EBA Open Banking Working Group

Understanding the business relevance of Open APIs and Open Banking for providers of payment services

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Table of Contents

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1	**Introduction** Services on top of infrastructure layer
2	**Relevant API concepts** Basic concept of on an API The level of API Openness determines potential reach Creating Value with API Scope of API standardisation Governance of APIs Existing API standardisation initiatives From ‘Open API’ to ‘Open Banking’
3	**Open banking from an industry perspective** API: pivot between products and distribution Four potential roles in the financial value chain
4	**Challenges and Opportunities for PSPs when opening up** Opening up for PSPs Challenges and Opportunities when opening up
5	**Key Observations on Open Banking and Closing of Presentation**

1 I INTRODUCTION

Overview of EBA Activities

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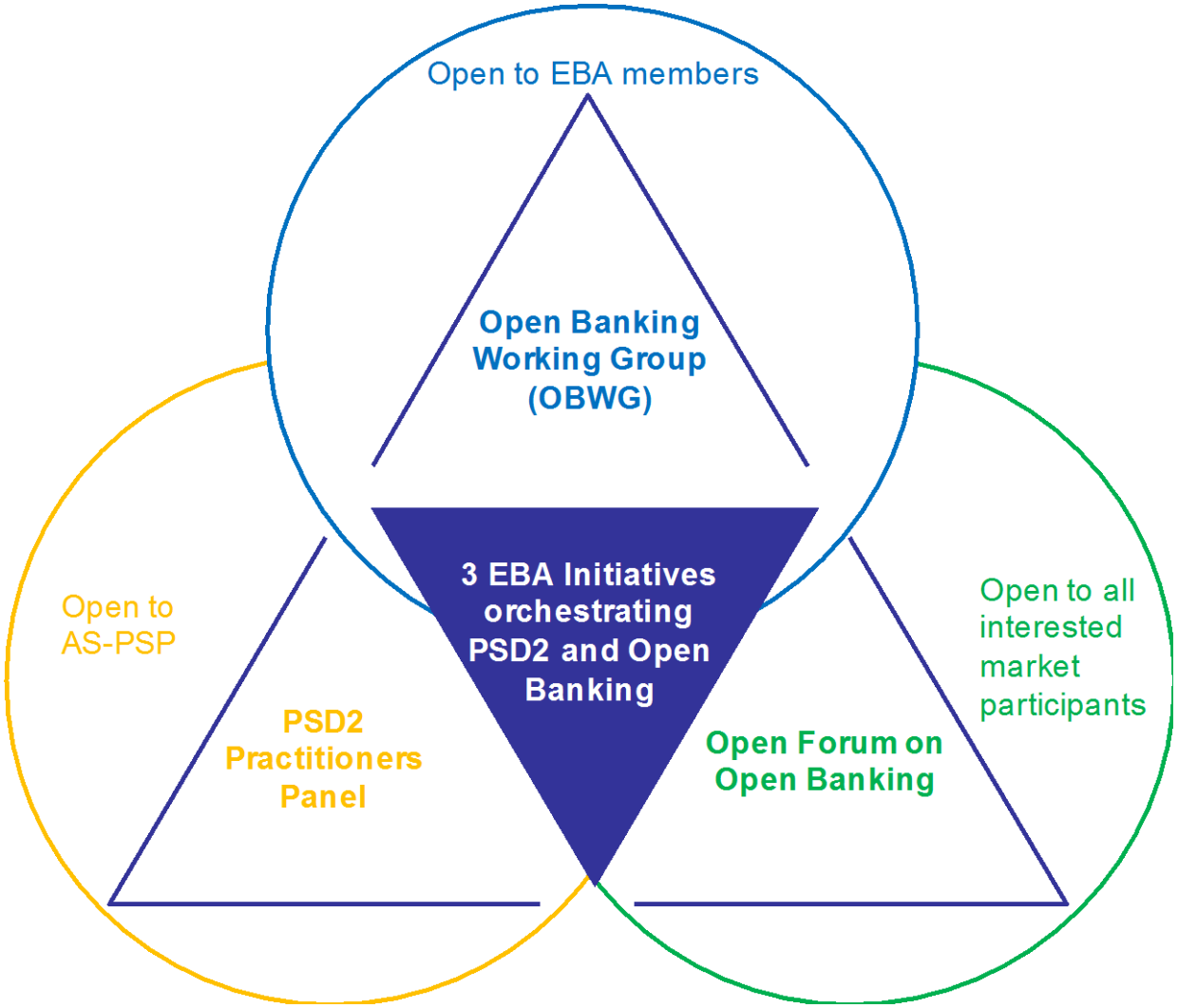

Services on top of infrastructure layer

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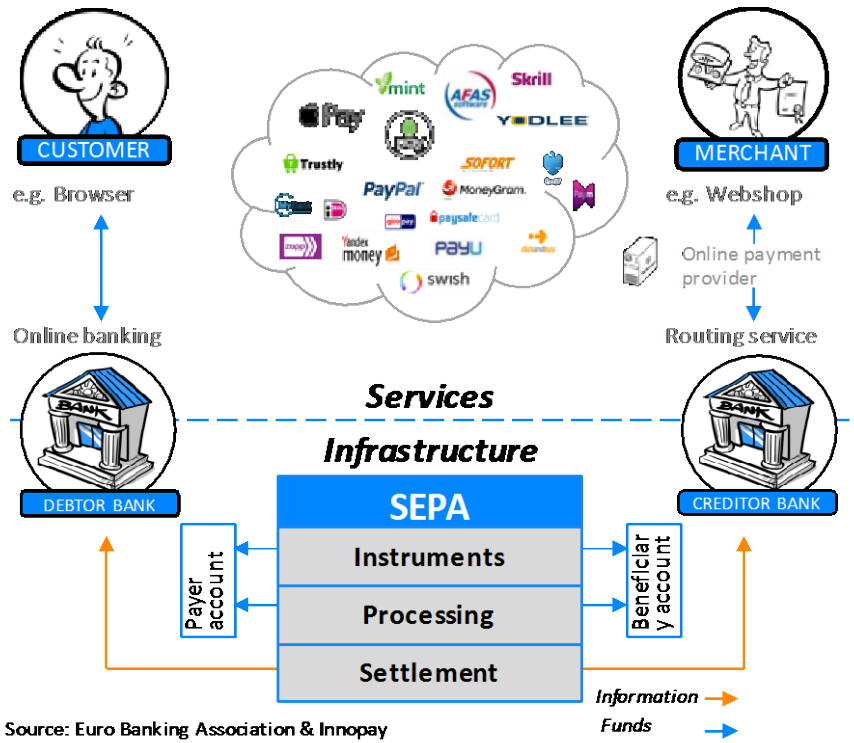
TRADITIONAL 4 CORNER MODEL



Source: Euro Banking Association & Innopay

EXPLANATION

- One focal point of EBA's activity stream on electronic alternative payments (e-APs) consists of investigating how an **evolved retail infrastructure** can support future user requirements and **the potential space for collective pan-European approaches in this field**
- In 2014 and 2015, the EBA produced a number of opinion and information papers on eAPs:
  - 2014: Description on the **implications** of these developments for payment **infrastructures**.
  - 2015: Two papers on "**Exploring the Digital Customer Services Interface**" (DCSI) and the topic of **crypto technology** followed.
- In these papers the e-APWG (now known as Open Banking Working Group - OBWG) elaborated its vision of the **interbank payment infrastructure as a fundamental pillar of a burgeoning fintech-driven 'services layer'** that emerged on top of it:
  - Existing payment **infrastructures** for SEPA and cards offer end-to-end trusted **reach**
  - The **services** layer is building on advances in technology and ongoing digitisation and is mainly relevant for **conversion**
- The OBWG has identified a **mismatch between reach and conversion** for payers and payees

2 I RELEVANT API CONCEPTS

Basic concept of on an API

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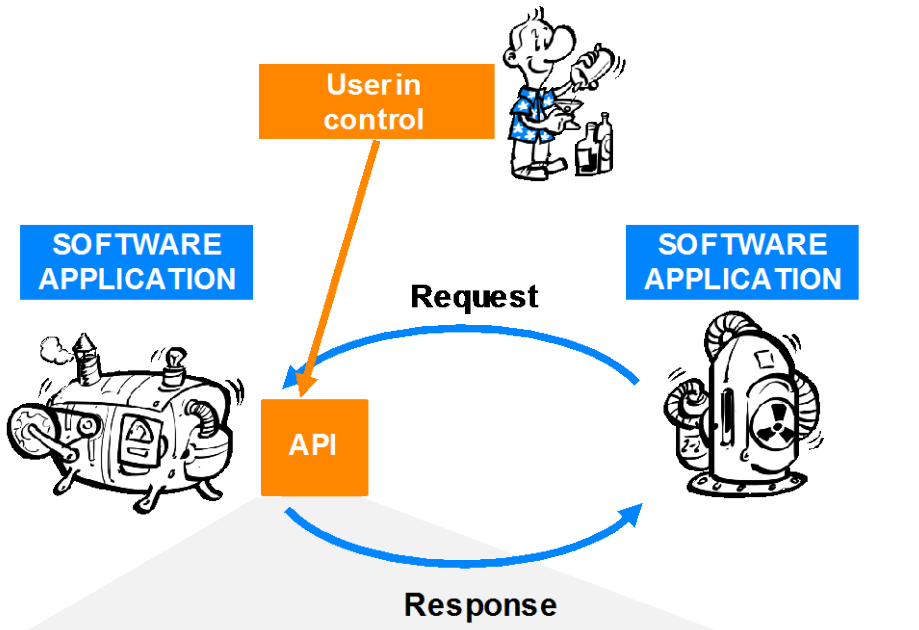
APPLICATION PROGRAMMING INTERFACE (API)



Key technical concepts
As a result of this evolutionary standardisation nowadays API technical standards typically consist of:

Data Transmission | **Data Exchange** | **Data Access** | **API Design**

Source: Euro Banking Association & Innopay

EXPLANATION

- API enables **communication between software application** where one application calls upon the software functionality of another
- It is a **software architectural approach** that revolves around the view on digital interfaces that '**APIs provide self-service, one-to-many, reusable interfaces**'
- **Open APIs** enable **secure** and **controlled access** to **data** or **functionality** by third parties
- APIs enable **secure, controlled and cost-effective access to data and/or functionality**, potentially by third parties.

Source: Euro Banking Association & Innopay

The level of API Openness determines potential reach

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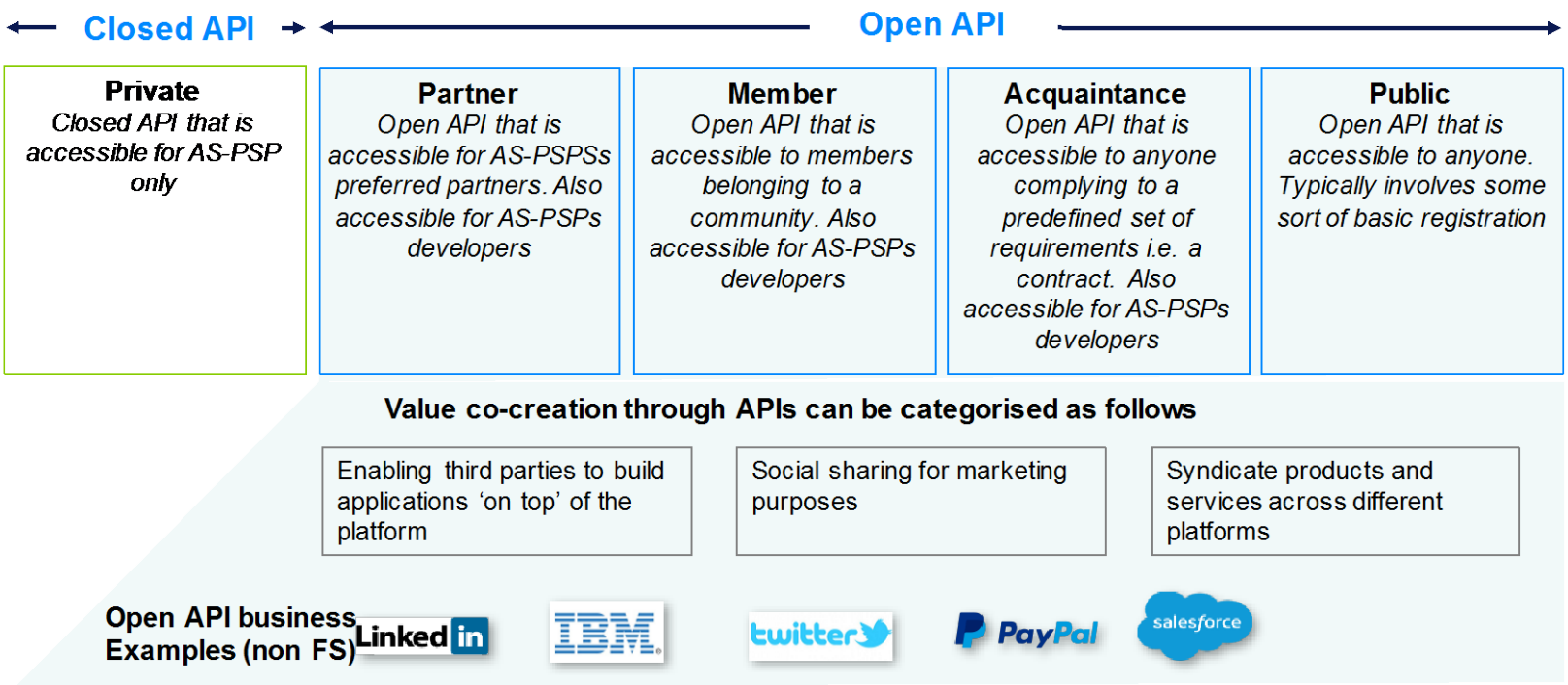
LEVEL OF API OPENNESS TO BE OBSERVED IN PRACTICE

- APIs which can only be accessed within the boundaries of one organisation, are referred to as **'Closed APIs' or 'Private APIs'.**
- APIs which can also be accessed by third parties (outside of the organisational boundaries), they are referred to as '**Open APIs'.**
- 'Open' does not mean that every third party can access a bank's system at their discretion.



Source: Euro Banking Association & Innopay

Creating Value with API

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AREAS OF VALUE CREATION WITH API

Enabling third parties to build applications 'on top' of the platform.

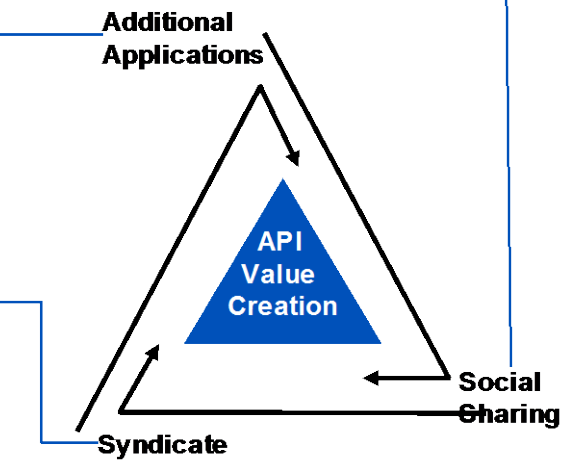
- Developers can reuse existing functionality or use data sources
- Lower cost and faster time-to-market
- Additional dependencies on third party developers.

facebook flickr YouTube LinkedIn

Social sharing for marketing purposes

- Highly effective for branding and marketing purposes and for generating web traffic.
- Banks could use social sharing principles to build user communities, retain or increase brand awareness and increase brand loyalty

amazon Google PayPal ebay



Syndicate products and services across different platforms

- Each player provides distinct features to create the value provided by the service.
- The fees paid by the customer are distributed amongst the syndicate membership.

ebay Google

Source: Euro Banking Association & Innopay

EXPLANATION

- Most **digital market participants** have used **API technologies to meet their business objectives** and ultimately create customer value.
- Using APIs in opening up systems (to the outside world) is essential for
  - **Driving traffic** to one's assets
  - **Co-creating** end customer **value** in the ecosystem
  - **Sharing** the **burden and benefits** (including the profits) between

Financial APIs need agreements beyond technical aspects: Scope

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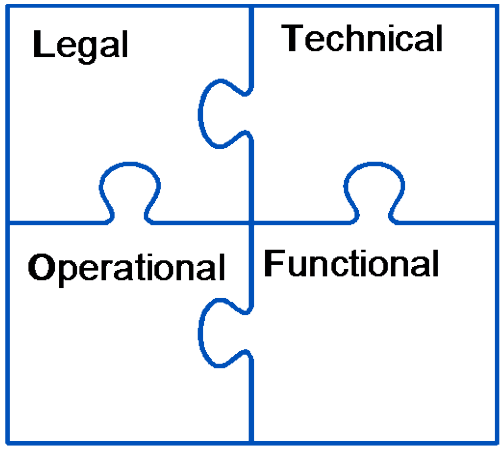
SCOPE OF STANDARDISATION

- When creating infrastructure such as payment and securities infrastructures, the financial industry when interfacing with clients and other third parties already **applied control and standardisation beyond technology and introduced other standardisation elements such as legal, operational, functional standardisation**.
- Today's payment ecosystems (and financial ecosystems in general) **cannot function without agreements on all of these dimensions**, either by individual banks or by collectives. Therefore, financial APIs need at least a similar scope when it comes to agreements and standards.

THE 4 AGREEMENT AND STANDARDISATION DIMENSIONS

Rights and obligations of concerned parties for **creating trust** among the parties involved

The agreements needed for **running an API** (after implementation): performance, uptime, service levels, support etc



All technical aspects as described before

Aspects related to the **user functionalities, data semantics etc.**

Source: Euro Banking Association & Innopay

Governance of APIs: scope

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GOVERNANCE LEVELS OF APIS:

Successful APIs are based on a good governance model. This also holds true in the financial services industry (including APIs).

Standards are accepted and adopted by **multiple industries around the world**. HTTP/HTTPS used for Internet communication is an example in this category.

Universal

Standards are accepted and adopted by a **complete industry on a regional or global scale**. The SWIFT standards are an example of an industry standard. SEPA and PSD also fall in this category.

Industry

Standards are accepted and adopted by a **group sharing common characteristics or interests**, e.g. national communities, processors, banks, etc., the recent work done by the UK Open Banking Working Group is an example of this category.

Community

This is the smallest unit of governance, as it **concerns a single bank**. Company policies, guidelines and Member APIs fall under this category.

Organisation

Source: Euro Banking Association & Innopay

Many API initiatives already live and still emerging

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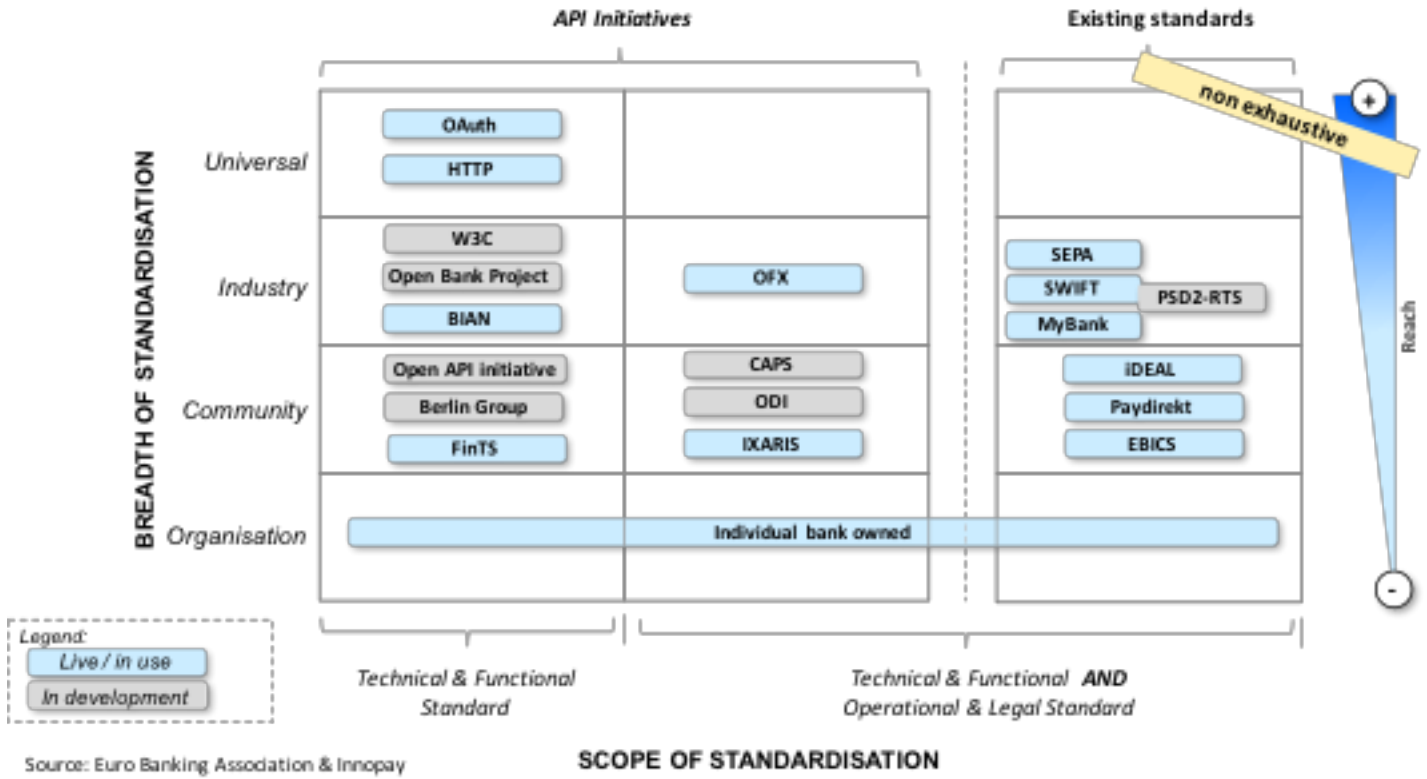
POSITIONING OF EXAMPLES AND API INITIATIVES



Source: Euro Banking Association & Innopay

- Most of the **initiatives cover the full scope** (technical, legal, functional and operational)
- Initiators and governing bodies are **diverse in their representation**
- Unlike initiatives such as SEPA and Instant Payments, where the regulator or banks have taken the lead in payment infrastructure standardisation, so far it is the **supplying industry (technology or service providers) who are taking the lead** in the development of API standardisation

From ‘Open API’ to ‘Open Banking’

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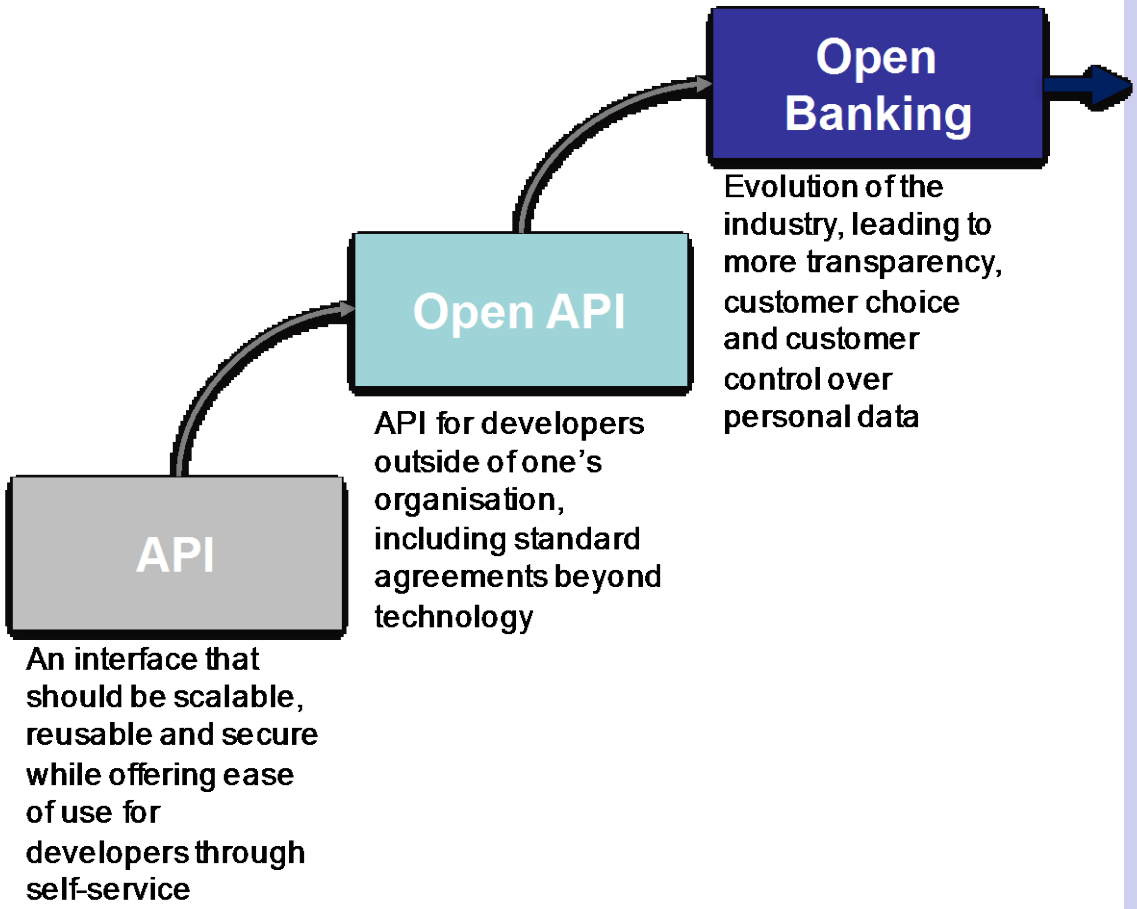
FOLLOWING DEFINITIONS SURROUNDING APIS



- Open Banking is another term frequently used - although this **term is still under development.**
- Open Banking revolves **around the standardisation of how banks share their own data**, but also how banks allow customers more choice and sharing of their data for use in third party (fintech) applications in a secure and resilient fashion.
- Open Banking can be **characterised as a technology-driven evolution** of banking, and this includes Open APIs
- Open Banking is a **movement ‘bridging two worlds’**, i.e. making it possible for customers to use their banking service in the context of other (fintech) services, thereby, combining innovative functionalities from banks and non-banks with reach through infrastructure

Source: Euro Banking Association & Innopay ; https://openbank project.com

3 I OPEN BANKING FROM AN INDUSTRY PERSPECTIVE

API: pivot between products and distribution

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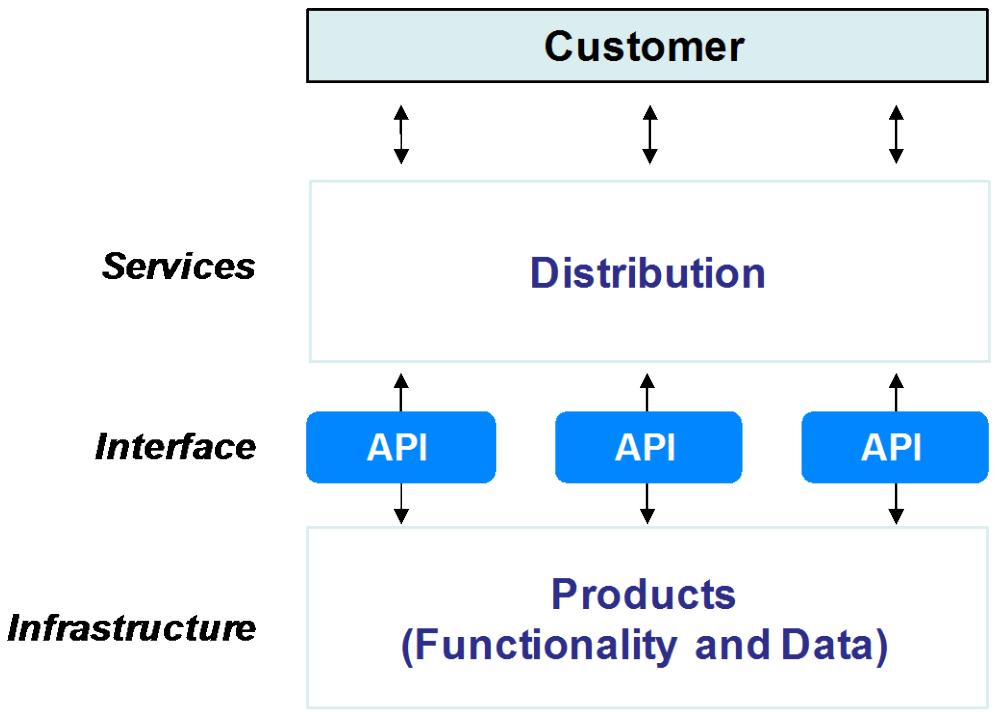
APIS: PIVOT BETWEEN PRODUCTS& DISTRIBUTION



Source: Euro Banking Association & Innopay

DESCRIPTION

- **Product and distribution** strategies have **always** been at the **core** of what banks do
- Open Banking with its digital technologies, provides new possibilities and challenges in terms of
  - **Scalability**
  - **Re-Usability**
  - **Security**
  - **Self Service**
  - **Distribution in the digital era.**
- New **combinations of services**, functionality and data as well as novel **distribution channels may be created**.
- **Third parties can integrate bank functionality, data and products** into their own services *(e.g. payment initiation, personal finance management and credit card information)*

Four potential roles in the financial value chain

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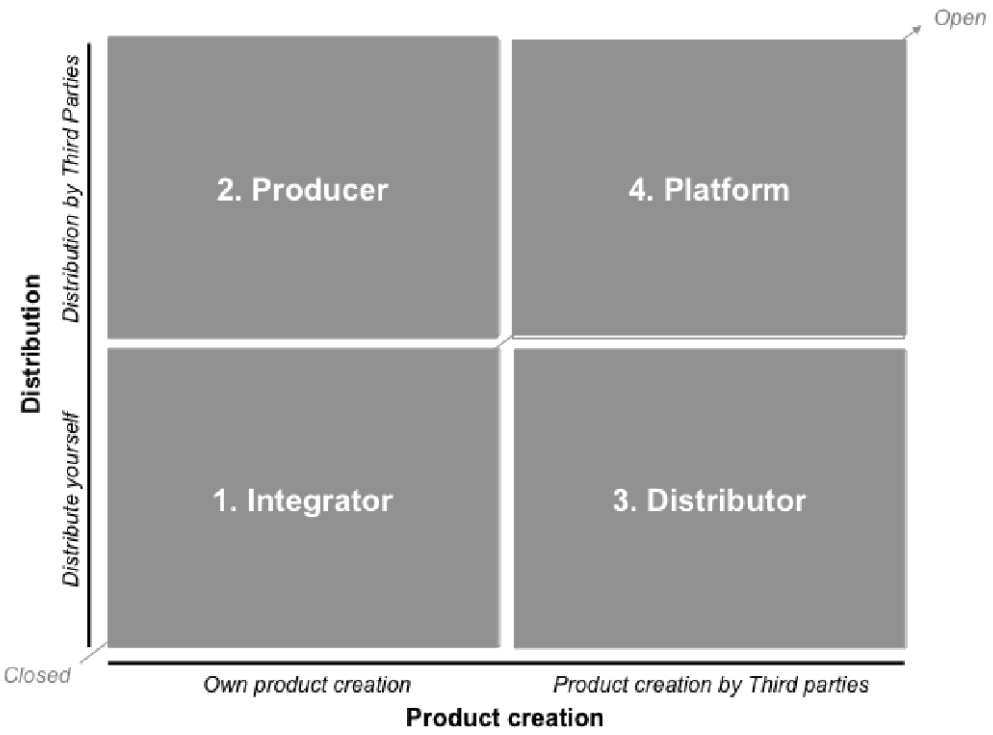
POTENTIAL ROLES IN THE DIGITAL VALUE CHAIN



Source: Euro Banking Association & Innopay

DESCRIPTION

Decision makers of incumbent institutions face two fundamental strategic questions:

1. Who is distributing my products, which I make accessible via my API, to existing and new customers?
2. Who is creating the products that I will be distributing to my own customer base?

Potential Roles Financial Institutions can take

- ***Role 1: Integrator***
- ***Role2: Producer***
- ***Role 3: Distributor***
- ***Role 4: Platform***

Source: Euro Banking Association & Innopay

Summary of the four potential roles in the Digital Value Chain

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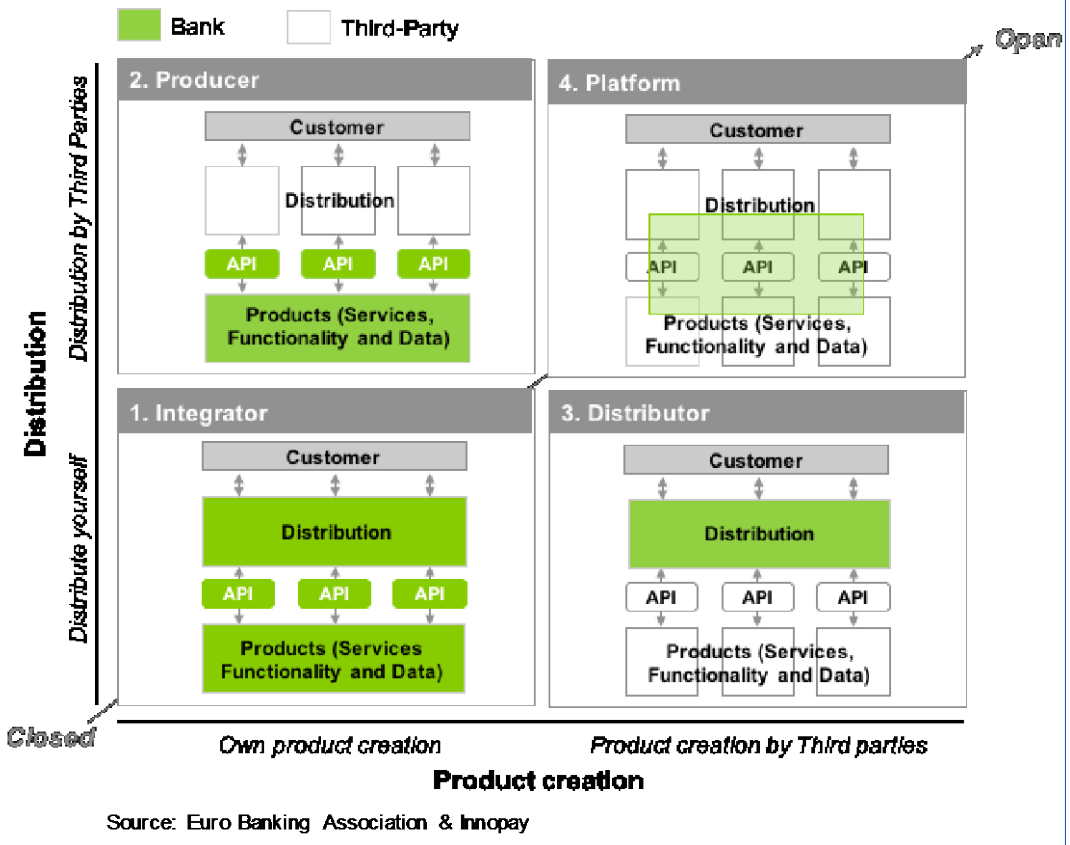
POTENTIAL ROLES IN THE DIGITAL VALUE CHAIN



Source: Euro Banking Association & Innopay

SUMMARY

- Embracing a new role in the financial value chain **entails transformational challenges** as it requires a change in the business and operating model.
- Criteria to consider when evaluating the level of **strategic change include customer loyalty, market propositions, cost efficiencies, innovation culture, employer attractiveness, business and IT alignment**, available means for investing and possibly outsourcing.
- This is a crossroad which every participant of the financial industry could face in the next few years.
- The minimum **engagement in 'opening up' is what the PSD2 will prescribe in** terms of **access-to-account** (i.e. a limited 'producer role'), but the current fintech and innovation boom also poses questions regarding business strategies for partnering and product proposition towards third parties.

Source: Euro Banking Association & Innopay

4 I CHALLENGES AND OPPORTUNITIES FOR PSPS WHEN OPENING UP

The concept of ‘opening up’ banks

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Characteristics challenging environment

1

Zero tolerance for mistakes. Reputation and security risks due to the role in the economy as a crucial infrastructure.

Providing security of funds and personal data as well as transaction banking can be seen as the core value proposition of a bank. As a provider of crucial infrastructure banks face additional pressures related to maintaining and making changes to a running a large-scale operation with the considerations of constant uptime

2

Banks operate in a strict and changing regulatory environment.

Although the roadmaps of the upcoming regulations have been clearly communicated to banks, their interpretation and understanding of strategic consequences and realising compliance in the most efficient way are time and cost intensive processes.

3

Banks have already digitised their customer facing (distribution) side since the early years of the Internet.

This has proven to be difficult considering the highly customised, overlapping and interrelated legacy IT infrastructures, which are not necessarily ‘digitised in parallel’. This complexity makes these infrastructures costly to adapt and maintain

- ‘Opening up’ is similar to the first mover experiences in non-financial industries of the past decade
- ‘Opening up’ holds major opportunities

Source: Euro Banking Association & Innopay

Challenges and Opportunities when opening up

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Challenges when Opening Up

- Risk of **disintermediation** by third parties
- Risk to **reputation** and **trusted** brand
- **Transformational** challenges

Opportunities when Opening Up

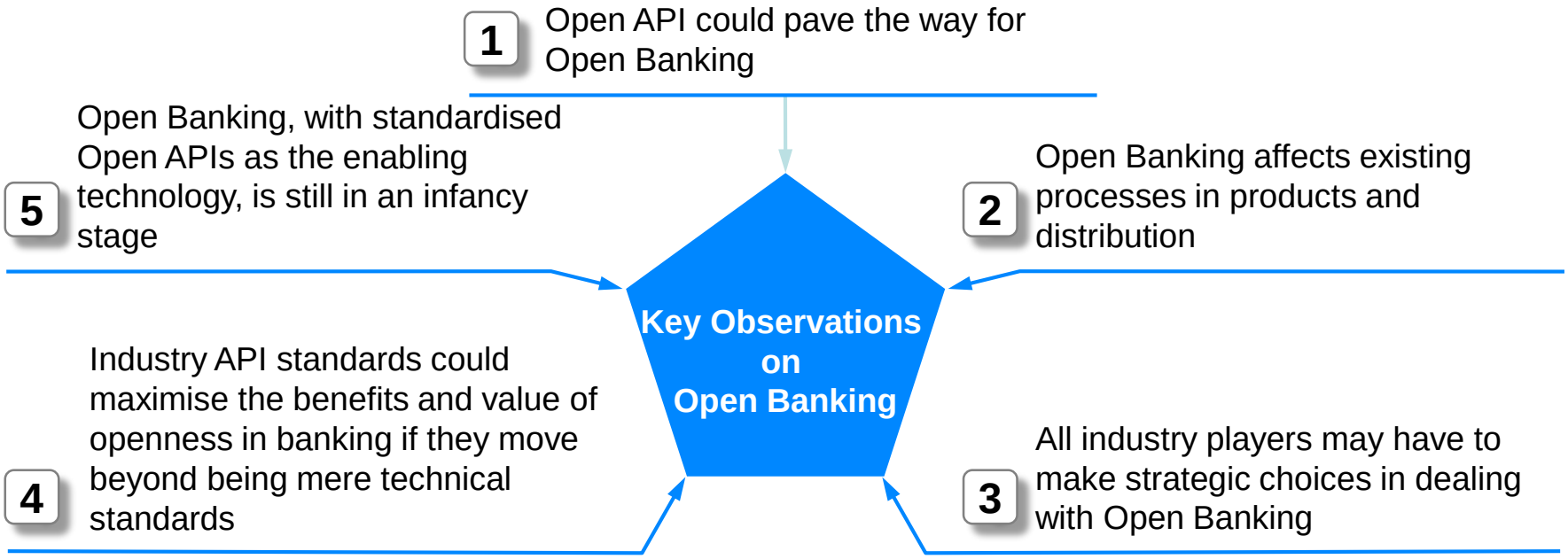
- Enhanced service **innovation**
- Wider and improved **distribution**
- Enhanced **risk mitigation**

Source: Euro Banking Association & Innopay

5 I KEY OBSERVATIONS ON OPEN BANKING

Summary of key observations

Open APIs, Open Banking and how decision makers in the financial services industry may position the upcoming changes



Source: Euro Banking Association & Innopay

Open Banking, with standardised Open APIs as the enabling technology, is still in an infancy stage

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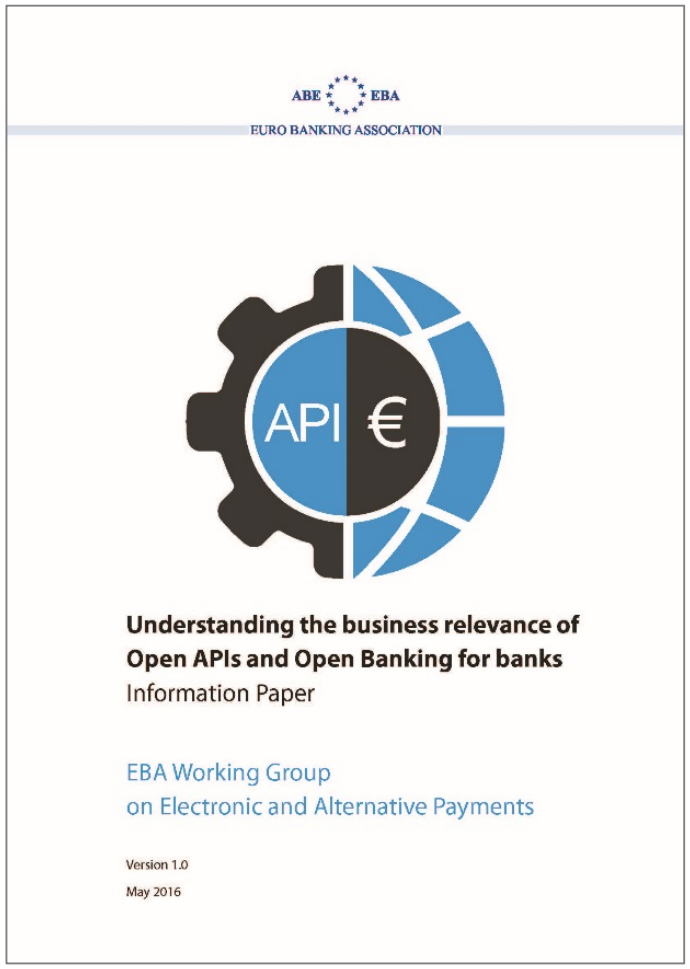
Given all current developments rapid and collective maturity can be expected.

This could lay the foundation for an industry-wide dialog, engaging bank and non-bank stakeholders

Source: Euro Banking Association & Innopay

Questions?



https://www.abe-eba.eu/thought-leadership/open-banking-working-group/

Thank you!

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