

Open API Opportunities Outweigh the Challenges for Banks

The financial industry has traditionally lagged in adopting open technologies, but its continued evolution may rely on one, in particular, argues Lisa Iagatta, chair of ISITC North America.

While many financial services firms may have, historically, been reticent to embrace open technologies, many have realized that they are behind the curve when it comes to APIs.

To those in finance and asset management, APIs—which, in a nutshell, allow two computer applications to “talk” to each other using a mutually understood language—may seem new. This is because the industry has traditionally focused on managing the risk of sharing data versus the opportunity of embracing open platforms.

Now, with regulations such as the Payment Services Directive 2 (PSD2) and Open Banking taking hold in the European Union, and the Securities and Exchange Commission modernization in the US, more attention is being paid to the concept of open APIs in banking.

Moreover, as tech giants and fintech startups encroach further on the business of traditional financial firms, even those at the highest level recognize the need to adapt. JP Morgan CEO Jamie Dimon made this point clear at the bank’s Investor Day last year when he quoted Amazon CEO Jeff Bezos’ famous warning: “Your margin is my opportunity.”



While APIs may seem revolutionary, the concepts and philosophy behind them have been around for decades—long before companies like Amazon or Google exploited these capabilities to become pioneers in connected ecosystems.

As with any technology that will usher in change, open APIs encounter challenges. These center on three common obstacles: infrastructure changes; cybersecurity; and exposure to competitors. While these are all legitimate concerns, there are known solutions to address each of them.

From an infrastructure perspective, investing in modular architecture will enable financial institutions to provide accessible, easy-to-use APIs. This investment is necessary and long

overdue. Although the up-front cost can invoke sticker shock, the long-term savings are monumental and more than make up for the investment over time.

Take legacy systems, which become more inefficient with each passing year, in part because they’re not interoperable with new technologies and modern digital systems. Firms will typically triage these challenges through point-to-point integrations, which is why banks often spend the bulk of their IT budgets on maintenance. To make matters worse, as custom, one-off integrations pile up over time, fragile and complicated dependencies create new business continuity risks, which also makes future modernization much more difficult.

On cybersecurity, having the right processes for authentication and documentation is the foundation of a successful API strategy. Published standards and documentation, such as the Regulatory Technical Standards on Strong Customer Authentication, have helped institutions moderate cybersecurity threats.

Even on the competitive front, as peers gain access to open APIs, concerns about threats have been tempered by evolving philosophies

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around the platform model and the substantial value-creation opportunities available through open interfaces and their ability to facilitate access to information.

In tech, companies like Microsoft have long since demonstrated the value of an open ecosystem. By providing a core service, product, or technology that other firms could build complementary offerings on top of, Microsoft unlocked an entire business ecosystem for innovation, and became larger than it ever could have on its own.

The Way Forward

Open APIs unlock the ability to share information faster, which then accelerates innovation. Financial services firms and vendors need to come together to combine complementary expertise, advance the industry, and optimize the experience for the end-user. As different institutions begin building out their API strategies, it will be key to confer with vendors and other industry players to build on each other's success.

Apple, Google, Airbnb and Uber have understood that to innovate it's

necessary to take advantage of the API ecosystem to bring a more seamless and efficient experience to users. Perhaps more telling are the names that eschewed the platform model to create closed and incompatible networks—think Blackberry or Nokia. A closed API system is a recipe for stifling innovation and growth. Developing a robust API ecosystem is critical and is shaping up as we speak—firms that are making it a priority will reap the benefits. Those that wait will find themselves on the outside looking in. [wt](#)