



Connecting With API's

by [Steve Brown](#) Topics: [API](#), [digital banking](#), [technology](#)

Summary: As the pace of innovative products picks up, community banks may look for greater flexibility and more features. Should your bank be using APIs?

Neuroscientists at the University of California, Berkeley have found that one reason people forget things as they get older is because they just don't sleep very well. It seems the older you get, the less the brain synchronizes itself at night because one's sleep is more fitful. That is an interesting connection to make in the world around us and now bankers too are making new connections of a different sort.

Banks are connecting with others by opening themselves up through so-called open banking using application programming interfaces (APIs). APIs are technology applications (software) that essentially "open up" bank data and processes to others. These can include third-party developers, customers, employees, and vendors. In so doing, banks can offer their products and services in a secure and shared way, along with private data like customer information or transactions.

Some of the more popular open APIs are for apps that serve as gateways for expedited payments. As customers seek real-time payments from their banks, industry pundits say such things will most readily be achieved via these technologies. Other popular APIs are used for trading, identity authentication/verification, remittance and data aggregation. APIs allow banks a way to offer customers a bank-branded app store to get approved apps that can include such things as budgeting or cash management.

[According to the Capgemini World Retail Banking Report 2017](#), open APIs can help banks improve the customer digital banking experience, pursue new distribution channels, and even discover new revenue opportunities. These could help you capture customers even outside of your branch footprint.

Another function of open APIs is that they can give banks a more comprehensive view of customer financial activities. This information can be used to develop more effective personalized marketing pitches for your products and services.

Most traditional core providers have digital banking capabilities and this works for many community banks and their customers just fine. But, as the pace of innovative products picks up, banks may indeed look for greater flexibility and more options.

However, for community banks that are committed to expanding their open API options, more work is required. Here, some core providers are building highly-secure open API gateways to existing legacy systems in ways that don't give access to your entire core system. Banks can work with these core providers to integrate such gateways into existing systems, manage customer API transactions and even develop digital dashboards for customers and the bank.

We note that when it comes to setting standards that meet regulatory expectations, the Europeans are way ahead of the USA, so technologically thinking banks might want to start there to get teams up to speed. Overseas, regulators have something called the Payment Services Directive (PSD2) in

the EU and the Open Banking Standard (OBS) in the UK. Under PSD2, banks must grant third party providers (in a regulated and secure way) access to a customer's online account and payment information by Jan 13 2018. Meanwhile, OBS provides an approach for how financial data should be handled and shared and how banks should provide access to others.

You still have time to deal with this so there is no reason to lose sleep, but reading about it before bedtime might help you catch some quality rapid eye movement.

BANK NEWS

Divestiture

Atlantic Capital Bank (\$2.7B, TN) will sell its trust business, Southeastern Trust Co. (TN), to an investor group that includes the bank's former president and other executives for an undisclosed sum. Southeastern Trust Co. manages about \$285mm in assets.

Automation

A Citigroup report finds 30% of the banking industry could be replaced by machines in the next 5Ys, while McKinsey research finds more than 33% of bank work can already be automated.

Consumers

A NerdWallet survey finds 24% of people say they overspent during the holiday's last year and 27% said they did not have a budget. Of note, 24% of millennials, 16% of Gen X and 8% of boomers said they still had not yet paid off credit card debt they incurred last year during the holiday season.

Customers

FIS research finds 57% of community bank customers are over the age of 51Ys old, while millennial and Gen X customers account for a combined 37% of customers.

Compensation Imbalance

A survey by Bank Director of directors and executives finds 74% of banks >\$5B in assets say their bank's compensation plans are not competitive with technology companies.

DEPOSIT OPPORTUNITIES

In an effort to expand our relationships, PCBB is pleased to offer community banks a money market deposit account rate of 1.60%, subject to availability. Contact operations@pcbb.com.

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