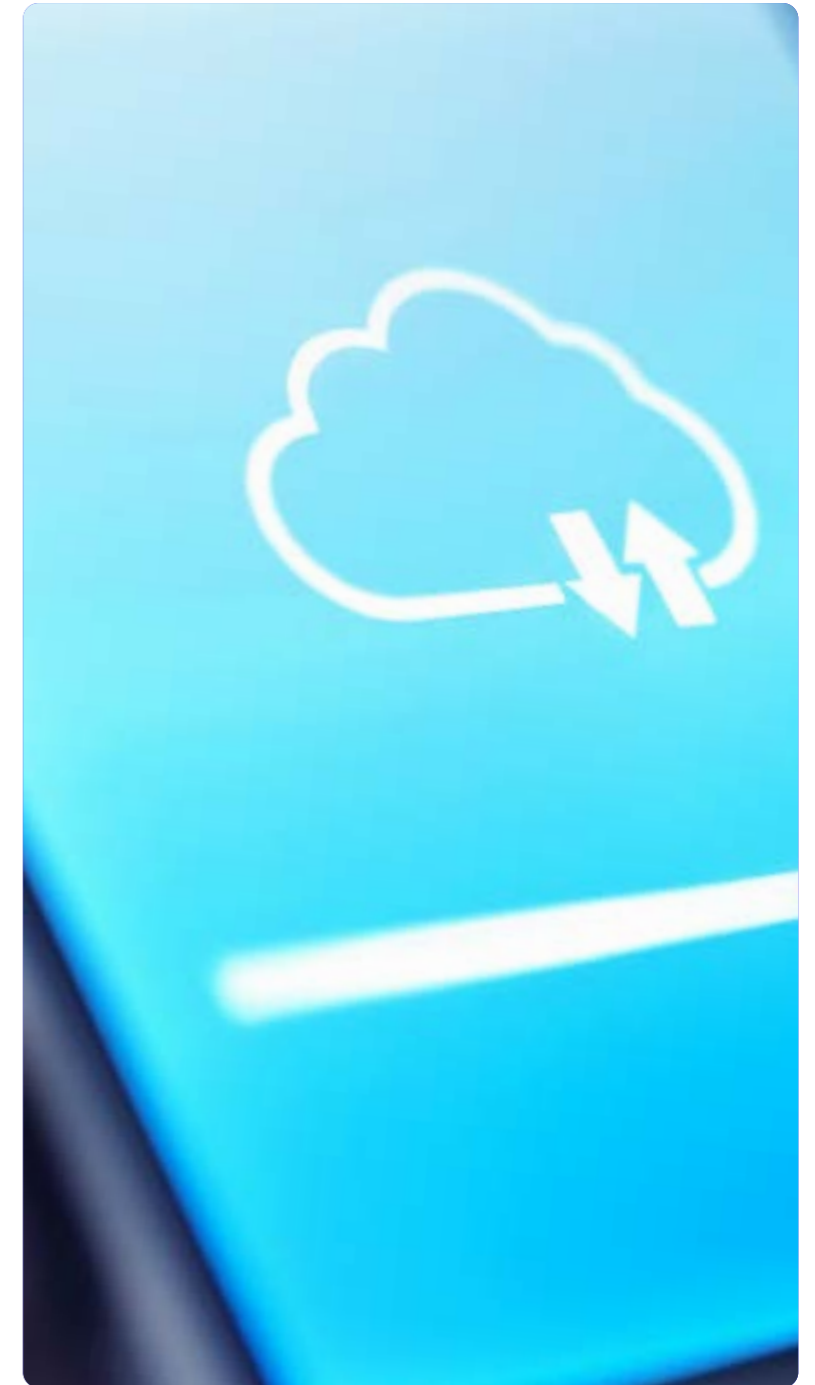
The Cost of "Friction"

Historically, friction has been measured in time and expense: how long it takes to "clear and settle" a payments transaction, and at what cost.

The number of days required to clear a payment, and consequently the interest gain or loss during that period, was significant. Bankers and their corporate customers trained each other to quantify one day's worth of delay, known as the "float." The formulas were complex: Is getting the payment deposited two days early (compared to U.S. mail) worth a fifty-cent bank fee? Will the fee be offset by the additional interest accrued? These rationales formed the business case for cash management: the potential to remove friction from expensive, multi-day clearing and settlement processes, as well as payment rules and regulations.

In the U.S., that friction is essentially gone. Payments settling is now framed as a matter of hours (ACH), minutes (Fedwire) or seconds (cards and real-time payments).

New Paradigms in Corporate Cash Management

With traditional sources of friction removed from the payments landscape, how do cash management banks make money? First, bankers must understand where friction still exists in payments and financial management — most notably, in legacy integration, workflows and processes that were historically designed to bring customers into the bank's own controlled systems. Banks have always felt confident offering payment and cash management solutions in these known and trusted environments. With the advent of APIs, however, that outdated paradigm is rapidly changing.

Today the customer experience is the source of most friction. It has a variety of causes: latency in online sessions, convenience and user experience, security and fraud prevention. To make money going forward, banks will need to deliver and monetize a more convenient and intuitive frictionless customer experience.

2. The Rise of Contextual Banking

Frequently mentioned in blogs and other internet prognostications, the term "contextual banking" is useful when reconsidering the old paradigm. It calls for rejection of the legacy model that requires customers to operate in the bank's comfort zone rather than their own. Contextual banking reverses those respective roles, requiring banks to remove that last remnant of friction by accommodating the customer's financial activities and systems.

APIs do just that. They bring financial information and payments directly to the customers, all but eliminating the friction between banks and businesses. This is the core API promise for commercial cash management: creating exciting opportunities to insert new services into the customer's "context," thereby generating ever greater profit from fees, deposits and lending.

3. The Business Case for APIs

To best build an internal culture around APIs, it's important to understand the use cases that will ultimately create revenue and win customer loyalty. Several are presented here:

• Empowering the bank's "portal"
• Furthering the development of integrated mobile apps
• Connecting banks directly to customers' applications
• Connecting banks directly to business fintech apps
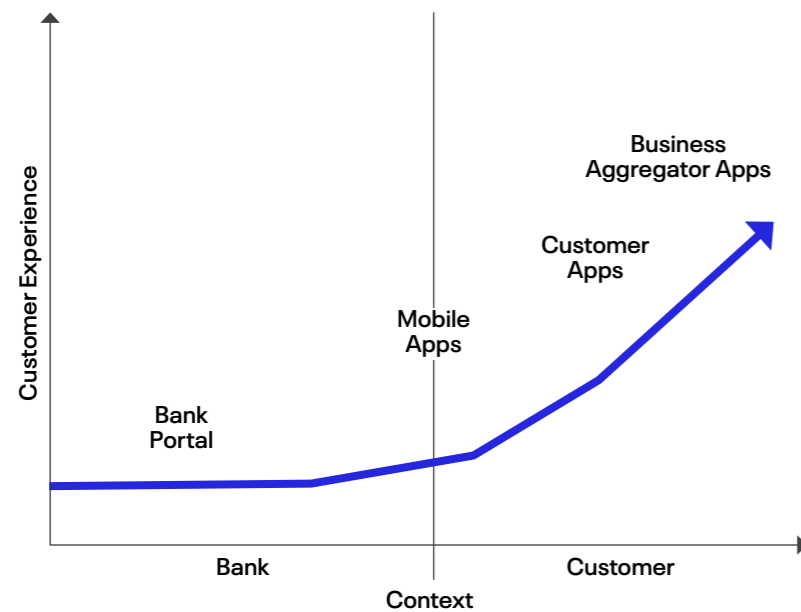
Empowering the Bank's "Portal"
One logical API application is the bank's cash management portal. API technology makes it simpler and less expensive to integrate information and transactions from various online bank systems into one seamless UI. This is often hailed as a quantum improvement in the overall customer experience. And it is — provided the customer is comfortable with banking in the traditional context of the bank's portal.

Portals that use APIs often see improvements in single sign-on, shared authentication and dashboard integration.

But what about a customer who uses more than one bank for FDIC deposit insurance, for lending limits or for any number of other reasons? When a customer must constantly bounce between their internal applications and the portals of various banks, the value of each individual portal is limited.

Furthering the Development of Integrated Mobile Apps
APIs also let banks integrate with mobile apps more quickly and easily. This "crossover" synchronization continues to blur the distinction between portals and mobile apps, with both now exhibiting the same benefits and limitations.

In the bank's context, API-based mobile enhancements permit crossover into new apps. They go beyond the bank's portal to reach customers directly, in the context of targeted new micro-apps.
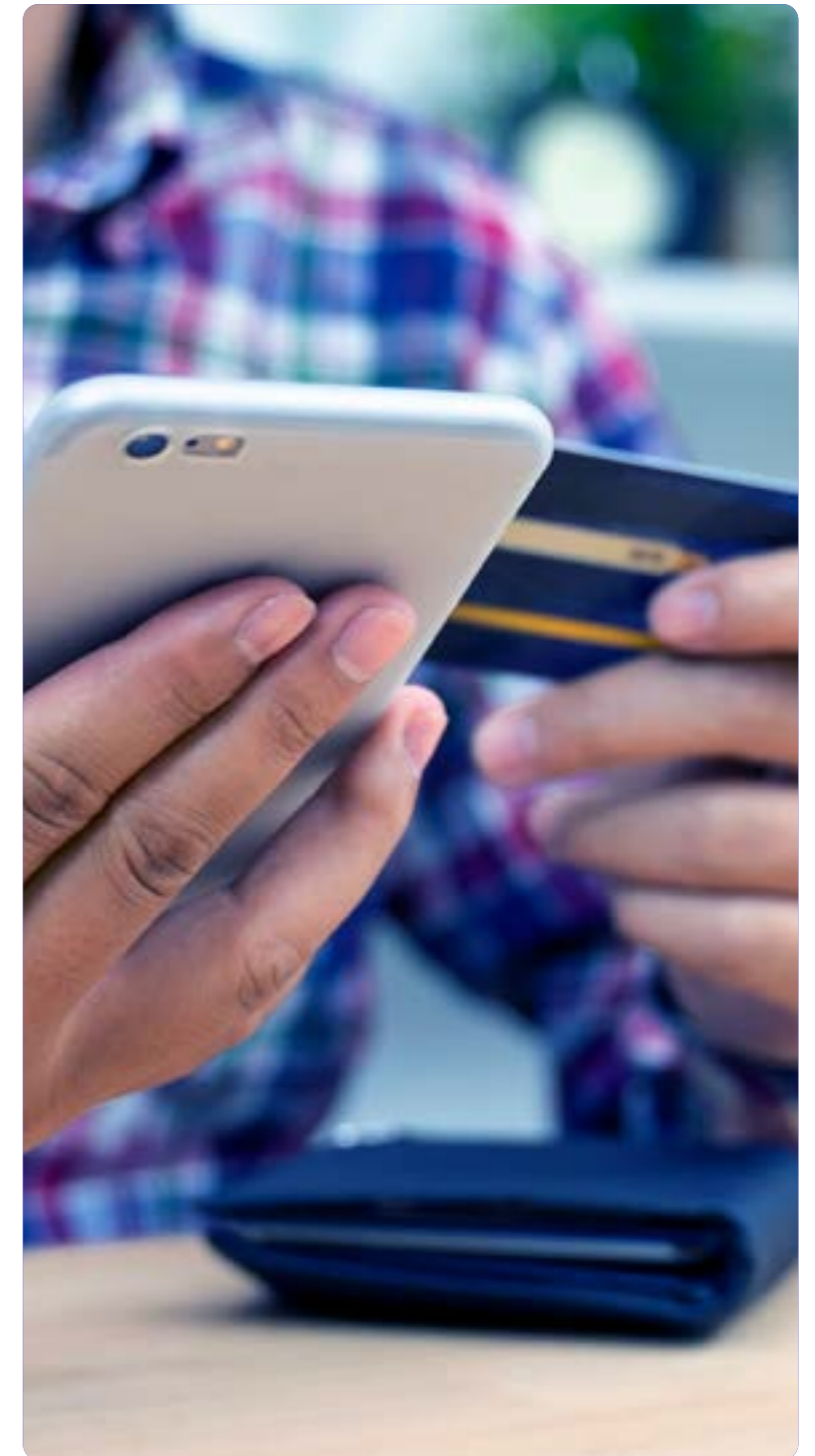
Connecting Banks Directly to Customers' Applications

By publishing Open APIs and allowing customers to integrate their applications, banks are creating more transformational value. They're allowing customers to transact within their own apps, thereby eliminating the last source of friction in banking. These projects — typically specific initiatives with individual bank customers — have a more proprietary feel that helps increase stickiness. They are an absolute game-changer; an unprecedented opportunity to materially improve the customer experience.

Example: A title company saves time and money

A title company used to handle mortgage closings with an iPad-based application. To complete the funding of the mortgage, however, the closer and customer had to wait while a separate finance person created the wire transfers in the bank's online portal.

Now, using the bank's newly published APIs, the title company incorporates the wire transfer requests directly into the iPad app. The closer requests the wire transfers from the iPad app, which routes the requests directly to the bank. The app integrates with the title company's wire approval process behind the scenes, confirming that the wires were processed in real time.

Connecting Banks Directly to Business Fintech Apps

Where will APIs take us next? Logically and perhaps inevitably, APIs are propelling the industry toward a new "holy grail" standard: the integration of the bank itself directly into the customer's business and financial application.

In this model, rather than having a physical or virtual bank at the center of their financial universe, customers are free to discover the bank literally within the context of their own apps. The prevailing "come to our bank" imperative is gone forever, replaced by a powerfully customer-centric new paradigm: "Banking when and where you need it."

Example: Reaching an existing customer directly in their app

Rather than using its bank's online services, a growing biotech startup has been managing its finances with an online accounting system.

Upon logging in one morning, the startup's business manager is surprised and pleased to discover that the bank has integrated its own services into the system. She sees a new option for downloading her banking information and, with a click, follows a simple API-powered enrollment process.

Her bank has reached her in the context of her business day as she performs normal management duties. It has improved the user experience, acquired an online customer and increased the overall stickiness of the relationship.

Example: API helps one bank succeed — at the expense of others

A local man owns and operates three businesses in the greater New York area. Each has a loan with a different bank. The business manager, a heavy user of online cash management, logs into each of the three bank's online portals daily. She is able to provide the owner with a consolidated view of all three businesses' financial activities, since their accounting functions are centralized.

One of the banks recently added a new API-based service. It offers payroll and accounts payable processing directly in the manager's accounting software, with which it has a partnership. Because this bank is now much more convenient to work with than the other two, the manager transfers all payments activity there. From the bank's perspective, this proactive deployment of APIs has tripled their payments. The other two banks have lost out.

Empowering Your API Strategy

ACI helps banks create a seamless, API-enabled user experience that integrates disparate online functions. ACI® Digital Business Banking™ offers a 100% API-driven platform with more than 650 Open APIs available for use. In doing so, ACI is empowering a truly transformative technology that is making explosive growth possible in cash management and payments.

Contact us to learn more or visit us at:

aciworldwide.com/solutions/aci-digital-business-banking

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