

An aerial, high-angle view of a city at night. The city is illuminated with a variety of colorful lights, including red, green, blue, and yellow, creating a vibrant, bokeh-like effect. The lights are concentrated in certain areas, possibly representing financial districts or commercial hubs. A large, bright yellow rectangular box is positioned in the upper left quadrant of the image, containing white text. The overall scene conveys a sense of a bustling, modern urban environment.

How financial
institutions can
build a robust
ecosystem strategy



Building a better
working world





Do financial institutions have a robust ecosystem strategy?

Advances in technology, changes in regulations, new competitors and increasing customer demands are altering how financial institutions (FIs) interact with customers, partners, competitors and regulators. The traditional perimeter around FIs is becoming more porous, and soon most financial service transactions will not occur “at the bank.” Adjusting to this new environment will have profound implications. Instead of taking place at branches, call centers or on the web, financial services will be embedded in much broader digital ecosystems. These ecosystems are networks in which different parties interact, compete and collaborate to create and offer products and services.

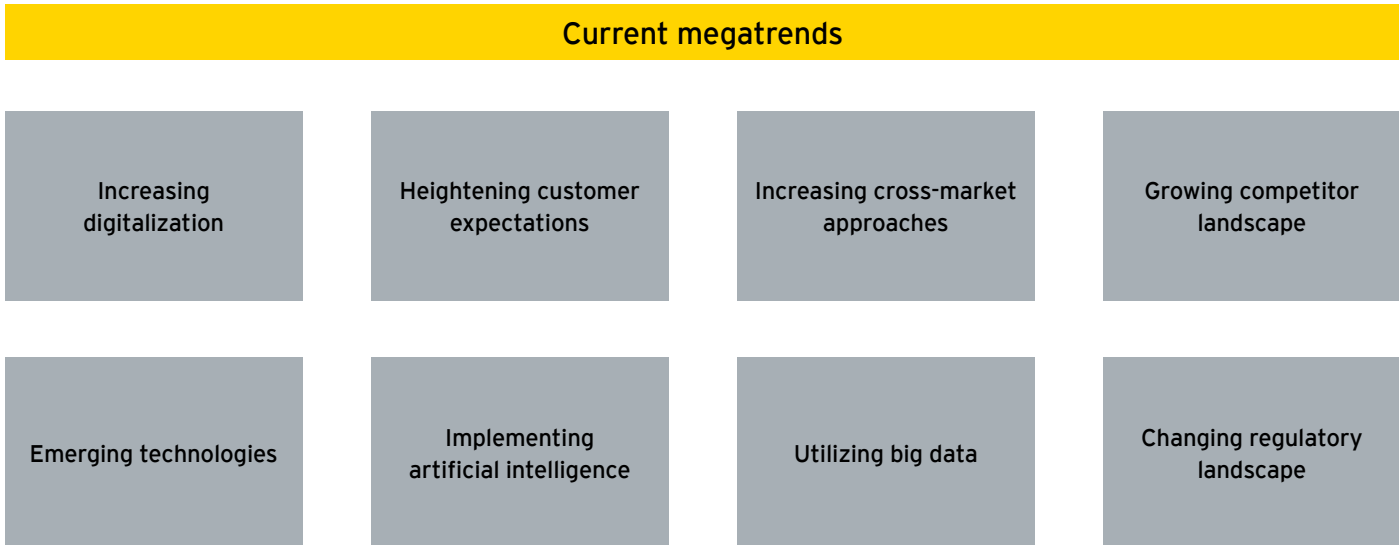
To participate in these different digital ecosystems, FIs must become experts at using and, in some cases, developing application programming interfaces (APIs), in order to make their products and functionalities available to ecosystem participants. APIs will become a vital product component – and sometimes first-class products in their own right. These FIs will move out of the traditional bank perimeter and become fully embedded in the value chains of other industry domains. FIs that choose not to participate in these ecosystems risk revenue loss, customer churn, and a slowdown in product and process innovation.

Why financial ecosystems are on the rise

Commercial ecosystems are hardly a new concept. Real estate transactions, for example, have always involved a network of different ecosystem players, including real estate agents, mortgage banks, local registries for deeds, tax authorities, legal services and the current owners. But the rise of digital ecosystems is something fundamentally new.

Several megatrends over the last decade have enabled greater connectivity between organizations and created the right environment for these ecosystems to develop (see exhibit 1). This, in turn, has lowered the cost of collaboration and is changing how organizations decide what functions to keep in-house and what functions can be supported by others in the ecosystem.

Exhibit 1: Current trends encouraging ecosystem creation



The rise of APIs

Over the past five years, ecosystem development has emerged – with APIs as the great enabler of digital ecosystems. Third-party developers can now build applications and services around FIs, and FIs can select from a growing number of highly specialized, FinTech offerings to enhance customer journeys, improve customer data intelligence and automate back-office processes. In other words, they are free to pick individual APIs to create new combinations of value. In the past, there was no way, for example, of plugging a fraud service purchased from a third party into a payment process because everything was integrated into large, end-to-end monolithic systems. Moreover, APIs allow providers, such as Amazon and big retailers in Europe, to pick from many service providers to fulfill the financial needs of their ecosystem.

EY teams conducted proprietary research on API programs at 30 banks across the globe to identify different digital approaches and to assess the overall maturity of the digital banking landscape.

Banks seem to fall into three categories: leaders that are rolling out new digital products on a monthly basis, those in the middle of the pack that are trying to keep up but have limited innovation capabilities and are mostly driven by regulations, and the laggards that are doing the bare minimum to stay compliant with regulatory requirements for open banking. Overall, most banks are moving decisively toward open banking adoption.

We applied a five-part framework to assess the API developer experience at several banks' API portals (see exhibit 2). We found that several banks have designed their API portals to make them easy-to-use and appealing to developer communities. Banks obviously leverage developer and start-up communities as sales channels and feedback providers for their digital offerings. Taken together, this progress in API scope and API developer experience bodes well for how banks are investing in the API channel, and their future ability to engage in ecosystems.

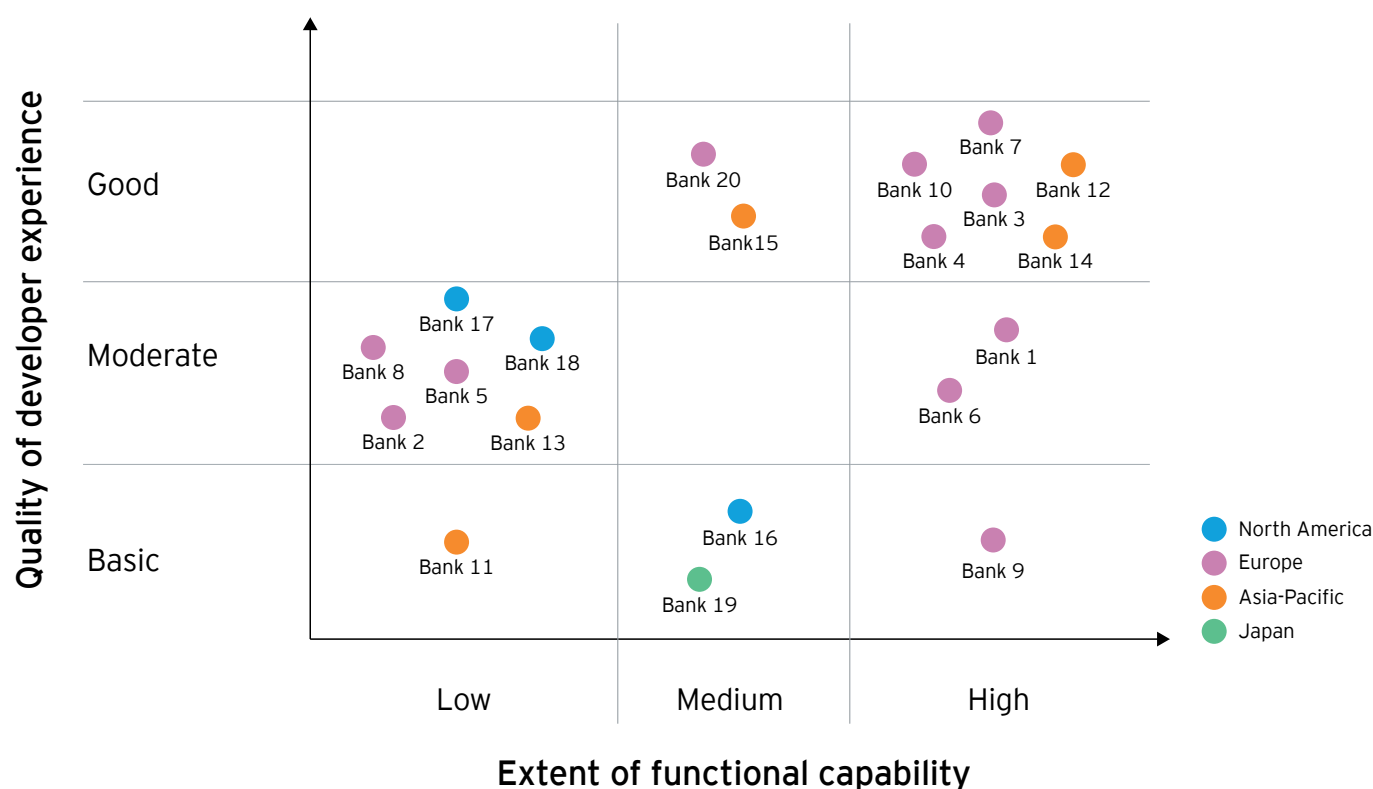
Exhibit 2: Developer experience assessment framework

Portal functionality	Tool support	Dev process support	Documentation	API technical quality
▸ Organization or team management functions ▸ Application creation and versioning ▸ API key management ▸ Certificate management	▸ Support for external API test tools ▸ API specification formats ▸ Browser-based sandbox for testing ▸ Support for IDEs and development tools	▸ Authentication flows ▸ Test data and profiles ▸ Monitoring support	▸ API documentation ▸ Portal documentation	▸ REST principles

As part of this assessment, we also analyzed API scope based on the number of services available via the bank's API channel (see exhibit 3). We considered five categories: account information (e.g., customer balances and transaction history), payment initiation, customer insight, product

availability (e.g., the loan application process) and other nonbank products, such as insurances. The scope varied quite a bit among the 30 banks surveyed, but account information and payment initiation were the most common product areas available across all markets.

Exhibit 3: Analysis of API portals for selected banks



Note: Banks were categorized according to the 9-box model shown in the table above. Relative placement of banks within each box does not indicate differences in performance.

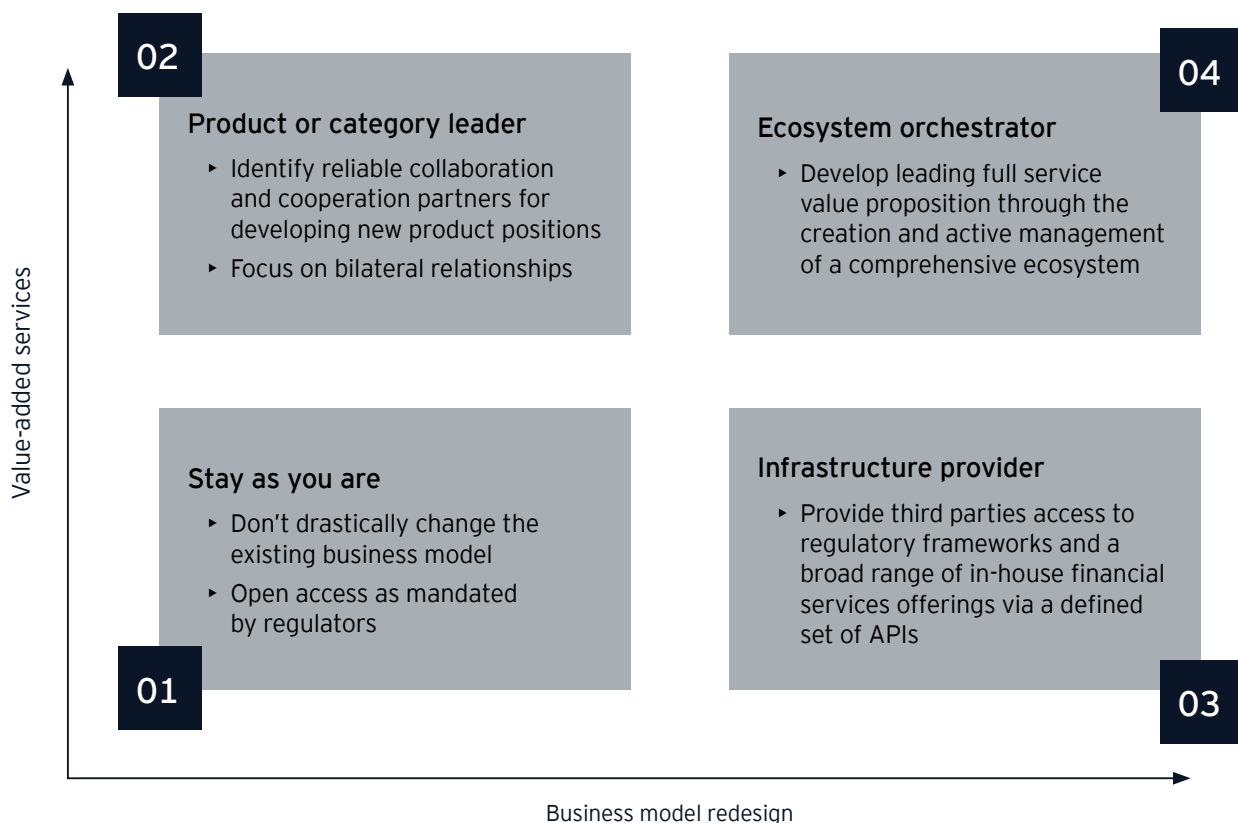
We analyzed thirty banks and ten of the thirty either did not provide a (public) developer portal, API documentation, or they required a business contract in place to access the portal/APIs.

Choosing the business model

Each FI will need to redefine its business and operating model to navigate and successfully operate in these ecosystems. And they will have to do so while coping with some significant challenges. Many have large legacy IT platforms that need to be updated and maintained to conform to changing regulations, and also to react to ever increasing IT security threats and to support growth and cost optimization initiatives. Yet, at the same time, to participate in these ecosystems, FIs need to integrate with emerging technologies, roll out changes fast, work with regulated and nonregulated parties, and provide support for developers around the clock.

Given this environment, it's critical that FIs identify and focus on the most important product and service initiatives for future success. Moreover, since regulation is bound to increase, FIs must take special care as they redefine these products and processes. FIs should choose their strategy on the basis of their decisions around customer ownership, areas of the value chain they wish to capture, their strength in certain lines of business and the revenue generation model (see exhibit 4).

Exhibit 4: Potential bank ecosystem strategies



Product or category leader: These companies leverage customer data to develop new digital products and focus on providing value-added services. The goal, for example, is to provide the best investment product, or the quickest, most seamless credit application so that everyone in the ecosystem will want to use it. FIs may codevelop products with FinTechs, and then sell the products on their own platform or third-party platforms within the ecosystem. The product or category leaders create value on the ecosystem by cooperating and competing with others.

Infrastructure leader: These FIs are focused on models, such as bank as a service (BaaS), to diversify and generate alternate revenue streams. This includes providing on-demand, faster infrastructure; access to the regulatory framework; and a defined set of API or white-label products. These companies enable other companies that don't have a license, or that want to get to market very quickly, to launch products and services in the ecosystem. They function almost like Amazon Web Services (AWS) – as the cloud for banking and insurance.

Stay as you are: These FIs don't drastically change their business model, and they only offer the bare minimum of access to customer data as mandated by open banking regulations. Given technology developments, the pace of change and customer expectations, it's extremely unlikely this will be a winning strategy for the long term.

Ecosystem orchestrator: An ecosystem orchestrator operates a marketplace where multiple buyers and sellers can connect, interact and transact. It owns and cultivates the customer relationship, is free to strike different deals with partners, works closely with the developer community, decides on access to the ecosystem and connects participants with each other in order to optimize customer value. It's the most attractive role since it monetizes the customer relationship as well as the participants' access to its customers on the platform.

Determining which of these roles to play can be difficult, especially given the rapid pace of change. A sound decision requires a frank and holistic assessment – based on an organization's assets and capabilities – of how much value it can bring to customers in each role. In the end, an FI may choose to hedge its bets and pursue multiple roles. Thus, its ecosystem strategy might involve managing several different ecosystem models. For example, a bank might choose to orchestrate a retail ecosystem, while for certain wholesale lines of business, the same bank might opt to become a product or category leader in another ecosystem.

One of the big dangers for FIs participating in ecosystems is losing control of their client relationships. To guard against this, they need to aggressively market their services to other ecosystem operators and create "sticky" ecosystems for their own clients.

Interacting within an ecosystem

No matter what business model a company chooses, there are five fundamentals to participating effectively within these ecosystems.

Robust API strategy: To stay relevant in these new ecosystems, FIs need to become active designers, builders, providers and marketers of APIs. A robust API strategy includes clear **design principles**. These principles include being user-centric. This means making sure that the API is intuitive to use, as well as designing the API so it covers the process end-to-end. An API strategy should also leverage common industry standards to minimize implementation efforts, make sure third parties can easily “discover” the APIs, and gather and incorporate user feedback.

Partnership building: Since industry collaboration will become the norm, FIs need to design and clearly communicate rules of engagement. What types of partnerships – long-term, investments, VC funding, contractual, alliances – will they engage in? How will they manage risk, share rewards, and foster creativity and innovation? It’s a complex undertaking, and FIs will need dedicated teams to identify, evaluate and work with partners.

Regulatory compliance: New regulations may give some FIs the opportunity to unlock additional value, although the opportunities will vary greatly depending on the jurisdiction. Some FIs are restricted to offering services only within their

Exhibit 5: Choosing an API strategy directly impacts access to new revenue streams

Passive API strategy	Opportunistic API strategy	Active API strategy
▶ Compliance APIs – facilitation of only limited use cases ▶ High costs to maintain traditional sales channels and manual processes ▶ No access to more scalable business models and new revenue pools	▶ Extending of API scope gradually with new partners ▶ Reviewing of sales channel mix and efforts required ▶ Becoming ecosystem ready over time ▶ focusing on maintaining traditional revenue sources while gradually opening up to new business models	▶ Full scope API access to products enabling participation in ecosystems ▶ Increased access to new business models and partners ▶ Opportunities to tap additional revenue sources ▶ Radical shift in the product development and internal organization

Besides these design principles, a robust API strategy must do the following: embed **security** using encryption methods such as symmetric, asymmetric and hybrid models; improve **documentation** so developers can easily adopt, support and maintain the APIs; and include **analytics** so the business and developer can assess the effectiveness of the API program.

Monetization: A well-designed API strategy should unlock a range of revenue opportunities for FIs by identifying data streams to monetize, identifying new customers, and by using data to create better insights and underwriting strategies.

charters, and some nonbanks are restricted from providing banking services.

Talent recruitment: The rise of these ecosystems and the changing nature of work mean that FIs need a plan for acquiring and training digital talent with the right skill set to work with multiple partners. To attract digital talent and help them thrive, FIs should strive to create a more entrepreneurial culture and agile working environment. But this does not mean abandoning oversight. Companies will also need the right set of KPIs to measure progress.

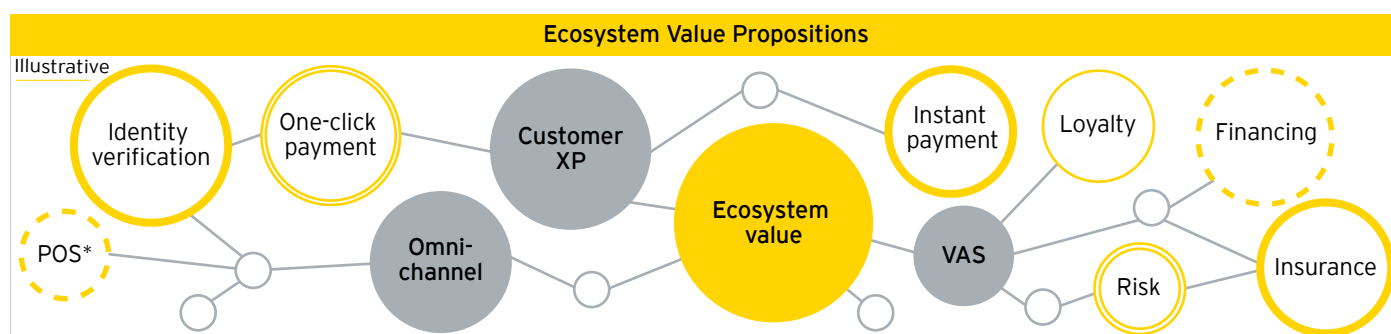
Moving toward a new marketplace-based economy

If ecosystems were limited to being industry-specific, the future would be constrained. But the potential for FIs is much more exciting, although with major challenges. As industry boundaries blur and cross-industry ecosystems develop, financial services will be a core part of these future digital marketplace platforms. Financial

services products are required in most industries, providing transfer and settlement of values, financing and risk management. With the right APIs, banks and insurers can plug themselves into any industry's ecosystem and value chain (see exhibit 5).

Exhibit 6:

Financial services, especially payments, are integral component of converging ecosystems



Omni-channel convergence

Sales channels, such as platforms, voice commerce and offline become integrated via payment and other financial services in order to provide seamless "one-stop-experiences".

Value-added services (VAS)

Ecosystems add lucrative financial products to increase value offered to customers.

Customer experience

Financial services need to enable rather than hinder convergence in ecosystems through enhanced customer experiences.

*Point of sale

Future status

To stay relevant in these new ecosystems, all financial service providers will need to become active providers, consumers and marketers of APIs. In fact, at EY, we expect that the financial marketplaces embedded in other industries' ecosystems will become significant sales channels for financial services providers. The more standardized the products (e.g., mortgages, payments, consumer loans, savings, property and casualty insurance), the less likely that existing one-to-one client relationships will continue. On the other hand, consuming other organizations' APIs will give FIs a much broader view of their clients' needs and risks embedded in the customer relationship.

The revolution in ecosystem and APIs is fraught with risk but also carries enormous new opportunities. With this in mind, senior financial services leaders cannot afford to view APIs as just a "technical" topic. They must become highly engaged in developing a strategy and business model to participate in these ecosystems. To create long-term value and survive in the upcoming marketplace economy, FIs need to undergo strategic planning which will define their roles for the future-now.



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