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White Paper

API Monetisation: Making a Success of Open Banking

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As the API economy has gathered momentum across industries and sectors, the financial industry has been a relative laggard. Online retail and big-tech platforms have taken a lead, while banking and other financial organizations have proceeded relatively cautiously, thinking carefully about their strategies for both internal and external deployment and focusing on how best to reap commercial benefits from the API economy. In that respect, regulators have a key role to play - standardisation of open APIs is likely to be a key condition of success. Conversely, a lack of common standards will hinder progress and increase the burden of delivery.

Both banks and non-banks have spent significant sums to comply with Open Banking regulatory requirements (PSD2 in Europe). There is now increased pressure, on banks in particular, to deliver returns. There is also a recognition that if services and propositions are to become attractive to customers, the perimeter of in-scope data and products needs to go beyond that specified by regulation (current accounts, savings, some lending products). As a result, there is growing momentum behind the concept of Open Finance, which would allow products such as mortgages, investments, and pensions to form part of an extended perimeter of data sharing and exchange through dedicated interfaces such as APIs.

An expanded perimeter would allow banks to tap into the more lucrative product areas of core lending and investments, boosting commercial returns. Additionally, non-bank players (fintechs and others) would benefit from a broader pool of data to fuel innovation and create new services — a win-win situation for all parties. On the payments side, the work of the European Retail Payments Board (ERPB) on the SEPA API Access Scheme provides a valuable insight into the challenges and potential solutions that are likely to play a key role in kick-starting commercialisation.

While the concept may appear simple, implementation is anything but. There are germane concerns around both secure, controlled access to data and its exchange with third parties. Market participants and stakeholders (including regulators) are also mindful of not overheating the system with an unmanageable access load, and have imposed restrictions around how, and how much, market participants can access digital interfaces.

For Open Banking/Open Finance to become relevant, commercially successful, and deliver for regulators and customers, participants need to find ways to benefit from the API economy. API monetisation is the first step in the right direction.

Regulators' Dilemma

Regulators across the globe have taken different views on commercialising APIs. While in the UK and Europe, access is free (though restricted in frequency), Brazilian regulators are exploring a framework of API pricing and restricted frequency for both banks and non-banks. Both models have benefits and challenges:

- **Free access**. As free access is seen as a compliance-first exercise, it runs the risk of cultivating a lowest common denominator outcome for API functionalities and capabilities. On the flip side, it fosters competition and allows new players to emerge — providing there is a sufficient level of API standardisation to create one-to-many access.

- **Price-per-call**. Given they view APIs as redeemable investments that can be used to develop more nuanced customer services, players may be incentivised by a price-per-call model to develop functionally rich offerings (beyond the quota). However, this approach may negatively impact start-ups or the growth of smaller players, and though pricing is not expected to be prohibitive, regulators should be mindful of the impact of pricing on potential outcomes.

Markets and regions will determine which regulatory model to deploy, but the market needs to be proactive in creating a commercial solution that works for all. Regulators have a responsibility to enable a working ecosystem, but players must take it to the next level, and API monetisation will be crucial in doing so.

Monetising APIs

APIs can transform the customer experience, business models, and revenue potential, as demonstrated by the payments industry. The growth of the Payments-as-a-Service model (PaaS) has made a huge difference to both merchants and payments players. Software providers are using API platforms to offer payments and related services, and are generating an increasing proportion of their revenues from non-software led solutions (payments, value-added services). A BCG survey of leading software vendors (both horizontal and vertical) suggests that 60% of providers believe that their share of payments and value-added services will increase over the next five years. Recent market activity around M&A and partnerships (Visa-Plaid, Mastercard-Finicity, PayPal-Tink) demonstrates that the development of a strong proposition and excellent use cases for businesses and consumers, leveraging Open Banking/Open Data, can potentially boost revenues.

If banks and other TPPs are to benefit from investment in APIs to date, they need to put in place a strategic participatory framework, which is initially more important than monetisation models. That means they should:

- **Build trust**. All parties need to establish a trust mechanism to remove barriers to innovation. This trust should be built on the principle of reciprocity and achieving the common goal of positive customer outcomes. A scheme to create a trust framework could be formulated in a specific market/region (for example, the ERPB SEPA API Access Scheme).

- **Establish a vision**. Beyond the sharing of APIs, players need to have a clear vision of how to leverage associated data, services, and partnerships. Surprisingly, the majority of participants have treated vision-setting as a second-order priority (after compliance).

- **Be bold.** Market participants should be bold in innovating to transform the business model — building on external data sources, underpinned by trust in market infrastructure.

Meeting these conditions can lead to beneficial API monetization across diverse forms and structures:

- **API-as-a-service.** Pricing per service can enable better customer experiences and pathways, including customer onboarding (KYC, AML, ID&V) and data aggregation. This can also be extended to internal business units to regulate processes, create better customer and business data visibility, and generate incremental revenue opportunities (or enable cost take out).

- **Ecosystem enhancer**. Market participants can share and consume APIs to significantly enhance the service and customer proposition. This will generate more revenues through cross-sales and partnerships (referral models, revenue share).

- **Harmonious co-existence**: Players can create bolt-on capabilities through open API structures, either via bilateral partnerships or carefully designed entry mechanisms for third parties, leading to services that significantly enhance the total addressable market and increase customer lifetime value.

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The options for API monetisation are almost limitless. Momentum created by Open Banking is a good starting point, but further innovation will be critical to both transform the way customers consume services and to generate incremental (and in some cases significant) revenues.

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