

CFTE x ADGMA Scholarship Programme

Application programming interface (API) in the banking sector

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Application Programming Interface (API) is a FinTech tool that transfers content and data across applications (Lullo, n.d.). APIs facilitate communication between online banking systems and third parties. This essay will investigate ways that the banking sector can implement APIs and the importance of doing so.

Challenger banks can utilize APIs in money transfer. Such institutes could collaborate with third party service providers to facilitate money transactions (Lullo, n.d.). Banks can also use APIs in payments, for example, transaction status. Thanks to APIS, payment transactions can be validated automatically and instantaneously (Lullo, n.d.). APIs also allow banks to identify payers and the validity of the accounts they hold. It is important for banks to utilize these strategies for faster, more secure payments.

Another way banks can use APIs is by offering a 'pay later' option to their customers that is facilitated by APIs. The 'pay later' APIs allow customers to purchase goods and services from online e-commerce sites without the need to use a credit card that is funded by their bank account, therefore providing the customer with the ability to pay in instalments or postpone the complete payment to a later date (Payments and API banking, 2018). Essentially, the customer is submitting an online loan application using the 'pay later' API which incorporates multiple elements of payment APIs and loan APIs. This is important for banks as pay later APIs can help attract new customers, thus expanding their business.

Furthermore, another way to use APIs in banks is through a request to pay feature. Request to pay transactions is where the recipient initiates a request to the payer, and the payment goes through simply by the payer approving it (Payments and API banking, 2018). This feature

allows money to be transferred in new, flexible ways between individuals, organizations, and companies. The request to pay API also presents a wider range of options for payments. For example, full payment, partial payments, and the ability to ask for an extension. Moreover, these APIs grant the customer more control over when and how much they pay.

It is imperative for banks to integrate APIs in their organizations to deliver more compelling and effective services to their customers. Another benefit of exploiting APIs is the potential to generate more revenues. According to Payments and API Banking (2018), banks that use open APIs are forecasted to see an increase in their profit, while those failing to utilize them will be vulnerable and at the risk of losing a percentage of their profit to their competitors.

In conclusion, the banking sector can implement APIs to validate payments, as well as offer pay later and request to pay features in banks. The utilization of APIs allows banks to provide a wider range of payment options to their users which grants them more flexibility and control over transactions. Additionally, this FinTech tool can potentially increase the profit of the banks that use it, while putting the ones that don't at a risk of declining profit.

References

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