

# How APIs are Changing the Relationships Between Banks and Their Customers



By ALYSSA MAZZINA

Across the world, APIs are changing banks. Here's what that means for the banks themselves and for their customers.



## OpenBanking and PSD2

This year, Europe's largest retail banks underwent a change as big as any in their collective history: they launched generally available bank APIs.

For some banks, this was the realization of a larger strategic shift, whereas others needed, let's say, some persuasion in the form of Europe-wide legislation. This legislation, generally known as PSD2, says that some banks have too much power in the marketplace. To even things out, those banks must make it easy for new entrants to innovate. One way of doing that is through the provision of standard APIs.

Each European Union member has handled things their own way. In the UK, regulators created a programme called Open Banking. That program obliged the country's largest nine retail banking providers to make the PSD2 APIs available free of charge and to actively engage with developers who want to build on top of them.

Some Open Banking APIs are available to anyone but they tend to be less useful. If you're really keen to get an up-to-date list of a bank's ATMs with a single API call, then you're in luck. For anything that touches customer data, though, you'd need to pass muster with one of

the banking regulators from an EU state.

But PSD2, and with it Open Banking, are about more than what certain banks are obliged to do. In fact, they've sparked something of a revolution in a sector that isn't always known for its innovation.

Challenger banks, such as Monzo, are implementing the PSD2 APIs even though they're under no obligation to do so. Larger, established banks, such as Santander and Barclays aren't stopping at their PSD2 obligations. Instead, they're launching innovation labs where they're experimenting with new ways to engage with partners, including support for technologies like blockchain.

So, what do APIs mean for the banks themselves?



## Talk To Customers Their Way

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## Banks as Service Providers

Retail banks are in a unique position. Not only do they have a banking license — which, to put it mildly, can be hard to come by — but most have established relationships with thousands, if not millions, of customers.

Less visible, but equally as important, banks are high tech.

It might not be immediately obvious, given that many trace their roots back hundreds of years, but many banks are at the cutting edge of technology. And they are as much tech players as companies in the Silicon Valley. Processing payments, detecting fraud, credit scoring, and so on, are all built on layers of software, much of which is custom and highly regulated.

Combined, the license, customers, and tech give banks a pretty good moat.

But if the API economy has taught us anything, it's that API-driven collaborations can unleash unexpected innovation.

APIs offer banks a new route to market and an opportunity to become essential service providers in a new market.

For banks, the benefits are clear. But what about their customers?

## Do More with Your Bank

For bank customers, the benefits of bank APIs may seem murky in comparison. Let's face it, unknown organizations gaining access to banking data sounds just a bit too much like yet another hacking story.

However, consumers and business are both big winners when it comes to banking APIs.

Accounting software can already use bank APIs to pull down transaction histories, thereby making reconciliation and tax predictions easier. Mortgage and loan providers can request an applicant's banking history to offer a more tailored service. And fintech start-ups are building new products that pull in data and functionality that once was available only to the banks themselves.

With the right regulatory environment, bank APIs are delivering innovation that hasn't been seen in retail financial services since Alistair Hanton invented the direct debit. The upside is that all of us should see products and services that let us do more with our banking.

## The Effect on the Broader Economy

Banking APIs are part of a general shift in how we think about and deliver services.

At their most basic, APIs enable just about any provider to also become a white label wholesaler. But the true effect of APIs is that they free people to think creatively about how to use and combine technology functionalities from different providers.

We've been at the heart of changing how telecommunications services are consumed. Today, through Nexmo, the Vonage API platform, we're at the forefront of breaking down the barriers to telecom innovation by giving anyone and everyone the opportunity to create innovative products on top of our infrastructure.

It's the same with banks. APIs are changing what it means to be a bank customer. Our banking data and services are no longer shrouded in mystery, hidden by ritual and tradition. Instead, while banks will remain gatekeepers, they'll use APIs to deliver access to carefully regulated partners who can remix bank data and services to create entirely new products.

Some say the API economy is the fourth industrial revolution. For us at Vonage, it's business as usual, and we're excited to see what banking APIs will bring.

Please fill out the form and we will be in touch with you shortly.

**1.844.324.0340**

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First Name

Last Name

Email Address

Phone Number

Are you a Developer?

Company Name

Select Country

Product of Interest

Existing traffic to switch?

Traffic Volume Monthly (Optional)

Message (optional)

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