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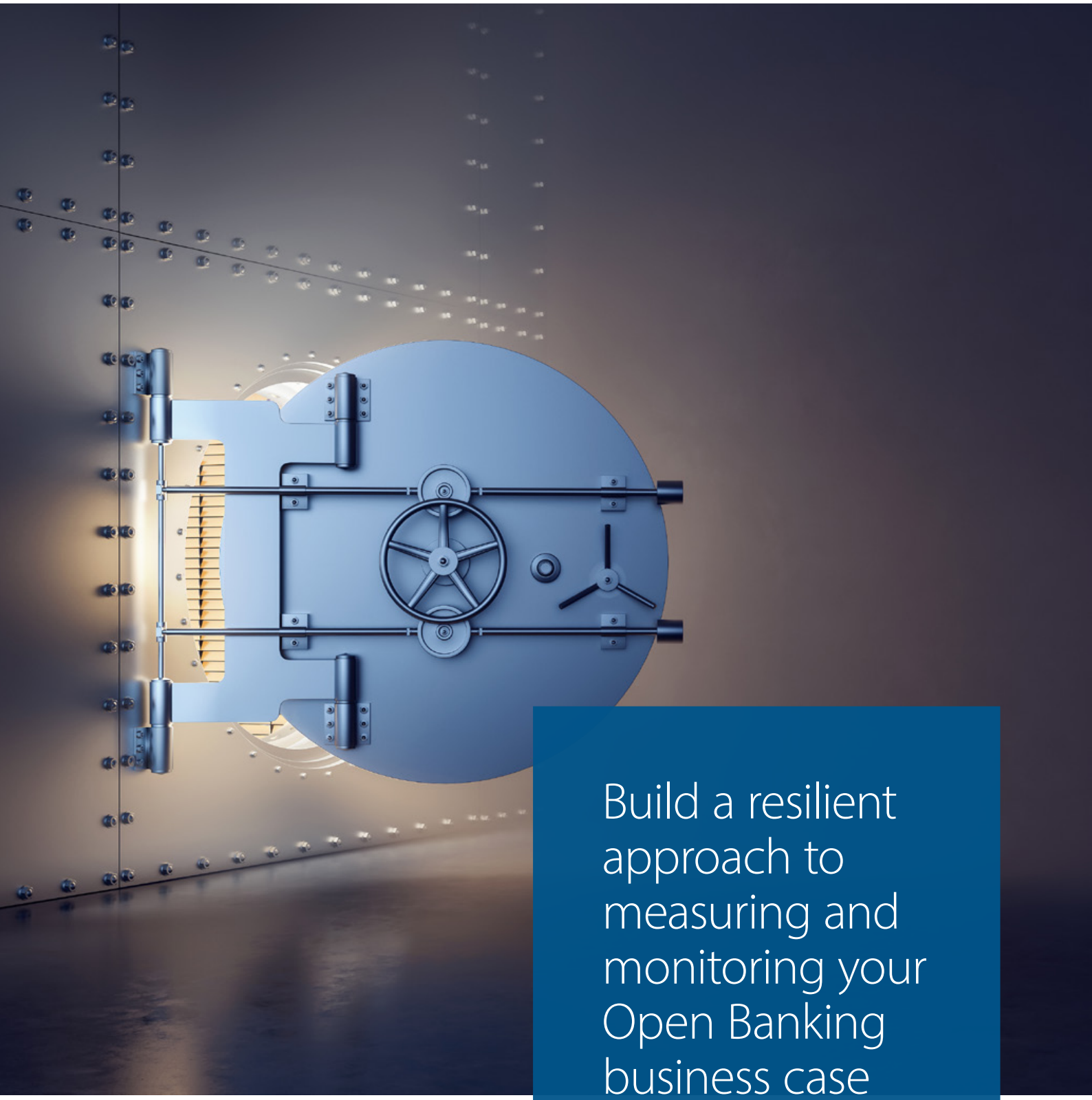

Build a resilient approach to measuring and monitoring your Open Banking business case

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As banks continue on their Open Banking journey and make the associated investments in foundational capabilities, their strategic objectives will become more ambitious and their business transformations more substantial. This also implies that decision-makers will hold Open Banking leaders more accountable to ensure a strong return on investment. Continuous identification of value pockets and measurement of related business value drivers and underlying key performance indicators (KPIs) will therefore be key to evaluating the success and impact of strategic Open Banking initiatives across lines of business.

Open Banking is still in its infancy when it comes to monetisation. Therefore, banks that seek to transform their business models based on Open Banking need to adequately deal with the inherent uncertainties and risks that come with it. That means taking a structured approach to identifying value pockets, setting up business cases and realising the identified business value. This structured approach should be designed and implemented to support Open Banking leaders in building bottom-up commitment from lines of business in order to contribute to the creation of business value. It should provide meaningful executive information to ensure transparency and control of bank-wide API initiatives in relation to the corporate strategy and ultimately to the bank's overall performance.

Three key steps to measuring and monitoring your Open Banking business case

Open Banking leaders who seek to successfully create value with their API initiatives need to consider developing a more structured approach that can be fully embedded in the organisation. We have defined three key steps to help you build and monitor your Open Banking business case effectively

1. **Identify and prioritise API value pockets on an ongoing basis**
   - Determine strategic focus areas for exploration of value pockets in Open Banking and identify related business value drivers. These areas should be based on market, competitive and customer & partner developments and an internal capability assessment, as well as on sound and well-structured business cases for specific API domains.
   - Using tools such as the INNOPAY Open Banking Monitor and TPP radar, periodically assess whether the assumptions about market dynamics, competitor value propositions and client demand are still correct and update the value pocket pipeline and roadmap accordingly.
2. **Incorporate into a KPI framework and ensure commitment**
   - Incorporate value pockets and related business value drivers into a solid framework of KPIs. This will enable Open Banking leaders to measure and monitor the business value generated by API propositions within prioritised API domains as well as to evaluate strategic Open Banking outcomes such as developer experience, partner ecosystem growth, end-customer experience and adoption.
   - Establish commitment to KPIs from business leaders involved in the realisation of the API propositions.
   - Ensure that KPI metrics are based on actual and credible data. This will generate reliable management information to drive strategic decision-making during execution.
3. **Embed and track business value creation**
   - Put the KPI framework into action by tracking and reporting. This will enable Open Banking leaders to continuously evaluate the return on investments, communicate about the realisation and, if needed, adjust the strategic course of action.

Below, the first step of the approach – the continuous identification and prioritisation of API value pockets based on key business drivers – is examined in greater detail.

Value pocket opportunities via 'banking as a service' API strategies

Banks are increasingly accelerating their commercial initiatives to drive business value from Open Banking. But what are the most relevant areas for business value creation in Open Banking, and how can banks exploit and monetise these areas?

Banks drive value creation with their API capabilities through two generic Open Banking strategies which are not mutually exclusive. One strategy is for banks to open up their APIs so that their services and products can be embedded in

other platforms and ecosystems ('banking as a service'). In the second strategy, banks make use of APIs from other organisations (banks/non-banks) to enrich their own digital channels, products and services ('banking as a platform').

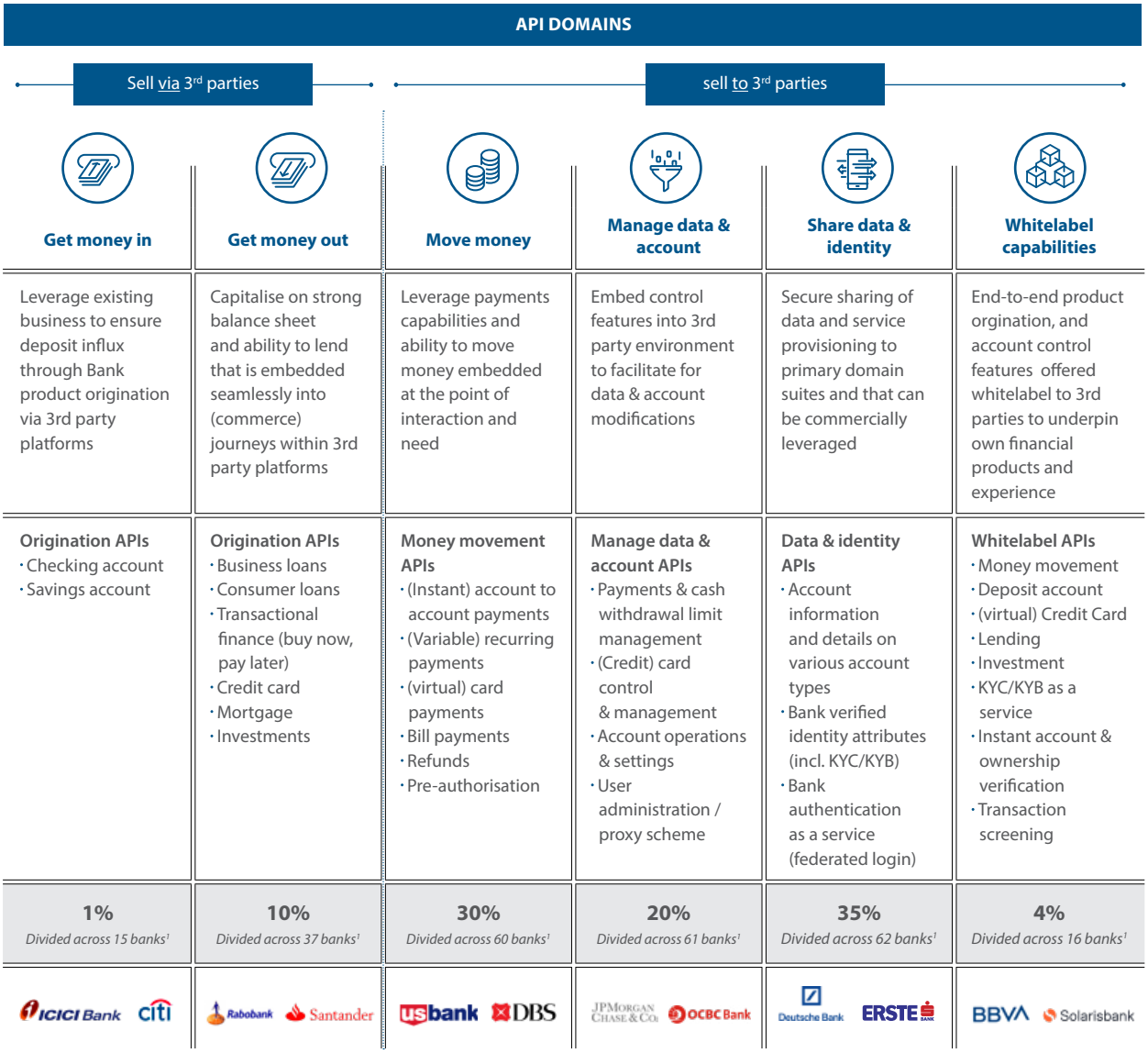
Two 'banking as a service' API strategies that banks follow to create business value are 'Sell via third parties' and 'Sell to third parties'. Both these strategies are illustrated below based on the latest market insights from the INNOPAY Open Banking Monitor.

- **Sell via third parties**
  In this case, banks leverage relevant third-party platforms to serve as new sales and distribution channels for their (existing) products and services. For example, Santander's Loan API enables businesses to apply for a loan directly via accounting software platforms. The entire process from origination to acceptance, including intermediate status updates, is initiated and managed through the platform. This API enables Santander to contribute to an important pillar of the bank's business model (i.e. lending) and secure new incremental revenue growth. Other banks with similar API propositions include Rabobank, Commerzbank and Citibank.

- **Sell to third parties**
  In this case, banks develop new API-enabled products and services based on their core capabilities to forge new partnerships. In doing so, they can enrich digital brands and fintech verticals (e.g. PFM apps, challenger banks and robo advisors) that need financial services with the necessary strongly regulated capabilities (e.g. payment accounts, cards, payments and lending). Banks position themselves as a 'white label' technology provider (including security and compliance) and create the opportunity to tap into new revenue streams. For example, Google has announced it will be offering a new mobile-first bank account ('Plex') integrated into Google Pay in the USA, based on the capabilities offered by a number of partner banks (e.g. BBVA US and Citi). In this partnership, Google will focus primarily on the front-end experience and offer 'financial insights', while the banks will provide the required regulated and licensed banking capabilities. Other banks with similar API propositions include Goldman Sachs and Cross River.

Figure 1 provides more detail about the 'banking as a service' API strategy and highlights six underlying API domains that drive the potential for business value creation, including an indication of API market coverage (in %) and examples of banks offering APIs in the respective domains.

Figure 1 Six API domains underpinning the 'banking as a service' API strategy



Source: INNOPAY analysis [1]Analysis included a total of 66 banks with 1.891 API functionalities. [2]Example banks with an API offering within these API domains

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Banks need to focus on the right business value drivers of API propositions

Future growth in Open Banking will require multi-year investments by banks, so decision-makers need to be sure they are unlocking and capturing the anticipated business value potential from Open Banking investments.

By assessing API propositions based on their relevance and relative value-add, banks are better able to specifically identify business value and prioritise API propositions in order to capture that value and meet return-on-investment targets.

This is illustrated in a heatmap (see Figure 2) that has been developed to assess and score the six API domains on their relative impact on a number of prioritised business value drivers. The business value drivers have been defined to secure revenue growth, save costs and strengthen reputation – all essential objectives for banks in Open Banking.

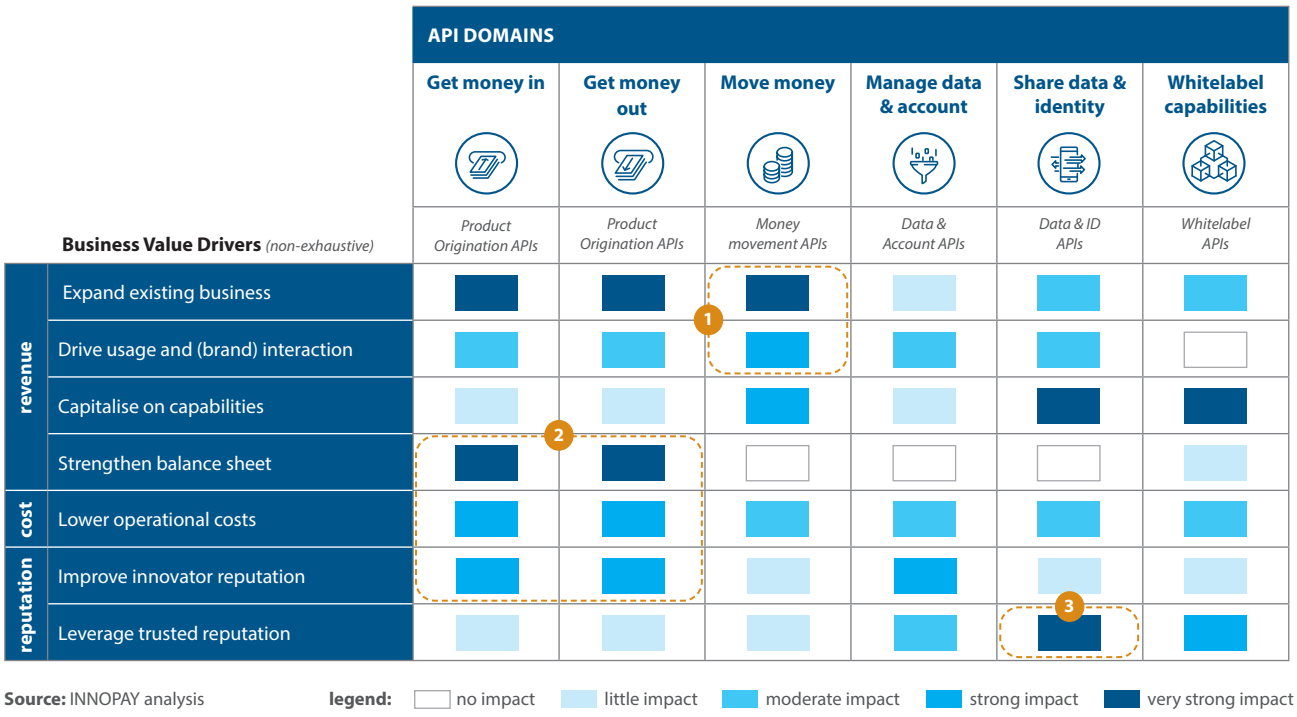

Figure 2: Heatmap of prioritised business value drivers per API domain

The dark blue cells highlight where value can be created within specific API domains, as explained in these three examples:

- **Move money:** 'Money movement' APIs could be a relevant strategic move for Corporate Banking leaders wanting to drive customer loyalty. These APIs accelerate seamless integration between banks and corporate clients' ERP and TMS systems. Banks can expand existing business by integrating with dominant software integrators to leverage their business relations, retain existing customers through seamless integration ('be where the customer is') and qualify for new business (e.g. meet RFI/RFP criteria from corporates for API integration).
- **Get money in/out:** Chief digital & innovation officers wanting to digitise and further expand their current account and lending business should consider the value creation potential of 'product origination' APIs to get money in and get money out. These APIs contribute to a bank's core business model and strengthen its balance sheet by generating new fee and commission income while reducing the bank's own operational and customer acquisition costs. APIs to explore creative ways of getting money out are especially relevant to banks in today's challenging interest-rate landscape. Put simply, having too many deposits is a substantial cost driver in terms of rent and taxes to be paid by banks. Moreover, as these product origination APIs are advanced and still

relatively uncommon in the Open Banking landscape, there is a window of opportunity for banks to build their 'innovator' reputation by investing in them.

- **Data & ID:** Leveraging the bank's assets in digital identity and security to offer Data & ID APIs could create additional value in Open Banking. By doing this, banks can establish new credibility as a 'data custodian', boost their trusted reputation and pave the way for future services beyond payments.

Measuring and monitoring the business value of API propositions

Once the value pockets and related business drivers have been established, the second step is to incorporate them into a solid framework of KPIs, including quantifiable metrics to measure and track the business value of API propositions within the prioritised API domains. A future paper will elaborate on how to achieve this successfully. In the meantime, if you are interested in finding out more about setting up a resilient approach to measuring and monitoring the business value of your API propositions and other outcomes of your Open Banking programme, please reach out to Mounaim Cortet or Pepijn Groen.

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About INNOPAY

INNOPAY is an international consultancy firm specialised in digital transactions. We help companies anywhere in the world to harness the full potential of the digital transactions era.

We do this by delivering strategy, product development and implementation support in the domain of Digital Identity, Data Sharing and Payments. Our services capture the entire strategic and operational spectrum of our client's business, the technology they deploy, and the way they respond to local and international regulations.

We have grown from strength to strength since our foundation in 2002 and operate from our offices in Amsterdam, Frankfurt and Berlin. Our head office is located in The Netherlands, where we have the #1 market position.

We are a founding member of Holland FinTech, a financial technology hub with links to the rest of Europe, the US, the Middle East and Asia. Our team consists of over 60 experienced domain experts who regularly advise a wide range of global organisations.