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MAY 2019

HOW APIs SAFEGUARD
Bank-FinTech Collaboration
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What's INSIDE

The financial landscape is changing. The revised Payment Services Directive's (PSD2's) September deadline looms large, pressuring financial institutions (FIs) to comply, even as they work to meet other priorities — such as answering the growing demand for rapid-fire, cross-border payments. As FIs race to meet open banking requirements and cater to international payments needs, many are turning to new application programming interfaces (APIs) to help. These solutions are playing key roles in connecting software from different organizations, enabling them to unveil new services to customers.

Some notable APIs are being developed to allow more players to take advantage of faster cross-border payments options, such as the SEPA Instant Credit Transfer (SCT Inst) scheme, while others are helping banks take advantage of SWIFT's global payments innovation (gpi).

This month saw a spate of acquisitions, service launches and strategic partnerships, all aimed at providing smoother business-to-business (B2B) and cross-border payments experiences. In addition to these and other moves, the B2B API Tracker details the latest on what financial services providers are doing to stay current in the space.

AROUND THE B2B API WORLD

In the ongoing effort to boost implementation of SCT Inst, Deutsche Bank has partnered with B2B FinTech software

company Serrala to launch the first API for the Single Euro Payments Area (SEPA). The first-of-its-kind solution allows corporations to instantly initiate payments through German solutions provider SAP's enterprise resource planning software.

Six banks accounting for 85 percent of Spain's cross-border market are also looking to advance cross-border payments via SWIFT gpi. SWIFT gpi participant banks can use API calls to access the messaging service's end-to-end payment tracker.

Other companies, such as American eCommerce software developer BigCommerce, are taking closer looks at the solutions they offer B2B merchants and creating innovative new takes. The company launched a B2B eCommerce system for wholesalers, manufacturers and distributors that includes a services suite on a single platform. This allows merchants accomplish tasks ranging from automatically extending lines of credit, to maganaging logistics, to using machine learning (ML) to provide customized buyer shopping experiences. One offering leverages Big-Commerce's API to provide B2B eCommerce firms with corporate account management, order forms and other capabilities.

Executive INSIGHT

What kinds of APIs are critical for streamlining cross-border remittances?

"Pre-validation APIs have been introduced to reduce failed payments. However, I think APIs focused on making banking [or] beneficiary information available in a consistent way will fix the problem at the source. This will go a long way [toward ensuring] that cross-border remittances are as seamless as domestic money remittances. Tokenization of this information, with well-known locators such as phone numbers or other identifiers, will make it even easier for consumers and business to move money internationally. At the end of the day, it is about reducing [incorrect] … payment details so that costly exception processing is not incurred."

How are APIs making it easier to develop cross-border payments solutions?

"Simplifying the data structure for collecting payment instructions makes it much easier to embed cross-border capabilities. … ISO 20022 is quite rich in features that cover almost any cross-border scenario. However, a simpler data model that covers the most common scenarios makes cross-border money movement more accessible and less complicated. … At the end of the day, the cross-border API has to be straightforward and easy [for developers] to use."

ALESSANDRO PETRONI
head of financial services strategy and
solutions, Red Hat

For more on these stories and other headlines from around the B2B API space, check out the Tracker's News and Trends section (p. 10).

THE SECURE, NECESSARY PATH TO OPEN BANKING

Banks' SMB customers value using accounting software and other FinTech services that require access to their account data. But to provide these features when banks don't offer APIs, FinTechs often turn to screen scraping and other less secure methods, according to Ismail Chaib, chief operating officer of software company TESOBE. In this month's Feature Story (p. 6), Chaib explains how all FIs would be wise to embrace open banking and make their APIs available to help improve security, gain insights and give customers improved offerings.

DEEP DIVE: THE RISE OF APIs FOR OPEN BANKING AND CROSS-BORDER B2B PAYMENTS

While cross-border payments' rise is a natural product of growth in the eCommerce space, faciliating such transactions is no small task. Some companies are snapping up startups that have developed proven and effective APIs, while big players like Visa and Master-Card are leveraging blockchain to compete in the ever-changing B2B payments landscape. Banks are also looking to APIs to help them comply with new regulations, such as PSD2.

This month's Deep Dive (p. 14) explores how APIs are helping financial services providers and tech companies team up to comply with new regulations and bring innovative solutions to market.

Five Fast
FACTS

300
Number of APIs the average organization manages

50%
Portion of B2B collaborations that occurred via APIs during 2018

$1.2T
Estimated size of the U.S. B2B eCommerce market by 2021

55%
Share of IT managers who said API integration is critical to their business strategies

36%
Portion of businesses that gain one-quarter or more of their revenues through APIs

5 FIVE FAST FACTS

HOW APIs
SAFEGUARD
BANK-FINTECH
COLLABORATION

Feature
STORY

Open banking regulations like PSD2 are forcing many FIs to open up their data to third-party providers (TPPs), causing a wave of changes as its September launch date approaches. Changes are coming from elsewhere, too, with Australia mandating open banking by July and Israel working on an open banking API standard of its own. Nations where FIs are not required to provide data access to TPPs, however, may be wise to jump on the bandwagon.

Small and medium-sized businesses (SMBs) often satisfy their accounting and similar needs by relying on software and third-party services, requiring them to allow banking data access to their providers. But firms whose banks don't possess APIs to smoothly transmit that information may resort to workaround solutions that have weaker security measures, putting customers' data at risk.

Such solutions can also overburden FIs' websites and leave banks in the dark about their customers' wants and needs, said Ismail Chaib, chief operating officer of software company TESOBE. The company's Open Bank Project offers an open source API platform to support firms' open banking strategies. Chaib recently told PYMNTS why FIs need to adopt open banking and how the space is set to change in the coming years.

APIs VERSUS SCREEN SCRAPING

Third-party solutions that don't rely on APIs can instead turn to methods like screen scraping to pull information for enterprise resource planning systems, accounting software and other offerings. Screen scraping requires customers to supply their bank account login credentials to third parties, though, increasing the risk of data breaches and making it harder for banks to keep customers' details safe. On the other hand, FIs using APIs can promote more secure access to customers' data, Chaib said.

Screen scraping's problems don't stop at security, either. Third-party apps can also cause functionality issues by generating heavy traffic on banks' websites.

"Screen scraping puts a huge load and burden on the [bank's] system," Chaib said. "If you're a bank where Fin-Techs are a big thing — like in the U.S. — you might have 2 million customers. Imagine all 2 million customers reading your systems through screen scraping."

Chaib said APIs and their related management solutions can help banks better control this traffic and manage third-party interactions. Additionally, banks can analyze incoming API calls to assess who is accessing data and why, allowing them to determine which services

customers find most appealing and better plan their operational strategies.

"Banks see a market for this," Chaib said. "They can monetize data, monetize the API, reduce costs and make things more [efficient] internally. … What would make or break an API program [is whether it supports] the ability of banks to know, 'What are the most-used APIs? What are people building today? What are people really interested in in terms of use cases and apps?'"

CHALLENGES AND FINTECH NEEDS

Banks can keep customers from turning to other services by providing their own APIs, and these solutions also help FIs gather more insights and reduce security risks. Banks can find it challenging, though, to determine which APIs will appeal to FinTechs and encourage them to create the services that end customers want.

The APIs that most appeal to FinTechs are easy to use and tailor, Chaib said. Many developers prioritize being able to quickly find specific APIs, connect to them and start coding right away.

"It needs to be very easy [and] very quick to make your first API call and start getting into it. … The attention span across the board, and in FinTechs as well, is very short," he said.

FinTechs also often desire sandbox testing environments with sample data. This helps them demonstrate their service proposals before they decide to pursue formal bank relationships. Chaib claimed FinTechs are especially peeved when banks close their developer portals after short testing periods and don't follow up with developers on how the FinTechs can roll out the solutions they had been working on.

Banks also need compliance strategies to smoothly work with FinTech developers worldwide. This could require them to maintain different open API specifications to satisfy each region's regulations and framework,

including France's STET, the U.K.'s Open Banking and the pan-European Berlin Group standards.

"Because of regulations, because of company-specific peculiarities, banks will end up having multiple API standards they will have to maintain and to manage," Chaib predicted.

FIs around the world see great potential in offering open banking APIs, even if they're not required to do so. Offering such solutions will allow them to draw more business, manage traffic, gain new customer insights and improve security. Not just any approach will do, though, and FIs must cater to FinTechs' unique needs to encourage the latter to leverage their APIs. If all goes smoothly, FinTechs, FIs and end customers all stand to reap the benefits.

Under The
HOOD

The Open Bank Project supports a variety of industry standards. Do you anticipate that there will be a movement toward more universal open banking regulations, and would that be desirable?

"In the end, banks will end up managing a different set of APIs. In Europe, you would have a bank supporting the Berlin Group, or a bank in France supporting the STET national standard just because they have to for regulatory reasons. But at the same time, that regulatory specification doesn't attract so many developers. They have, say, three, four or five FinTech partners they really want to work with, and they want to give them … more APIs and services than what's required by the standard and … better specification so they can be more productive. They'd have a different API specification for these privileged partners. They may then have another set of APIs based on the Open Bank Project standard that plugs them into [our] global, 10,000-member [developer] community.

In the end, the same will happen in Singapore, [where open banking is voluntary] and in different places [as well]. Banks will end up managing different API standards and specifications. [Is] a global standard needed or required? Definitely. I think standardization brings costs down and is good for FinTechs. [With standardization,] FinTechs know they can develop something and it'll run everywhere."

ISMAIL CHAIB
chief operating officer of software company
TESOBE and the Open Bank Project

News and
TRENDS

Cross-Border Payments

DEUTSCHE BANK, SERRALA LAUNCH API FOR INSTANT PAYMENTS

The European Payments Council developed SCT Inst in 2017 to improve cross-border payments efficiency for its 36 European Union member states, but the solution has largerly been accessible only through proprietary bank solutions. APIs are changing that, however.

Deutsche Bank recently partnered with B2B FinTech software company Serrala to launch the first API for SEPA, an offering that automates payment processes to enable speedy transfers. Under SEPA's standards, payments must be processed in less than 10 seconds, 24/7 year-round. This is the first API that allows corporations to instantly initiate payments through enterprise resource planning software from German solutions provider SAP.

SIX SPANISH BANKS ADOPT SWIFT GPI

Global financial messaging service SWIFT's cross-border payments solution continues to gain traction, too. Six banks that account for 85 percent of Spain's cross-border market have signed up to use SWIFT gpi: Banco Sabadell, Banco Santandar, Bankinter, BBVA, CaixaBank and Grupo Cooperative Cajamar. The service delivered $40 trillion in cross-border payments last year, and today it sends roughly $300 billion in daily cross-border payments. SWIFT gpi participants can use

API calls to access end-to-end payments trackers, and the messaging service continues to test and develop additional capabilities.

"We look forward to launching a series of new functionalities, including pre-validation and case resolution, and to announce the results of our proof-of-concept work linking SWIFT gpi to eCommerce and instant payments platforms," Juan Carlos Botrán, head of SWIFT Iberia, said in a statement.

CANADIAN STARTUP TO LAUNCH INSTANT CROSS-BORDER PAYMENTS

New players are also joining the space, including Canadian FinTech company Buckzy Payments, which specializes in cross-border payments. It recently launched a payments ecosystem network and technology platform that offers APIs for banks and service providers.

Cross-border payments typically take several days or weeks to settle and involve trips to the bank and filling out paperwork, but Buckzy is attempting to address these issues. It claims its offering will enable payments across international borders 24/7 year-round at no charge, with transfer times of less than five minutes. In addition, the platform will offer users payment options accessible via digital wallets with mobile reload.

"Some countries are further ahead than others, but, overall, payments architecture is not evolving fast enough. … The cost of this lag has been extremely significant to businesses and consumers, who, until now, have been

overcharged and inconvenienced by [the] lack of payments options," CEO Abdul Naushad said.

Partnering For Better B2B Payment Solutions

AMERICAN EXPRESS, SAP ARIBA ANNOUNCE PARTNERSHIP

Other firms are turning to collaborations to advance their services, including American Express and cloud procurement platform SAP Ariba. The pair are partnering to facilitate B2B payments that will allow merchants to use a single platform, combining the former's payment capabilities with the latter's network. The platform will offer easy reconciliation, commerce and secure payments.

"With over half of American Express' largest global customers already using SAP Ariba to manage their expenses, this partnership has the opportunity to provide significant value for our joint customers," said E-Bai Koo, executive vice president of global commercial services at American Express.

MASTERCARD, FINEXIO PARTNERING ON SUPPLIER PAYMENTS

American Express isn't the only major card player focusing on collaboration — Mastercard is also working with a new partner. The company teamed up with B2B payments network Finexio to improve its supplier payments services. The latter will allow customers to use Mastercard-branded virtual cards to pay vendors as part of a broader effort to boost digital payments.

Last year, Mastercard rolled out a platform that connected buyers and suppliers to facilitate payments. The financial services giant hopes to provide an alternative to using paper checks for accounts payable, instead tapping quicker electronic solutions that require less paperwork.

BENTO FOR BUSINESS, VISA LAUNCH NEW PAYMENT SOLUTION

Mastercard rival Visa and B2B payments solutions provider Bento for Business recently announced a new solution to help SMBs manage their funds. SMBs using Visa's products will now have access to Bento's budgeting, bookkeeping and expense management offerings. They will also be able to gain cash flow insights and access to customized services based on their purchases.

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"The Bento solution will evolve how cardholders and merchants manage expenses and gain insights into their cash-flow and financial management activities," David Simon, Visa's global head of small and medium enterprises, said in a statement.

BIGCOMMERCE UNROLLS NEW eCOMMERCE PLATFORM FOR B2B MERCHANTS

Meanwhile, American eCommerce software developer BigCommerce recently collaborated with six technology partners to launch a B2B eCommerce platform for wholesalers, manufacturers and distributors. The new offering features a suite of services, including one that allows merchants to automatically extend lines of credit to buyers. It also folds in the Brightpearl platform, allowing omnichannel merchants to manage their finance, inventory, purchasing, returns and logistics needs via a single system.

Other services include the Bundle B2B solution, built by SILK Software using BigCommerce's API, which helps merchants perform corporate account management and offers customers quick order forms. Additional platform capabilities include a service that leverages ML to offer personalized shopping experiences, recommendations and services that support shipping management and integration with procurement.

Funding and awards

BILL.COM RAISES $88 MILLION

While some companies are boosting their solutions through partnerships, others are turning to fundraising. Bill payments company Bill.com raised $88 million during its last funding round, led by Franklin Templeton. It

offers SMBs a cloud payments platform that automates transactions and back-office business processes.

The solution tackles the use of legacy payment systems for B2B transactions, of which 80 percent are currently made through paper checks. These payments come with several costs for businesses, including long turnarounds, security issues and potential errors.

AIRWALLEX BECOMES A UNICORN

Australian fintech company Airwallex, which specializes in international payments, has been deemed a tech unicorn thanks to new funding. It raised $100 million in a Series C venture funding round led by DST Global, bringing its valuation to more than $1 billion.

Airwallex enables customers to create accounts at local banks, allowing them to access interbank exchange services and send money to 130 different countries. It plans to invest the funds in product development and expanding its business to the U.S., Europe and Southeast Asia.

FINTECH BREAKTHROUGH ANNOUNCES 2019 FINTECH AWARD

Other companies are gaining greater visibility through recognition. Independent organization FinTech Breakthrough, which gives awards to the top financial services and technologies companies and products each year, recently announced the results of its 2019 FinTech Breakthrough Awards, highlighting companies providing innovative FinTech solutions. FinTech Breakthrough selected BlueSnap, an online payments technology company that provides a B2B and B2C platform that supports 110 payment types, in the category of B2B company. The firm was recognized for its payments technology and employee benefit program.
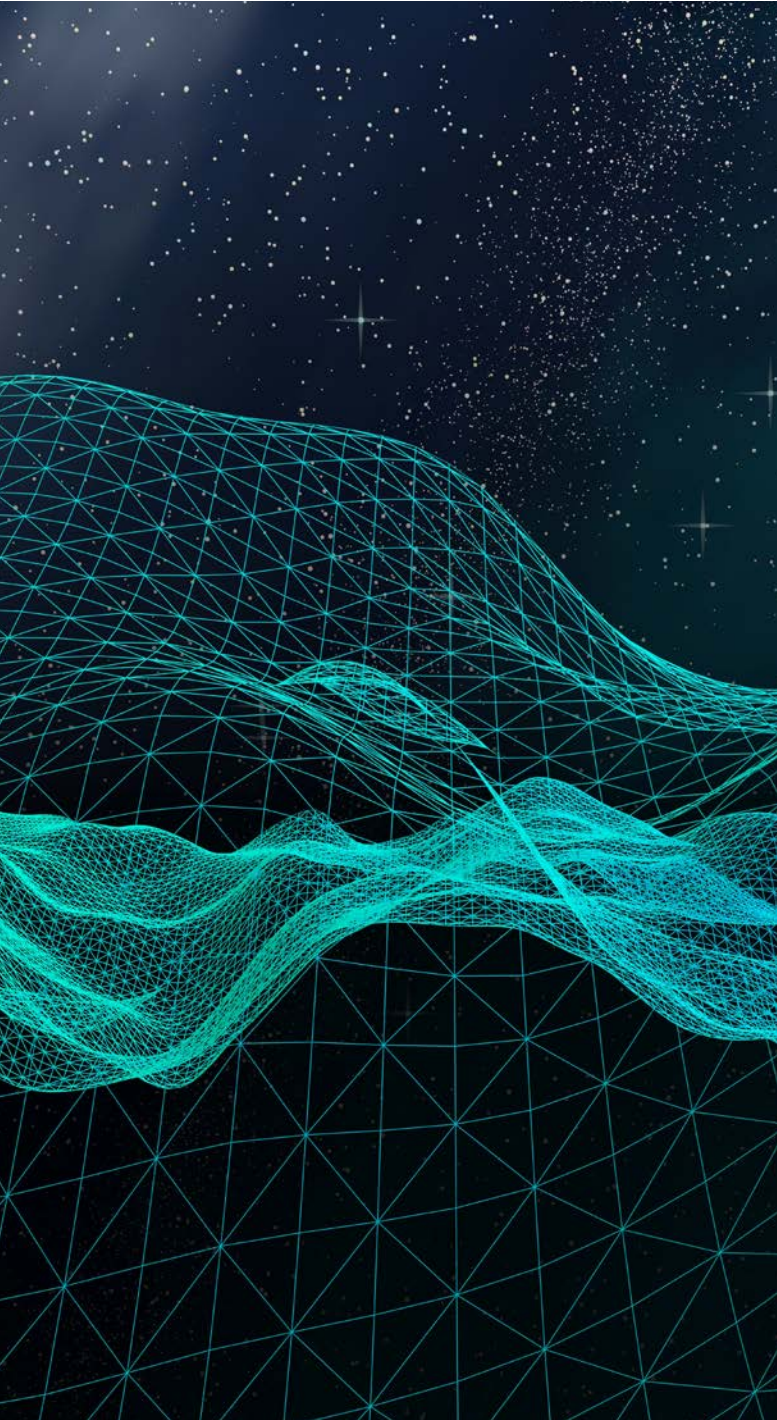
Acquisitions

FLEETCOR ACQUIRES NVOICEPAY

Pursuading suppliers to accept commercial cards is one major pain point for B2B payments, as they're often keen on avoiding the associated card fees. Some companies are taking aim at this problem, however, including corporate and fuel payments firm FLEETCOR. The company recently acquired accounts payable automation company Nvoicepay, which will allow FLEETCOR to target the issue of paying suppliers. Adding Nvoicepay's solutions to the mix enables FLEETCOR to expand its services to include automated accounts payable transactions and payment via ACH transfers, reducing supplier frictions.

APPLE ACQUIRES STAMPLAY

Apple is also making moves in the space, recently acquiring Rome-based API integration developer Stamplay for €5 million ($5.7 million USD). Stamplay, which will keep its founders after the acquisition, attracted Apple's attention by winning a contest for the best use of new Visa APIs. Some speculate that Apple is likely interested in leveraging Stamplay's financial payments industry experience for Apple Pay, but the exact reason behind the acquisition remains unclear. The company has continued to expand Apple Pay, adding to its network of banks and credit unions, as well as integrating it into major transit systems.

Deep
DIVE

APIs' Rise In Open Banking And Cross-Border B2B Payments

Changing regulations are redefining FIs' obligations, forcing them to rethink their strategies and implement new technological approaches. New legislation, such as PSD2, is raising the bar for FIs by allowing organizations like FinTechs to provide financial services. Such rules require traditional FIs to securely open up their customer data and require new levels of transparency from service providers, which must reveal everything from fees and exchange rates to liabilities and transaction time frames.

This month's Deep Dive explores how tech firms are creating solutions in this changing ecosystem, helping traditional financial services providers satisfy these new requirements and using APIs as key tools.

THE ROLE OF APIs IN OPEN BANKING

There are several options allowing FinTechs and FIs to connect their systems and offer new services to end customers, but they are increasingly turning to APIs to do so. While APIs may require a significant amount of work to design and implement, they ultimately save time and money. Without them, FIs would have to create custom solutions for each FinTech they want to integrate with.

APIs are proving particularly useful as banks seek to comply with new open banking laws. They allow third parties to connect and more quickly develop and launch offerings, and banks can use them to provide new services, such as allowing central access to balances, querying banks to make payments and offering instant transfers.

APIs AND CROSS-BORDER PAYMENTS

APIs can also be particularly powerful tools in the cross-border payments realm, as transactions across borders multiply the challenges of transferring payments. Such payments are expected to become more and more important for banks to handle smoothly and conveniently, too. According to Nielsen, cross-border payments were expected to grow from $105 billion in 2013 to $307 billion in 2018, and APIs can allow financial services providers to more easily and efficiently facilitate these transactions.

The market has been quick to recognize APIs' transformation potential, too. Visa and Mastercard, for example, were embroiled in a recent bidding war to acquire cross-border payments company Earthport, and the

space is rife with similar instances of firms striving to get a leg up in the API game.

Another recent API-based cross-border payments effort arose from a collaboration between Visa and Chain Inc., a firm that partners with companies to build and operate blockchain networks. The pair are developing a solution to provide FIs with rapid, streamlined and secure B2B payments for large-value international transactions. The new platform will allow banks and corporations to make direct payments to one another by using Visa as a central clearing house, and APIs are the keys to connecting these companies. Mastercard quickly followed Visa's footsteps, as well: After the latter announced its B2B pilot, the former also added blockchain APIs to its developer site.

FIs and other financial players are adjusting their strategies as fast cross-border payments services become more important and open banking changes the financial ecosystem. They are seeking to stay flexible and meet new customer demands, and they are increasingly turning to APIs to help connect them with partners and work together to give end customers smoother and faster financial experiences.
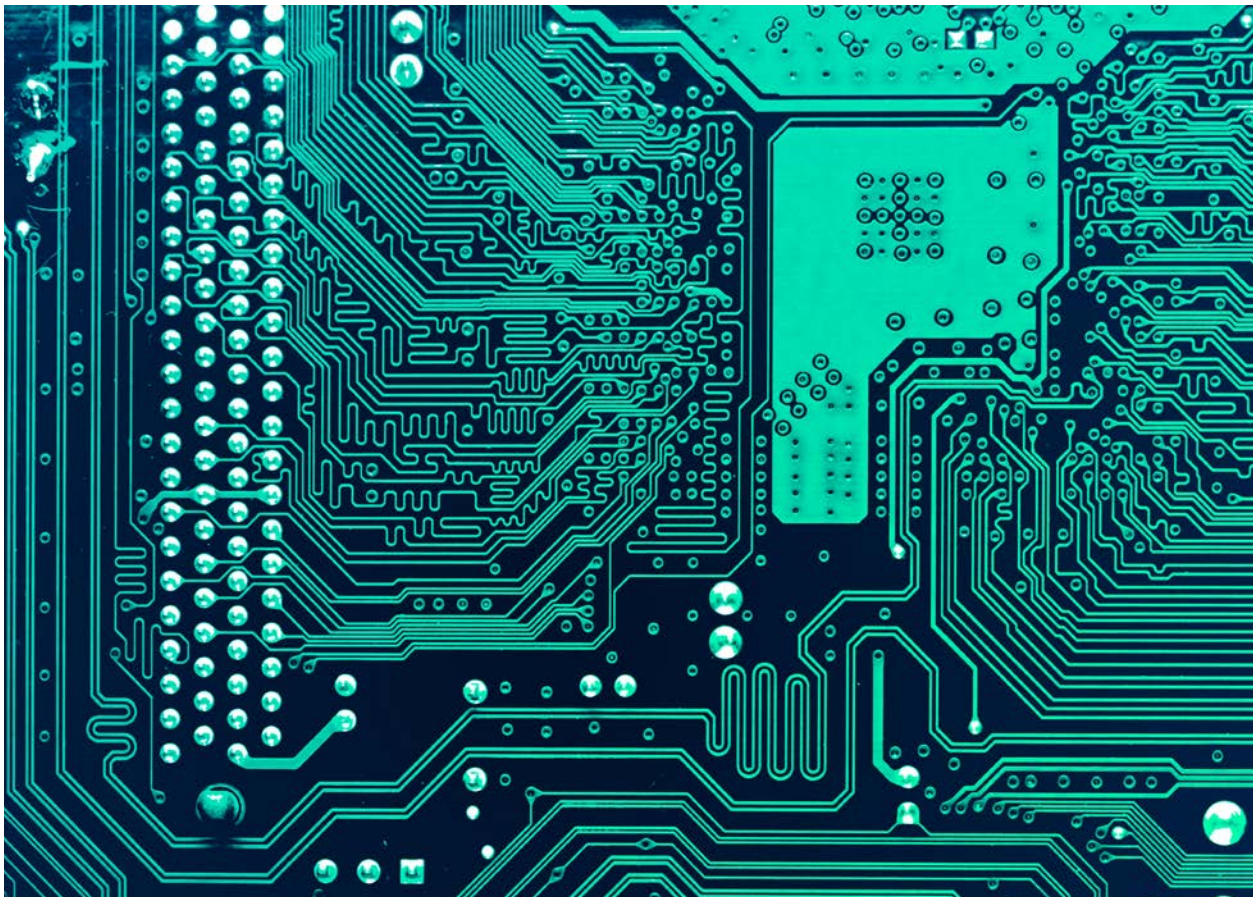
About

FEEDBACK

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