



Mindtree

Welcome to possible

# How APIs Enable Digital Banking

## Part 1: Fintech APIs Challenge the Traditional Banks

VIEW POINT





Disruptive business models challenge the relevance of traditional banks, turning the most innovative banks, non-banks and aggregators into consumers' preferred point of contact for their banking services and financial information. As this trend gains traction and acceptance, traditional banks run the risk of being relegated to undifferentiated utilities.

For the bulk of these industry disruptors, the essential component is not some experimental technology, but rather the expanded use of a well-understood and longstanding component of IT integration – the API.

### Competitive dimensions of financial APIs

The API-powered digital ecosystem represents a significant strategic challenge for the financial services industry, as well as an unparalleled opportunity for banks to build personal, customized and contextual services of their own.

With the proliferation of APIs that permit websites and mobile apps to embed financial services into new

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contexts, consumers will no longer be required to visit the branded website of a bank to initiate transactions. Instead, people will quickly discover that their favorite websites have embedded, convenient and contextually-relevant

financial services built into the user experience of other digital services.

Furthermore, the pervasiveness of financial APIs means that banks are no longer competing only with each other through largely undifferentiated websites. Instead, banks now have to compete directly with targeted, highly-scalable fintech businesses that give retailers and online merchants the ability to embed financial services into every aspect of the digital experience on any device or form factor. Already, fintech specialists can be found offering virtually every product that a bank offers, with fully-functional APIs in support of everything from consumer lending

and wealth management to merchant services and payroll.

In this context, banks will be challenged to ensure that they can provide a superior customer experience on par with that being offered elsewhere in the digital economy. As API-connected digital businesses gain prominence and mindshare, the relationship between a bank and its customer will necessarily undergo a critical transition. Over time, if customers become satisfied with financial API-powered digital services provided outside of the bank-branded customer experience, legacy banks will suffer from lower usage, decreased loyalty and slower revenue growth.

### APIs explained

As one of the core building blocks of modern programming, an application program interface, or API, encapsulates code into an implementation-independent building block. To use an API, a programmer need only understand the API's published specifications, and so there's no need to know how the underlying code actually works. In turn, the API's publisher can make improvements to the underlying code without interfering with any the services that make use of the API.

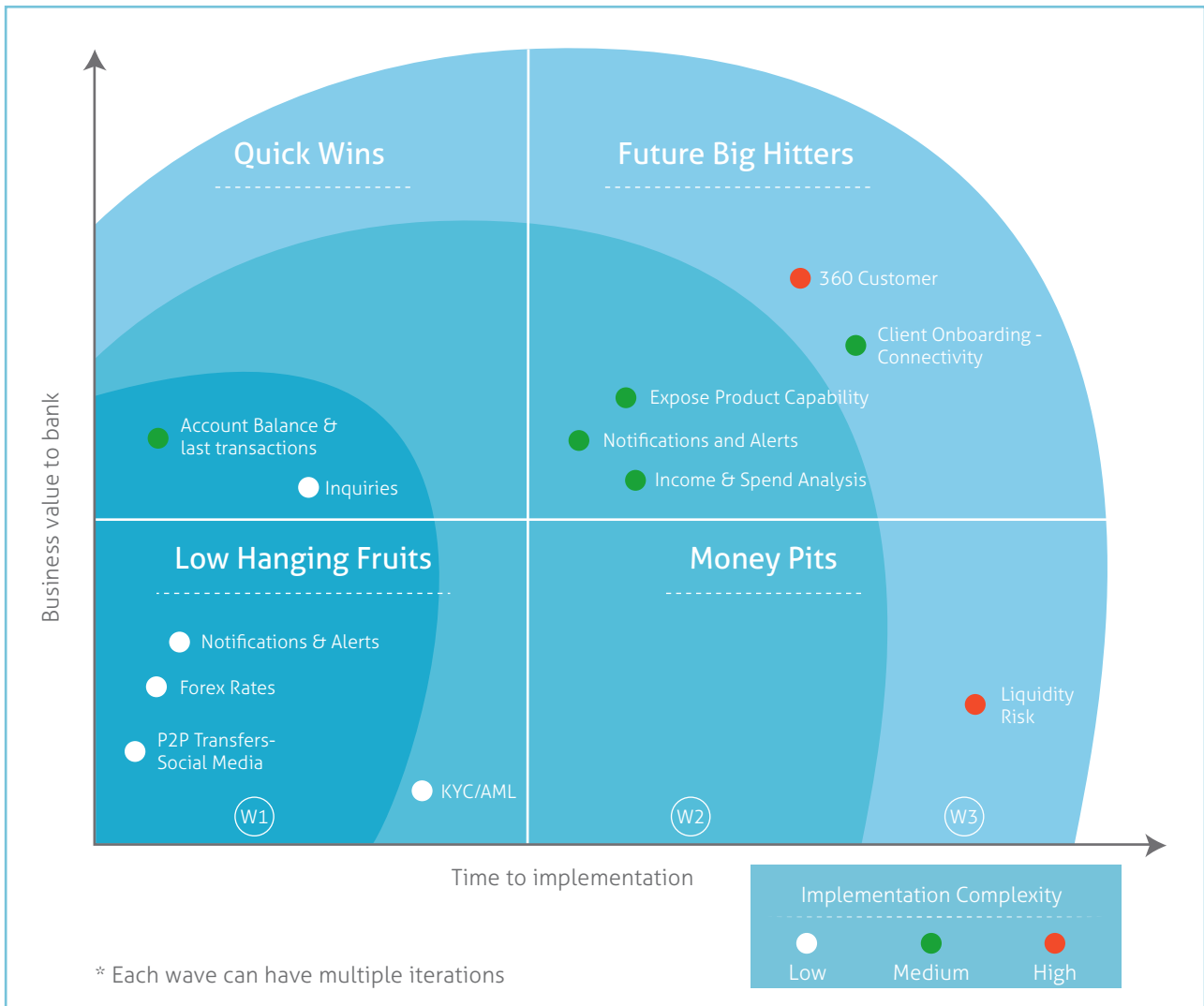
This "loosely coupled" approach to programming enables fast and easy creation of solutions that are greater than the sum of their parts. For example, it's long been common practice to see websites retrieve and display search results using a Google Search API, or to display products for sale using an Amazon Product Advertising API.

Now, the API is taking hold across financial services. Some examples:

- **Endpoint Exchange** enables banks to exchange electronic check images using APIs;
- **MasterCard Places** delivers near-real-time, aggregated and anonymous transaction data via APIs, enabling developers to populate mapping libraries with merchant data, including indicators of the most popular merchants in a given area;
- **Stripe** provides APIs for global payments that developers can integrate easily into their web and mobile apps for a flat rate of 2.9% plus \$0.30 per transaction.

Accordingly, banks are under enormous pressure to expose and leverage their APIs. By providing external developers access to bank products and services, banks can preserve their presence and brand equity in the

digital ecosystem. In addition, banks that develop an API mindset will have the building blocks to conceptualize and launch new services drawing upon APIs from other industries.



### APIs: What's next, and when?

Given that banks have to respond to the API challenge, the big question is what to build next.

The "quick wins" in the first wave of API Enablement includes relatively simple and routine information interchange, such as account balances, most-recent transaction lists and support for basic inquiries.

The "low-hanging fruit" will also mostly appear in the first wave of API-enabled innovation. Banks will experiment with services such as targeted notifications and alerts, updates on interest rates and foreign exchange rates, P2P transfers, and automated KYC/AML checking.

The "big hitters" will begin to be realized in the second and third waves of innovation, and represent the most promising areas. These capabilities

incorporate data from multiple lines of business as well as multiple functional areas within a bank, and include 360-degree customer views, improved client onboarding, and income and spending analysis.

The "money pits" in the third wave include expensive yet hard-to-monetize projects that require both an advanced level of analytics and inter-company data integration, such as API-driven liquidity risk management, corporate cash management, or counterparty risk assessments. Banks would require significant R&D to create robust and secure APIs for these complex and critical business processes.

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## Mindtree: An experience partner for API enablement

With a crisp focus on unlocking the value of APIs, Mindtree works with financial institutions through an end-to-end engagement approach that leads to the successful execution of API Enablement initiative in a way that complements a Digital Transformation strategy.

Mindtree excels at bringing together internal resources, external experts from the industry and relevant client stakeholders to define and prioritize:

- High-level areas of focus: Strategic thrusts and business drivers for API Enablement
- Action plans: Defining what needs to be done within each area of focus, and then setting clear priorities
- Business cases: Establish and reality-test the revenue, cost-savings and market share goals driving the API Enablement initiative
- Operational guidance: Define the parameters of API Enablement, including architecture, development, testing, deployment, ongoing operations, and even a Build-Operate-Transfer model for faster time to value and easier transition.
- Timing/Budget: Realistic estimates of cost and delivery time.

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## About Mindtree

Mindtree [NSE: MINDTREE] delivers digital transformation and technology services from ideation to execution, enabling Global 2000 clients to outperform the competition. "Born digital," Mindtree takes an agile, collaborative approach to creating customized solutions across the digital value chain. At the same time, our deep expertise in infrastructure and applications management helps optimize your IT into a strategic asset. Whether you need to differentiate your company, reinvent business functions or accelerate revenue growth, we can get you there. Visit [www.mindtree.com](http://www.mindtree.com) to learn more.