



Part - 3

Advancing open banking

Realizing the cloud advantage



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The value of innovation

Microservices are becoming key for the payment modernization journey banks are embarking on

Microservices move center-stage

The question how partnerships can help banks integrate into the open banking and API economy comes down to innovation – and how it creates value in financial services. The key here is the concept of layered microservices technology, which provides financial institutions with the opportunity for to add services without extensive overhead.

How? Banks still have monolithic core banking systems that include mission-critical, high-availability components like their account management and authorization systems. Every bank has people within it who say, “Don’t touch that at all costs.” But today banks must be able to add new products, services and features such as real-time payments, while also keeping track of evolving risks like fraud. This is where APIs have been really beneficial, as they’ve evolved from connecting data internally to connecting microservices.

Microservices enable banks to enhance their capabilities and services by looking externally from their organization, and identifying, integrating and offering features, capabilities and specialisms that are not within their in-houses expertise. Microservices can also be built internally. But either way the goal is to begin removing components from the core infrastructure to enable a more agile development process. Rethinking infrastructure internally in this way can support the bank’s strategic move toward a more open way of doing banking. are giving payments away for free in return for data they can leverage.

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APIs have always been around. But the big change has been the API going from being a technical concept to a reshaping of the thinking about how to partner and evolve the business and role of banks. Banks will always be deposit-takers and lenders at a core base level. But their whole role and relevance in the economy are changing. Banks need to find – as their big tech competitors have found – a better way to service customers and make money in the value chain. That’s one reason payments is so high on the agenda, because there are a lot better ways to do it than the traditional design that dates back to Victorian times.”

Peter Hazou,
Business Development – Financial Services,
Microsoft

Core banking systems need refresh...

Turning to the core banking architecture, this can be monolithic infrastructure or a cloud-based capability. But either way, the key questions to ask about it are the same. Is it accessible? How easily can you get to the data? Is it stable? Is it scalable? Do you have outages because it's unable to handle the volume or speed at which requests are coming in? Can you integrate other services? And does it deliver the functionality you need?

The answers will reflect a bank's preparedness to participate in the open banking ecosystem. For example, some banks' systems cannot handle real-time messaging. So when they try to integrate into The Clearing House for real-time payments, they end up batching the payments – which defeats the purpose of being real-time. Also, in an open banking world the core needs to be able to accommodate a much larger and more diverse volume of information: think customer proximity data when delivering a location-dependent service in partnership with a FinTech. To overcome such challenges and enable a bank to add value to its core services with minimal disruption, its core systems may well need a refresh.

...with a move to platforms

// *As we look internationally, the adoption of ISO 20022 and standardization of APIs can really help banks understand how much data will come in, and also how to secure it. Without standardization there's higher risk that you can become vulnerable, because your systems won't be capable of ingesting all the information. We know of some organizations who are getting all of this rich data and frankly dumping it on the floor because their core can't handle it. And that really defeats the purpose of where the modernization of payment technology is focused."*

Krista Tedder,
Head of Payments & Security,
Javelin Strategy & Research



Value of innovation	Refreshing the core	Platforms and microservices
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The way to do this is through a platform approach and microservices. One of the great benefits of platforms is that they cut across the siloes that traditionally characterized banks’ organizational structures, such as separate credit, debit and online channels. Today’s products or solutions cross the different siloes – and by having these in an open platform, all areas of the business can attach to the new microservices. So everyone can use the same customer communications platform without installing it separately, and connect into a common fraud management component using consortium-style data.

Bridging the various siloes is key to focusing fully on all aspects of the customer journey – an area where banks have made great strides in recent years. However, one aspect where there’s significantly further to go in evolving the journey is around making the payment infrastructure capable of providing a seamless experience. Progress is being made: we’re now starting to be able to check into stores versus checkout. But there are still great opportunities for further innovation.

As progress continues, the direction of travel is towards unifying the customer’s journey across all channels, whether they’re using a mobile device, browser, call-center or branch. But to truly achieve this, the customer’s perspective needs to be part of the product development process. In fact, for product management and innovation teams in financial services, the product developers should now include the end-customers, the customer service representatives, and every single person who uses or maintains the system within the organization. Product development needs to meet the needs of all these stakeholders.

The new model for innovation

Meeting all these diverse needs requires a major change in how innovation is carried out. In the traditional banking world, the big banks’ IT teams were always slugging away trying to be innovative. But today so much technology is available that even the smallest upstart bank can be really innovative. One way is by partnering with FinTechs. And more generally, the whole point

about open banking is that it is open to all kinds of financial institutions to get involved in – and that there are hundreds of thousands of potential partners anxious to collaborate.

The resulting collaborative innovation is a long way from the old-fashioned mantra of, “We have got to build it ourselves, and that is our unique IP.” At root, banks are about customer franchise – and now they can partner in order to delight their customers and make their partner franchised. That is why the whole discussion about open banking came about. It is not just a technical discussion about APIs, but about changing the model in banking, leveraging new technology, not thinking in silos – and then enabling all this through effective change management. The technology is just one piece of the reinvention that’s underway. There’s also a wider cultural shift – because it’s the world around us that is changing, and putting the whole ecosystem at a defining moment for financial services, and especially payments.

// ***For the smaller regional banks, the ability to have a more open platform that they can layer on top of their core banking platform and their core infrastructure is a huge game-changer. This is because it’s enabling those regional banks to bridge the parity gap with the large multinational banks. But the challenge is, not everybody is seeing this yet or fully understanding it. Nobody wants to be the first bank to come and go, and they’re kind of waiting to see how this plays out. But for the early adopters, we have already seen some great success – and I definitely think it does change the game for them in terms of being able to be a lot more competitive.”***

Robert Mancini,
Head of Payments,
Finastra

Value of innovation	Refreshing the core	Platforms and microservices
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