



OPEN APIS AND FINANCIAL INCLUSION

By Greta Bull, CEO, CGAP

APIs are the technology innovation most people have never heard of, but they are powerful drivers of the digital economy. APIs, or Application Programming Interfaces, have been around for two decades, but they have only recently begun to change the way financial services are delivered. They have the potential to transform it.

An API is essentially an interface that enables one software programme to talk to another. It allows businesses from start-ups to established companies to share data and services. This happens behind the scenes in many familiar services and works so seamlessly consumers aren't even aware they are there. APIs are what allow you to buy an airline ticket on Expedia, post a photo or news article to Facebook, buy an app on the App Store or take a ride with Uber (and much more!). They are the glue that holds the digital economy together.

APIs can be used to connect different IT systems, both inside and between companies, and they are deployed on a spectrum from internal to open:

- **Internal APIs** are reserved for use by developers working within or on behalf of an organization. They can help improve efficiency and lower time to market for innovations – making providers more **agile**.
- **Partner APIs** allow data to flow between two different organizations according to an agreed set of parameters. In other words, they enable **collaboration**.
- **Open APIs** are made more broadly available. Selected organizational assets (for example, payments functionality or data) are made available on a self-service basis to developers who meet minimum criteria, register for access and are willing to operate to a defined set of parameters for participation. Open APIs are used to promote **innovation**.

From an innovation perspective, Open APIs are key enablers as they allow different players to harness and leverage the assets and capabilities of each other – combining, for example, payments capabilities with geolocation and communications services in the case of Uber. Together, these services deliver enhanced customer value, in this case, getting from point A to point B. With any one of those capabilities on its own, the rider would likely not be able to make the journey.

Large digital financial services providers are often not best placed to develop a full range of services themselves to meet the needs of their many customers. Take the case of a Mobile Network Operator (MNO) running a payment platform in Africa: they are too busy managing core operations – registering customers, managing a huge distribution network, and dealing with regulations. They have neither the time, the skills nor the inclination to develop financial or other consumer products. They just want to attract as many people to their platforms as they can and keep them in their payment ecosystem. One of the best ways to do this is to bring third party services into the platform. And one of the best ways to do that is through Open APIs.

There are many small and nimble companies with creative ideas that range from leasing tractors to PAYGO solar to financial health apps to social networks and e-commerce. They need a way to get their product out to customers and to get paid for their services. Large DFS players offer that channel. Problem is, normal methods of integration are complicated, expensive and time-consuming, and small companies have neither the resources nor the bargaining power to deal with the MNOs. Without an Open API scheme, large DFS providers prioritize integration with a handful of larger partners with a clear business case where profits outweigh the high cost of one-off integrations. These tend to be companies like utility providers who integrate for bill payments. Sometimes they offer an innovative solution, but often as not, we are looking at established, volume-based businesses. That makes life easier for consumers at the margins – being able to pay a bill remotely is certainly a convenience - but it does not open up many new services for consumers.

By making a platform available to third parties on an open basis, platform providers enable developers with good business ideas to onboard themselves to the platform, using processes, rules and technologies published in the platform provider's developer portal. If the small company is able to meet the platform's standards, then it can start selling its services over the platform, making its service visible, communicating with customers and collecting payments from them. It's a win-win.

Open APIs are not only good for giving consumers more choice, they are also good for businesses. Open APIs expand the ways people can use digital money and therefore help drive usage of digital accounts. Because consumers have more options, they buy more, increasing revenues. The integration costs for large providers come down due to economies of scale, and the universe of partner services that can be onboarded in a short period of time expands. And smaller start-ups have lower integration costs and can bring their products to the market more quickly, testing customer demand and improving the product incrementally.

APIs are at the core of transformations taking place in the financial sector, like Open Data and Open Banking, which are leading to the 'disaggregation' of banking. As these services are gradually integrated into the digital platforms that are transforming the ways people earn incomes and buy goods and services, they open up new possibilities to improve the lives of the poor by bringing them into the wider digital economy.

