

Why Treasurers Should Care About Bank APIs

By Nilly Essaides and Bryan DeGraw

EXECUTIVE SUMMARY

Bank application program interfaces (APIs) are not new; however, treasury departments in general have been slow to adopt them. Some treasurers question whether visibility into real-time bank data would have a meaningful impact on liquidity-management decisions. Others are deterred by the complexity of integrating and managing multiple bank APIs. Increasingly, a better understanding of the benefits of bank API, the emergence of a bank API “master key” that acts as data aggregator, and the maturation of finance’s overall digital vision are making these concerns a thing of the past. The Hackett Group’s treasury experts anticipate that bank APIs will become the cornerstone of treasury’s modern technology architecture.

An API is a technology with a discrete set of instructions that works like a “universal plug,” enabling two systems to talk to each other without human or machine intervention. Bank APIs connect bank systems with corporate clients’ applications like the ERP or payroll. Because APIs are “always on,” they permit the flow of real-time, synchronous data between the two systems. By contrast, legacy connectivity options rely on batched, host-to-host exchange of data on a scheduled basis.

At most companies today, treasury pulls account information from banks, prepares the data and transfers it into the ERP, which processes them and produces a set of bank files that contain payment instructions. Those files are then dispatched to various banks via the host-to-host connection, often using different formats. At that point, treasury must wait for banks to send back payment confirmations.

This staggered approach is out of sync with current efforts to create a continuous information loop, not only to engender greater process efficiency but also speed up the finance executives’ ability to translate data into action.

Nevertheless, corporates have been slow to adopt bank APIs. One important reason is lingering skepticism that having all-day visibility into balance information will materially impact cash management strategies. Many organizations have already established centralized mechanisms for optimizing liquidity, for example global cash pools, in-house banks or sweep accounts with key cash management banks. Thus, decisions about intercompany funding and overnight investments need to be made only once a day before the market’s cutoff time.

There is also concern that opening the information floodgates will overwhelm staff and distract them from executing critical tasks. Plus, treasuries are uncertain as to whether they will receive the same level of remittance data via bank APIs as they do from host-to-host connectivity or SWIFT. These concerns have been compounded by hesitancy about embarking on resource-consuming projects to integrate individual bank APIs into the treasury workstation or ERP.

GAINING TRACTION

Increasingly, treasury organizations are overcoming their hesitations about bank APIs for reasons including:

- **An environment of persistent volatility:** Pre-pandemic, many treasurers had been lulled into complacency by years of cheap and easy liquidity. However, the coronavirus outbreak reminded those who lived through the 2008 financial crisis how quickly cash can become precious. Suddenly in early 2020, the ability to know where cash is at any given point became essential to planning payroll, paying vendors, lenders and tax authorities and responding to urgent intercompany funding requests. Continuous visibility into cash at every stage of the financial value chain has been most critical for cash-strapped companies; however, pandemic-triggered uncertainty has kept cash preservation front and center in every CFO's mind, making the synchronous flow of bank data a core component of the treasury crisis-preparedness playbook.
- **Pressure to respond to elevated user expectations:** Consumers are accustomed to instantaneous payment execution and confirmation that is enabled by an "app universe" accessible through multiple devices. As more digital natives enter the finance workforce, they expect the same seamless, user-friendly experience in their corporate technology environment. Many finance and treasury organizations are struggling to hire talent today, so using modern technologies that look and feel like consumer tools and offer real-time, multi-platform access to payments is an important competitive advantage when hiring staff.
- **Banks' growing commitment:** Open Banking standards require banks to share customers' financial information with authorized third-party providers. Associated regulations were introduced in the UK in 2018, and have since spread to other markets, including Hong Kong and Australia. Some

countries have opted for a market-driven approach in which Open Banking is promoted without formal regulations. In all cases, the stumbling block has been building secure links between bank systems. Since bank APIs offer a simplified way of safely connecting proprietary systems without heavy IT investment, we are seeing a flurry of activity in the bank API market: There are now more than 80 bank APIs offered by leading global financial institutions as well as boutique banks, and new APIs are being launched every day.

GOING BEYOND CASH VISIBILITY

Until relatively recently, bank APIs were a tough sell because the advantages pitched by vendors focused narrowly on allowing real-time visibility into cash balances. Because bank balances are typically stable, the promise of continuous access was not compelling enough for corporate treasurers to adopt the technology. Newer messaging about the benefits of bank APIs focuses on other advantages, such as real-time consolidation and fraud prevention.

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The asynchronous and multi-step process of initiating payments and receiving confirmations opens the door to fraudsters because they can insinuate themselves into the transaction flow at different points. Direct and continuous connectivity between bank and corporate systems reduces the number of hand-offs and thus opportunities for unauthorized activity. Bank APIs scan and process payments all day long, meaning they can spot discrepancies such as double payments in real time. This way, they can stop sham transactions before the cash leaves the bank.

In addition, because the bank data flows directly into a treasury system or ERP, it is possible to continuously reconcile the cash position, dramatically reducing work in downstream processes like general accounting. When it's time to update the general ledgers, most entries are already prepared, so accounting staff can focus on fewer exceptions.

A MASTER KEY FOR BANK APIS

While bank APIs are becoming a more attractive solution for treasury organizations, widespread adoption is constrained by the need to integrate multiple APIs into corporate systems. Banks often have many discrete APIs, and each bank uses different communication protocols and file formats. Efforts to standardize these have not been successful because banks view their APIs as proprietary. Building one-to-one integration for each remains time-consuming, increases complexity and hampers agile onboarding and offboarding of providers.

While each bank API opens a door for the real-time flow of information between two systems, what has been missing to date is a “master key” (i.e., a bank API aggregator) that can streamline the flow of data and translate incoming and outgoing information into a common language. The emergence of multi-bank API aggregators is turning a previously arduous integration challenge into a simple plug-and-play process.

A master API allows corporates to have a single point of contact, yet achieve real-time connectivity to rich data, all the way down to individual invoices. By aggregating multi-bank data, the master API provides complete and instant visibility to all incoming balance information and payment instructions and confirmation, plus supports real-time reconciliation across all payment transactions.

Because a master-key API can be inserted directly into the company’s ERP, it automatically conforms to established rules about user access and other security protocols, further reducing internal and external fraud risk. In addition, as data flows continuously in and out of the ERP, it allows ERP-resident and machine-learning-enabled treasury apps to learn from experience how to handle exceptions. This significantly reduces the number of transactions staff must review, enabling faster and more accurate downstream processes.

In addition, by using an API aggregator, treasury can be more agile in adjusting to changes in the company’s business model and financial ecosystem. For example, master APIs makes it much easier to switch banks or adopt new payment methods.

Bank APIs will become a core component of the finance organization’s modern technology architecture.

THE MODERN FINANCE TECHNOLOGY ARCHITECTURE

The pandemic and technological innovation sparked an acceleration in the finance function’s digital transformation and the emergence of a new operating model that is more aligned with enterprise objectives. As a result, organizations are pivoting away from process-specific automation initiatives, moving instead toward a single, cohesive digital strategy that is anchored in a layer of smart data and enabled by process-agnostic functionalities.

Ultimately, discrete functionalities (e.g., for treasury, accounting or planning processes) will be delivered through a universe of ERP-embedded specialized apps that leverage a robust data platform, the latter continuously updated via live connectivity and enabled by APIs. The emergence of this functionality and related data ecosystem holds incredible potential for treasury organizations. Treasurers have always had a difficult time making a business case and securing resources to purchase and implement their own tools. As the entire finance organization coalesces around a single architecture, there will be greater appetite to invest in treasury functionalities.

In addition, this new platform will increase the speed and efficiency of treasury and other related activities, and free up staff to focus on more value-creating work, such as business partnering and analytics. While bank APIs and API aggregators will not supplant legacy connectivity methods overnight, the trend is clear: Bank APIs will become a core component of the finance organization’s modern technology architecture.

About the Advisors



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Ms. Essaides has over 25 years of experience researching, writing, and speaking about finance and treasury issues, with a focus on the way finance adds value to the enterprise by leveraging digital technologies and improving the planning process. Previously, she worked at the Association for Financial Professionals, where she led the Financial Planning and Analysis practice. A prolific blogger with thousands of LinkedIn followers, she co-authored a book about the internal transfer of best practices, titled *If Only We Knew What We Know* (Simon & Schuster).



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In his current role, Mr. DeGraw conducts topical research, supports client inquiries, leads member webcasts, performs client briefings, and speaks at conferences on topics including working capital, purchase-to-pay and customer-to-cash processes. His expertise includes credit/risk modeling, customer segmentation, collection strategies, supplier risk analysis, buy/pay transactional strategy, and leverage of automation. He has over 20 years of corporate and consulting experience in business process creation and reengineering, cost reduction/management, planning, budgeting and financial analysis. Mr. DeGraw's previous experience with The Hackett Group has included managing and delivering finance, procurement and other benchmark projects for clients in both the public and private sector.

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