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API investments help banks stay competitive within the growing fintech ecosystem

Article

What we've noticed: Application programming interfaces (APIs) are **growing in importance as banks** seek to diversify and modernize their tech offerings:

- **APIs** are the connections between various software programs, and they support important industry technologies like banking as a service (BaaS) and other "as a service" offerings.
- **BaaS** is the infrastructure for banking products and services. It encompasses the tools and capabilities to take financial products and services built upon a bank's platform and embed them in experiences offered by fintechs and consumer brands.
- For just one example, innovations within APIs **may foster "risk as a service" offerings for compliance**, per PYMNTS, which interviewed FISPAN's Matt Naish, its head of product strategy.
- Banks and credit unions are prioritizing APIs: PYMNTS data shows that the proportions that have developed or invested in them increased from 35% in 2019 to 47% in 2021.
- An additional 25% plan to do so in 2022.

The rationale: The value proposition of BaaS—much like that of platform as a service (PaaS) for tech companies—is to make it quicker, easier, and cheaper to launch, operate, and scale products and services in different ways.

- APIs layering services on top of a bank's existing core technologies would offer more data for integration and analytics, bolstering compliance processes like know your customer (KYC) and know your business (KYB).

The challenges: **Only 30% of financial institutions (FIs) were actually using APIs** as of early 2021, according to PYMNTS.

- Naish said that FIs have **challenges with running APIs with their older tech infrastructure**.
- He added that they can respond by acquiring new technology, building it internally, or partnering with outside companies like his own.
- **There isn't an interoperable API standard**, which we note helps with sharing data while keeping banks' technology stacks secure and stable. An industry consortium called the **Financial Data Exchange (FDX)** is trying to fill the gap.
- Banks are also worried about including what they view as proprietary data in API-enabled sharing.

The big takeaway: Banks that collaborate with developers to advance API usage can take advantage of BaaS and open banking solutions and participate in the wider fintech ecosystem.

- They need to decide how APIs fit into their legacy tech stacks: as a software layer or as a replacement for core banking systems.
- To exchange data with fintechs, banks need to offer a suite of APIs that are straightforward and integrate via a developer platform. We recommend creating a single point of integration into a platform by establishing API marketplaces. These should encompass analytics that can be used for testing and quick deployments of features and simulation suites and sandboxes.

For a deeper dive into APIs, BaaS and open banking, read our newly released report, The Bank in 2025.