Open APIs and the Transformation of Banking in the UK

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Recipients of the SWIFT Institute Research Award 2016-2017

Technological and digital innovation has often been credited for having significant strategic implications for firms by shifting the competitive landscape and changing the market dynamics in an industry (Porter, 1985). It is also believed that technological change and intensified competition in a sector can potentially offer benefits to end customers through the quality increase and lower prices of products and services (Matsa, 2011). The recent wave of digitization in the banking industry – more specifically in payments – and the use of access and network technologies have created various opportunities for new entrants (such as *fintechs* and *challenger banks*) to claim some of the business but also for established banks to reconsider their position in the market and rethink their value propositions for their customers. In that context, banking institutions can either choose to open up to and embrace change through the opportunities that technology offers by interacting with the greater ecosystem of market participants and other service providers, or defend their position by focusing their efforts on developing competitive solutions for all customer and product segments and limiting access to their systems and platforms. The recent announcement of the newer version of the payment systems directive (PSD2) to be implemented in 2018 across Europe, as well as the open banking initiative in the UK (OBWG) push towards the creation of an open-banking environment through the introduction of open application programming interfaces (APIs) but the question still remains: what will be the banks' response to this regulatory change? More specifically, our research will explore the strategic implications of open APIs for banks and the potential benefits for them and their customers by responding to the following questions:
- What changes will APIs bring to the bank's competitive position? Which market segments and products are going to be more attractive once APIs are applied and how far will the various banks will be willing to go in adopting such interfaces? Will a 'platform' strategy be profitable for incumbents that own most of the deposit and lending market share? How will challenger banks position themselves in this landscape?
- Is the introduction of APIs going to bring improvements in the banking services? How are these improvements going to be realized by end customers? What are the risks and challenges involved both for the banks and their customers?

The findings of the study will be published by the Swift Institute in Q2 2017.

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