THE BENEFITS OF OPEN BANKING AS A BUSINESS STRATEGY

BROCHURE

THE RISE OF OPEN BANKING

The retail branch model of banking is no longer sustainable. Career and job search management site CareerAddict[1] states that by 2030 the role of bank tellers will no longer exist, noting that many regional bank branch offices are already shutting down. Banks face loss of market share and revenue as fintech builds new, agile technology platforms unhampered by legacy infrastructure. These platforms support open banking—the ability to deliver financial products and services to third parties by exchanging data through application programming interfaces (APIs).

While open banking has existed as a concept for over a decade, it has taken time for banks to view it as a viable strategy. The competitive landscape has also become significantly more challenging, with fintech companies blanketing the financial landscape. Fintech offers new, user-friendly alternatives directly to consumers, including money transfer services such as Venmo and PayPal, alternative lenders like Avant, digital payment services like Apple Pay, and even financial advice. New regulatory mandates and government directives have accelerated banks' timetables for adopting open banking and creating an API strategy, including Europe's Directive on Payment Services (PSD2) and Japan's goal of having 80 banks adopting API standards by 2020.

To close this ever-growing gap, banks must integrate open banking solutions with existing infrastructure, and executives need to prioritize open banking development as a monetized, legitimate business model that powers current and future products and services.

WHAT BANK CUSTOMERS WANT

In this digital age, customers demand targeted, meaningful interactions with their providers. That means that banks need to be more agile and adaptable to tailor their products and services to individual needs. Customers want instantaneous transactions and sound financial insights at their fingertips. Fintech companies produce many of these types of solutions faster, distancing the average consumer from their bank account. Banks are losing revenue to fintech services and also losing access to valuable customer data, such as customer preferences, desires, and expectations.

THE API CHANNEL

Banks now compete against software companies—as well as other banks. But where there is technology competition, there is also an opportunity for collaboration.

Using well-managed APIs as part of an open banking platform can provide banks with the needed level of responsiveness. The growing number of intermediaries might seem like a daunting obstacle for the bank-customer relationship, but the existing gap is a result of numerous disconnected networks that can be integrated with open API technologies.

1 CareerAddict, "13 disappearing jobs that won't exist in 2030," November 7, 2017

APIs allow banks to open catalogs for integration with third-party vendors and digital intermediaries, such as fintech entities. Banks that look at these partnerships as an opportunity, and consider how customers view their role, are the ones that will prosper in this growing ecosystem. One example of note is Chase's partnership with AutoFi[2] to reinvent the bank's often cumbersome experience of car lending. By unbundling services from the bank's internal environment and opening up services to partners, banks can significantly increase their digital footprint, data insights, and new transactional revenue streams.

Banking executives need to remember that the size of their organizations, as well as the size of their existing customer base, is a significant advantage over their fintech competitors. Fintech organizations are interested in receiving direct access to established, large sets of prospective customers and their data, providing a vast array of partnership opportunities for banks.

When using open APIs that are part of a consistent platform, banks will be able to continuously innovate. In addition, they can also insulate their organization from future disruption through the creation of trusted advisory tools, fostering entrepreneurship, or taking lateral steps into sectors such as real estate or personal insurance.

HOW TO MOVE BEYOND LEGACY PRACTICES AND INFRASTRUCTURE

Forward momentum for participation in open, digital ecosystems requires three core elements:

1. **Technology shift.** Historically, banks have not prioritized internal technology because it was not considered to be an integral part of the business. Infrastructure now determines future success.
2. **Talent shift.** Banks are in competition for top talent. They must appeal to technology-savvy workers who will help accelerate their businesses.
3. **Process shift.** Banks need to focus on integration agility for both the near term and long term. As business services become increasingly digitalized, banks can gain greater customer insights for service refinement and extension—including automation, artificial intelligence (AI), and machine learning practices for self-adjust, the process of making updates or adjustments automatically without human intervention.

WHY RED HAT?

Banks are currently hindered by decades of legacy infrastructure. They are struggling with convoluted network stacks that only support a historic business model. For future success, banks must adopt a new technical perspective and embrace open source by fostering effective communication between technical and non-technical teams.

As an open source leader, Red Hat provides open banking and API technology. We also connect the technology to your end goals, partnering with your bank to help you adopt open banking.

To learn more, download IDC's infobrief, "Beyond banking through open APIs," and read about Red Hat's financial services solutions.

2 *Business Insider, "Fintech continues to push into car lending as Chase partners with AutoFi," January 14, 2018*

ABOUT RED HAT

Red Hat is the world's leading provider of open source software solutions, using a community-powered approach to provide reliable and high-performing cloud, Linux, middleware, storage, and virtualization technologies. Red Hat also offers award-winning support, training, and consulting services. As a connective hub in a global network of enterprises, partners, and open source communities, Red Hat helps create relevant, innovative technologies that liberate resources for growth and prepare customers for the future of IT.

NORTH AMERICA
1 888 REDHAT1

EUROPE, MIDDLE EAST, AND AFRICA
00800 7334 2835
europe@redhat.com

ASIA PACIFIC
+65 6490 4200
apac@redhat.com

LATIN AMERICA
+54 11 4329 7300
info-latam@redhat.com

facebook.com/redhatinc
@RedHat
linkedin.com/company/red-hat