

FIVE BENEFITS OF OPEN BANKING

BRIEF

INTRODUCTION

The rise of digital platforms and their rapid adoption by customers has created significant opportunities for financial service organizations. Industry leaders are capturing additional revenue streams and creating new value chains by investing in this distribution channel. Regulators are also encouraging participation in open banking through either guidance or mandate, aiming to improve competition in the financial services marketplace. Lastly, the pace of technical innovation is reducing the barrier to market entry, driving interest in open banking by incumbents and challengers alike. However, the full value of open banking might not always be so clear. Below are five benefits for organizations that embrace open banking.

FIVE BENEFITS OF OPEN BANKING

1. Revenue

Creating a new distribution channel by opening products and services to a broader ecosystem using application programming interfaces (APIs) can generate new revenue opportunities. A study from Boston University found that API adoption predicts a 10.3% increase in a firm's market value.¹ It is expected that 30% of world revenue pools will be generated through this new channel by 2025.²

2. Reach

Customers seek convenience, access, and speed in a world of digital distribution. Increasingly, banks are participating in digital marketplaces such as Uber, Airbnb, and Houzz. Open banking allows financial institutions to extend their reach outside of a traditional distribution model.

3. Response

Open banking provides an opportunity to respond to customer needs and integrate new digital capabilities from third-party providers into a bank's existing infrastructure. Banks can stay competitive by rapidly augmenting their existing digital applications—without building these capabilities.

4. Relationships

37% of customers cite personalization as the most important factor in deepening an existing bank relationship.³ Participating in transactions from more digital touchpoints can have the multiplier effect—generating more personalized offers, more frequent interactions, greater adoption, upselling and cross-selling opportunities, and higher customer satisfaction.

5. Relevance

With open banking, banks can expand outside of their core capabilities and offer services like personal financial management, loyalty rewards, and financial education. These services help the bank remain relevant with its customers, reducing the risk of disintermediation.

¹ Benzell, Scott, LaGuarda, Guillermo, Van Alstyne, Marshall. "The Impact of APIs in Firm Performance." Boston University. 2017. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2843326

² Atluri, Venkat, Dietz, Miklos, Henke, Nicolaus. "Competing in a world of sectors without borders." McKinsey Quarterly. 2017. <https://www.mckinsey.com/business-functions/mckinsey-analytics/our-insights/competing-in-a-world-of-sectors-without-borders>

³ Marous, Jim. "The Psychology of Personalization in Banking." The Financial Brand. 2018 <https://thefinancialbrand.com/74465/the-psychology-of-personalization-in-banking/>



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.

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BUILDING AN OPEN BANKING STRATEGY

Choosing an open platform that fosters enterprise agility and innovation is important when creating an open banking strategy. However, it is also important to go beyond technically enabling access to internal systems through APIs by third parties. Partner and community development must be included as a focus area to maximize the benefits of open banking.

Digital platform

Banks that thrive will deploy a technical platform that removes software delivery friction and embraces a microservices architecture that is unconstrained by a single vendor. This enables agile teams to respond to market needs quickly. The platform needs to also take advantage of cloud scalability while addressing operational needs such as security and stability.

Partners and communities

The strength of your distribution channel will be defined by how well your organization embraces partners and communities. Active recruitment and development of a robust partner and developer network should be part of your open banking strategy. Open source values such as collaboration, inclusivity, and transparency are useful principles for this distribution channel.

RED HAT

Red Hat® 3scale API Management, Red Hat OpenShift® Application Runtimes, Red Hat Fuse, and Red Hat OpenShift Container Platform form the foundation of an open platform for building and deploying cloud-native applications across any cloud infrastructure. It enables organizations to compete and thrive in a world of digital ecosystems. An example is a leading bank in Spain, BBVA, where Red Hat's products are part of a global digital platform that promotes 37.5% of sales through digital channels.⁴

LEARN MORE

Assess your firm's strategy with Red Hat's [executive checklist](#) for open banking.

⁴ "BBVA almost doubles its 2018 digital sales to date." BBVA. 2018.
<https://www.bbva.com/en/bbva-doubles-its-2018-digital-sales-to-date/>