

Absa Corporate and Investment Banking

Open banking and application programming interfaces

Exploring the tech that drives open banking and payment application programming interfaces (APIs).

Your story matters



Introduction

A recent report by McKinsey Digital¹ proclaimed that “for banks and financial institutions, APIs are here to stay – and will only grow”. The consultancy firm noted how, over the past decade, many companies have been hesitant to use APIs because of “a lack of clarity on the value they could generate,” but reported that financial sector executives are now “more confident about the benefits of APIs for business automation, scalability and acceleration”.

This tracks with what Absa’s digital teams have been seeing in South Africa and throughout the bank’s African presence markets. “This technology is growing across the continent,” says Anathi Mkhize, Product Head of Integrated Propositions at Absa Corporate and Investment Banking. “This is especially true in markets like Kenya where there are a lot of fintech players”.

“As a Pan-African bank, Absa is building APIs that operate across our African presence markets and we’re finding several markets – from Kenya to Uganda and Ghana – where fintechs and other technology players are looking to leverage this technology to deliver new experiences”.

But what is an API and how does this digital technology deliver its benefits?

“To put it simply, an API is a way in which two computer systems can speak to each other,” Mkhize explains. “It’s an application programming interface that enables one system to send a message to another in real time using a defined protocol”.



Anathi Mkhize
Product Head of Integrated Propositions
Absa CIB



Definition

Application programming interfaces (API)

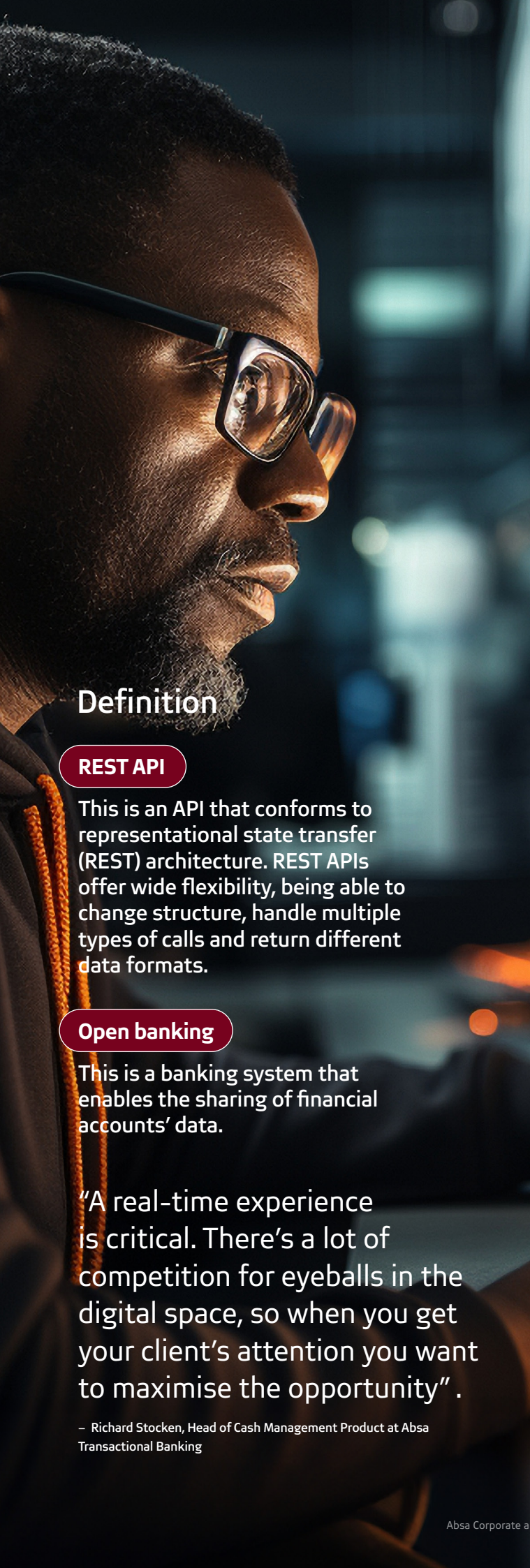
An application programming interface is a way for two or more computer programs to communicate with each other.

“A lot of our clients are looking to digitise the experience that they deliver to their customers. An important part of the digital experience is that it’s in real time. It can’t be delayed. APIs support the delivery of that real-time experience”.

– Richard Stocken, Head of Cash Management Product at Absa Transactional Banking

1. <https://www.mckinsey.com/capabilities/mckinsey-digital/our-insights/tech-forward/apis-in-banking-from-tech-essential-to-business-priority>





Definition

REST API

This is an API that conforms to representational state transfer (REST) architecture. REST APIs offer wide flexibility, being able to change structure, handle multiple types of calls and return different data formats.

Open banking

This is a banking system that enables the sharing of financial accounts' data.

"A real-time experience is critical. There's a lot of competition for eyeballs in the digital space, so when you get your client's attention you want to maximise the opportunity".

– Richard Stocken, Head of Cash Management Product at Absa Transactional Banking

Use cases

Absa is taking a hybrid approach to how it delivers its APIs. "We have both open and closed APIs," says Mkhize. "We are using REST APIs to deliver features like payments for corporates as well as payments from retail consumer bank accounts and these in turn unlock further use cases and propositions".

Another important feature is account verification. "This can be embedded in a customer system, like an enterprise resource planning (ERP) or line of business system, to verify banking information before transactions can take place," says Mkhize. "Other capabilities include streaming statement data directly into the client's systems for the purposes of reconciliation. Ultimately, it's all about the efficiency gained from not having to jump between systems to make the data available".

That speaks to APIs' most common banking use case: payments and the ability to monetise open banking.

Traditionally, only clients/customers and their bank could access their financial data. Open banking enables that information to be shared with other financial service providers, be they different financial institutions or third-party providers (ranging from merchants to currency exchanges, etc.).

"APIs are the technology that enables open banking," says Mkhize. "The construct around open banking is to open the bank's products and capabilities to the broader market and third parties, building on top of their creative solutions to solve banking problems. APIs are the technologies that enable the bank's systems and those third-party systems to talk to each other to deliver those experiences".

Significantly, those experiences can now be delivered in real time or near real time.

"Historically, when banks transferred data between systems and across organisations, we would use a batch file format where files would move every hour or even once a day," Mkhize explains. "Now, with APIs, the data can move as the action is taking place".

One example of this is in the real-time collecting and processing of large volumes of data, providing businesses with instant insights and enabling immediate payments to customers.



A growing market

A 2022 report published by Polaris Market Research² valued the global open banking market size at \$16.14 billion in 2021, projecting it to grow at a CAGR of 26.8% to reach \$128.12 billion by 2030. Yet, despite the industry hype around open banking, Mkhize notes that relatively few financial sector companies in Africa have started using APIs. Why the hesitancy?

“In the countries where this technology has taken off it has largely been driven by open banking regulations which have pushed the players in those markets to prioritise it,” he says. “In markets like South Africa especially, there aren’t regulations, so each player is moving at a different pace, depending on their priority, and making decisions as they go along. Everyone is trying to figure out the risks and benefits around their existing income lines. Ultimately, however, this will continue to grow and expand across the industry – both globally and in Africa”.

Absa has already seen great demand for these products from its clients. “We moved early in this particular space, in about early 2019,” Mkhize says. “Since then, we’ve seen large volumes of transactions in industries

where our clients are looking to use transactions as part of how they deliver experiences to their customers. That’s where this technology is most powerful; where it makes sense to make the banking piece invisible while creating a better experience for the end customer”.

From Absa’s point of view, Mkhize says the bank sees APIs as an enabler of delivering better client experiences. “There are particular industries or use cases within industries where this type of technology really can be powerful, enabling our clients to be more competitive,” he says. “By enabling our clients, we deliver a better service to them and, by doing so, it enables us as a bank to do better business. That’s why we moved on this so early. The opportunity was clear. We also understand that clients aren’t waking up in the morning looking forward to doing transactions; transactions are part of the bigger value chain of their customer journey. As a bank, we’re looking to incorporate those transactions seamlessly into that customer journey”.

2. <https://www.polarismarketresearch.com/industry-analysis/open-banking-market>





Finding the right API partner

One of the biggest advantages of APIs is that the technology allows banks to move away from paper-based data capturing. "Think about how much information flows through your organisation and how many systems it flows through," says Mkhize. "A lot of the time that is done using documentation, capturing information from one place and then deploying it into another place by recapturing it. We avoid that by using APIs because those multiple systems talk directly to each other. I can engage in a process in one system that needs to be included in another system, but the information travels between the systems without having a manual intervention in between".

"By removing the human element, errors are reduced and the accuracy of the data capturing is improved. Security is also enhanced," Mkhize says. "It is much more difficult – if not impossible – for people to change or manipulate the data. With APIs, it's far more likely that the data that you receive is exactly as it was created in the previous system, because the transfer happens automatically in the background and directly between the two systems".

Mkhize lays out four key considerations when businesses look for an API partner, particularly in the payments space:

- 1. Security:** "The question to ask is: what security standards are the API provider using? At Absa, we have digital certificates and encrypted tokens," Mkhize says.
- 2. Reliability:** "Absa has been on the API journey for some time now, so, many of our APIs are at the stage where they are quite mature and are doing millions of transactions," he says.

"When you're making a payment on a particular product, what's the likelihood that it's going to go through successfully? For a more mature player that likelihood is obviously much higher".
- 3. Ease of integration:** "What is the infrastructure?" he asks. "What support do you get when you try to integrate with that player? Absa has a developer portal with all the information required to do those integrations and we also have teams that can support organisations that want to integrate and assist them through the process".
- 4. Support:** "This is linked to the previous points," he says. "Absa provides 24/7 technical support".

"Because APIs offer real-time, system-to-system integration into our clients' digital experiences, any delay will negatively impact the customer experience and the client's ability to deliver its services. This makes reliability, as well as the ability to recover immediately from any issue, critical".





Download our Banking App

