



ACCELERATING THE PACE OF INNOVATION

# Open Banking and Digital Transformation

TRENDS, FACTS, AND FIGURES

APIs & MICROSERVICES

With the exponential growth of FinTechs and tech giants and the rise of digital-only customers and Open Banking initiatives, banks and financial institutions are challenged to innovate and transform digitally. They are expected to make every banking experience intuitive, seamless and digitally engaging to better meet customer needs. Open Banking is the best method for incumbents to adapt fast, stay ahead of the competition and provide new innovative services to customers.

## Key drivers of digital banking transformation



Rapid growth of mobile devices



Competition and growing number of market entrants



Changing consumer behavior



Regulatory environment supportive of innovation

## Benefits of digital innovation



Seamless and real-time customer experience



Improved security and fraud mitigation to meet regulatory requirements



FinTech collaboration leading to further adoption of digital technologies



New revenue streams; market differentiation



Reduced costs and streamlined business processes

**85% of banks cite implementation of a digital transformation program as a business priority for 2018.**

Source: EY: Global Banking Outlook 2018



Only one-quarter of the 45 global banks are extensively engaging with FinTechs by collaboration, developing their own FinTech products, investing in innovative firms or buying them.

Source: EY: Unleashing the potential of FinTech in banking



Banks can unlock the full potential of Open Banking by working together with FinTechs. Success for banks will be based on how they leverage FinTechs and build a smarter and more flexible ecosystem. They will need to partner with FinTechs for a mutually beneficial relationship that aims to foster innovation and offer better, improved services and products to their customers.

## FinTech and bank collaboration is a win-win situation as each leverages the other's strength

**82%**

of banks expect to increase FinTech partnerships in the next 3 to 5 years

**56%**

have put disruption at the heart of their strategy

**31%**

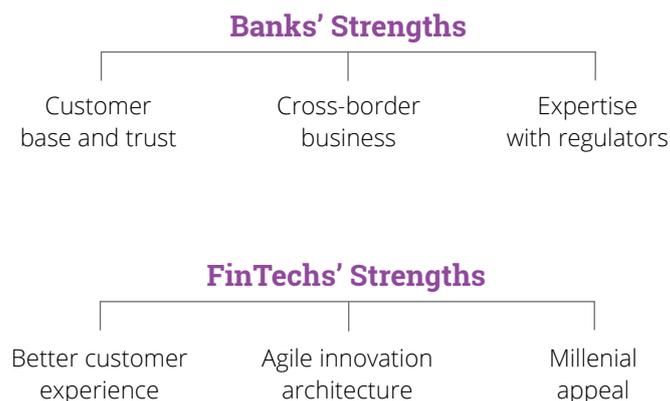
of incumbents purchased the services of FinTech companies in 2017, compared to 22% in 2016

**77%**

expect to adopt blockchain as part of an in production system or process by 2020

Source: PwC Global FinTech Report 2017

## The possibilities are infinite with holistic thinking



# Top 10 innovative financial technologies to reshape the banking and financial services sector

## Personal finance management/mobile payments:

Consumers have convenient new ways to purchase goods and services. *The worldwide mobile payments revenue is expected to surpass US \$1 trillion in 2019.* (Source: Statista)

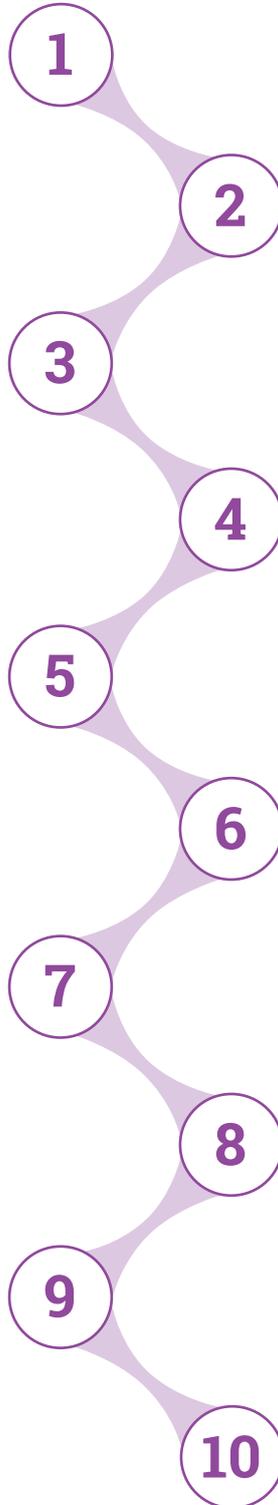
**Artificial Intelligence:** Big data and predictive analytics to provide better accuracy for decision making. *AI-derived business value is forecast to reach US \$3.9 trillion in 2022.* (Source: Gartner)

**Financial inclusion:** FinTech solutions provide more affordable finance alternatives to the low-income population, and this trend dominates in developing markets. *Globally, about 1.7 billion adults remain unbanked, or without an account at a financial institution or through a mobile money provider. Driving greater financial inclusion could increase banking revenues by US \$200 billion.* (Source: World Bank; EY)

## Peer-to-peer lending and microfinancing:

Offer investors/lenders better returns. Connect investors with borrowers without the bank acting as an intermediary. *The opportunity in the global peer-to-peer market will be worth US \$897.85 billion by 2024.* (Source: Transparency Market Research)

**Crowdfunding:** A new source of equity capital that is disrupting venture capitalists (VCs). *Gartner predicted that by 2018, crowdsourcing would constitute 20% of all enterprise application development sourcing initiatives.*



## Innovative payment and money transfer services:

*Transaction value in the P2P money transfers segment amounts to US \$65 million plus in 2018.* (Source: Statista)

**Blockchain:** Bringing trust and transparency to the financial sector. Proofs of concept (PoCs) have moved into production stage, and smart contracts can save huge amount of time and lower costs. The two most promising short-term use cases continue to be payments and trade finance. *Blockchain's business value-add will grow to US \$176 billion by 2025.* (Source: Gartner)

## Fraud risk management and regulatory compliance:

Providing proficiency in risk management with the help of regulatory technology. *Globally, approximately US \$80 billion is spent on governance, risk and compliance, and the market is only expected to grow, reaching US \$120 billion in the next five years.* (Source: MEDICI)

## Online trading and investing:

The rise of robo-advisors and increased transparency for investors. *Assets under management are expected to show an annual growth rate (CAGR 2018-2022) of 37.5%, reaching a total amount of US \$1.4 trillion by 2022.* (Source: Statista)

**Design thinking:** Applying human-centered design principles to help companies rapidly explore the value that emerging tech can generate for them. *69% of design-led firms perceive the innovation process to be more efficient with design thinking.* (Source: ThisIsDesignThinking.net)

# Open Banking powered by APIs is the springboard to a digital transformation

With Open Banking, incumbents are encouraged to build new products and services that are more personalized and data driven. Through adoption and deployment of APIs, banks can extend and enhance their native services and offerings. Banks can rapidly advance their digital transformation agenda in the Open Banking world by leveraging third-party applications and service ecosystems that are enabled by APIs.

## Benefits of using API-driven innovation:



Bridge legacy systems to modern applications



Take your innovative ideas to market rapidly and at a low cost



Build and launch new digital native business models



Create new unconventional revenue streams



Monetize your data



Deliver the best unified seamless customer experiences fast



Harness analytics and machine intelligence to make smarter decisions and fortify the business's security



Embrace an ecosystem-based operating model

**Banks that embrace Open Banking APIs can expect to witness a 20% increase in revenue; meanwhile, those that reject the initiative may lose 30% of their revenue to 'disruptive industry players' by 2020.**

*Source: Accenture*

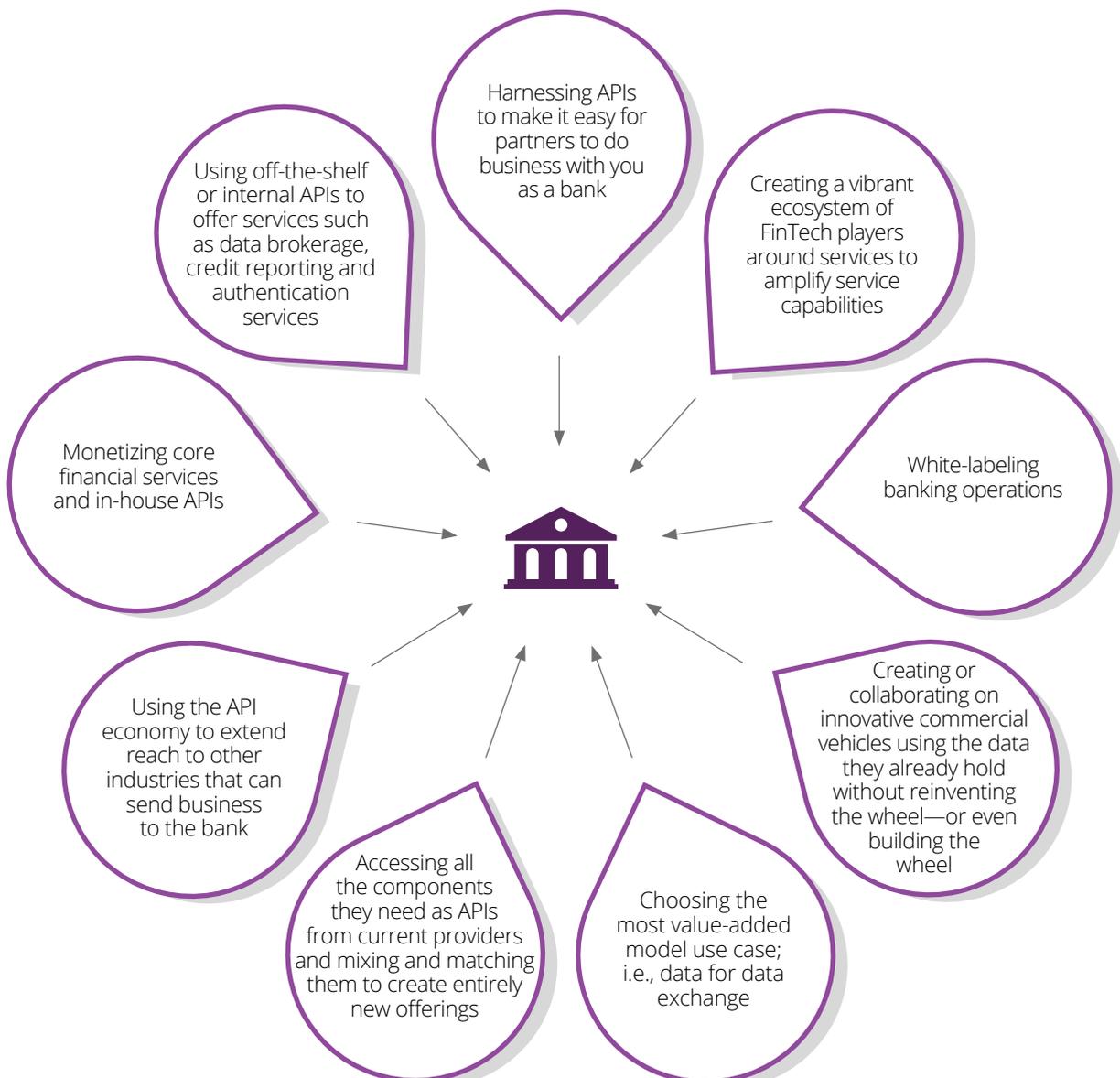


## Create value with APIs

With APIs and FinTech collaboration, banks have an opportunity to disrupt and change the traditional banking environment and offer an array of new digital products.

Banks can mobilize APIs as the sticky glue to overcome legacy system challenges and their traditional commodity services role and hold fast to a more collaborative and agile offering.

## Banks can now generate growth from the outside in via



APIs can accelerate Open Banking adoption and help to improve customer experience, drive new revenue streams, and reduce time to market for new products and services. However, there are some risks and challenges around API implementation:

- **Complexity of banks' existing backend systems:** Banks will have to integrate their legacy systems before implementing APIs
- **Data security:** Customer privacy must be considered when making bank information accessible to third parties via APIs. APIs can be prone to cyber-attacks, therefore hardening the security is crucial to address this risk
- **Lack of API standardization:** It limits collaboration opportunities between banks and FinTechs. There is a need to apply universally recognized standards. Essential for the implementation of Open Banking, standardization will allow more choice and efficiency, but also better maintenance and implementation of APIs

Overall, Open Banking presents a great opportunity for incumbents to innovate and transform digitally, create new digital native business models and unconventional revenue streams. A report by PwC and the Open Data Institute found that by 2022 the market could be generating £7.2 billion in value. With greater FinTech partnerships and leveraging the power of APIs, banks will be able to bring new services and products to their customers faster, stay competitive and relevant.

**More than 78% of banks and almost an equal number of FinTechs look to leverage APIs to improve the customer experience they offer. Most said they believed APIs could significantly help generate new revenue streams.**

*Source: Capgemini, World Retail Banking Report 2017*



# Virtusa xLabs can help accelerate and streamline your Open Banking adoption

## Drive value with each step of your Open Banking Roadmap

We use **Design Thinking** – a human-centered approach to help you adapt and evolve your business to meet the challenges and opportunities brought by Open Banking. We explore the emerging tech landscape, identifying high potential technologies and developing innovative concepts. We build compelling prototypes to help you to identify viable and feasible solutions that will benefit your customers and deliver material value for your business.

## Accelerate your API-led innovation to create new digital native solutions

Our cloud-based gamified **Open Innovation Platform** accelerates innovation cycle from ideation to an MVP: ideate, build and publish applications in a matter of weeks. Onboard and engage with carefully curated FinTechs to drive API-led transformation. The platform is underpinned by a pre-loaded synthetic data set for testing and is fully compliant with BIAN, Open Banking regulations and ISO20022 standards. Create new digital native business models and unconventional revenue streams to transform your organization.

## Keep your data in control while embracing Open Banking

We can help you transform your data governance, infrastructure and processes to help you grow your digital banking opportunities through Open Banking. We provide end-to-end and bespoke **Data Privacy solutions** powered by Artificial Intelligence to help you harden your data control and address cybersecurity risk to avoid misuse of data by third parties. Identify the right data management approach and facilitate the compliant processing of data to unlock Open Banking for your organization, partner ecosystem and customers.

### About Virtusa xLabs

xLabs is the digital innovation hub within Virtusa, set up to help organizations accelerate their tech innovation and leverage disruptive technologies to deliver the best value for them.

Virtusa xLabs combines design thinking and digital engineering to reduce time and costs associated with identifying, evaluating and exploiting new technologies to create competitive advantage for its clients.

The hub provides a cloud-based environment with a built-in Open API layer and Microservices sandbox, Modular AI components, Blockchain capabilities and a banking model data set enabling to run quick experiments and turn ideas into MVPs.

For more information please contact [xlabs@virtusa.com](mailto:xlabs@virtusa.com)

[www.virtusa.com/innovation](http://www.virtusa.com/innovation)

