CUSTOMER CASE STUDY

PermataBank

How one of Indonesia's leading banks rapidly increased new accounts and transaction volume in three years with APIs

INDUSTRY

Financial Services

GEOGRAPHY

Indonesia

CHALLENGES

Meet changing customer expectations with alternative tech solutions that solve their money management needs.

SOLUTION

Created new business models and fintech partnerships with the help of Amplify API Management Platform.

RESULTS

- 375 percent increase in account acquisition
- 72 percent of new accounts attributed to APIs
- 274 percent CAGR growth in transaction volume

PermataBank

In just three years, PermataBank tripled new account acquisition without adding branches or staffing resources to their distribution network. This growth is almost all fueled by new APIs, which contributed 72 percent of new account acquisition in 2019.

Working with new fintech partners in wealth management and P2P lenders, as well as enabling payments APIs for platform businesses like e-commerce, rideshare, payment gateways, and online gaming providers, PermataBank has entered new markets, extended its customer base, and increased the size of transactions conducted through the bank.

The customer experience era, not regulation, is the true business driver

More than the push from regulatory authorities towards open banking, external impacts and changing consumer demands are forcing banks to reconsider their customer relationships. Leading banks around the globe are realizing the potential of APIs to help them with this transition and those who are proactively creating and implementing APIs — like PermataBank — are now seeing significant business benefits from the adoption of new API-powered business models.

Since starting its API journey, PermataBank has increased new account creation by an annual growth rate of 68.1 percent — a 375 percent increase over three years. The bulk of these new accounts was generated through new partnerships with fintech providers. Bank APIs were embedded into fintech apps and services, enabling PermataBank to define new business models that reached previously hard-to-access customer target segments via the fintech partners.

The business model value chain extended from direct customer relationships to one in which new accounts were generated through partners, and the bank was then able to increase revenue through processing on services like payments, money transfers, account reconciliation, and account notification.

Transaction volume grew at 274 percent CAGR over the three-year period. According to Abdy Salimin, PermataBank CIO and Director of Technology and Operations, “While there were some normal annual increases, bank APIs and the willingness to try new business models were behind much of this rapid growth.”

PermataBank’s legacy systems and digital focus

PermataBank is one of the top 10 banks in Indonesia, with about 320 branches and strong digital channels across mobile, internet, point-of-sale, ATM, and voice ID in call centers. “We are now market leading in digital banking,” Abdy says, “but competitors are catching up fast.”

PermataBank’s digitization and IT modernization processes began just three years ago. In 2002, five Indonesian banks merged to become PermataBank, so the number of legacy systems was quite high. The bank decided to merge everything into one common platform, with core banking systems now running on a mainframe-based transaction platform.

Abdy says, at the time, the bank’s digital banking platform was old and badly needed an overhaul — it was already looking dated in terms of consumer expectations and mobile design trends. So they decided to focus on digital self-service channels by rearchitecting and modernizing their digital banking platform. This gave them the opportunity to also start exposing products and services to partners outside the bank via APIs.

This modernization process then led them to two key questions, says Abdy: “How will partners consume our products and services via APIs? Similarly, we are facing the same challenges with our own internal developers who build apps for channels — how do we build APIs once across the enterprise for both developer groups?” Abdy says they focused at that time on introducing an integration layer connected to their core platform, and installed an API gateway above that, using Axway’s products to help them manage their forthcoming APIs.

“By the end of 2017, we had the first release of our APIs. In 2018, we released our first mobile banking APIs. Since then, we have rolled out many digital capabilities, and with the APIs powering our new products and services, we have just opened our first digital model branch,” Abdy says. All have been built on this foundation layer that enabled them to grow their digital capabilities faster, reliably and leading the market.

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Harnessing a digital economy: Challenges and needs for new business models

Of course, as with any large enterprise, this move to APIs wasn't always well understood within the bank's leadership. Abdy's team had to socialize and answer questions like: "What is an API? What business challenges can APIs solve? What business opportunities can they capture? And what are the key benefits we can expect from investment in APIs?" This is not unusual amongst enterprises, especially where there has been a direct "customer pays/customer receives value" business model. It's only natural, then, for management to expect to replicate this model in the digital realm, by charging directly for the APIs.

The introduction of APIs to PermataBank was occurring at a time of wider shifts in consumer expectations that is part of a global trend. Today, consumers expect to be able to use their mobile phones to carry out many of their day-to-day transactions, and that requires digital infrastructures. In Indonesia, this is also coupled with a different population dynamic in which, according to the World Bank, 66 percent of the population does not have a bank account, nor sees a need for one.

"It is difficult to keep growing our offline branches and customer base," says Abdy. "It's expensive, and the number of transactions at branches has been slowing. Traditionally, for a bank, the way customers can open accounts and get loans is through face-to-face or mobile and internet banking, but we are now finding even mobile and internet channels are quite limited. The volume is not significant, and even if you open up 20 percent more branches, you will not get that many more customers and the acquisition costs are high."

Instead, he says, consumers are using mobile money wallets to make payments directly and new startups, gig-economy workers, and highly educated under 30-year-olds are looking for alternative tech solutions to solve their money management needs.

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> *In 2016, we had to make a strategic decision whether to modernize our core banking platform and keep the legacy infrastructure or re-architect to modernize our front end.*

Non-direct revenue business models: The case for banking

Abdy says the digital layer the bank now had in place helped them reorient their business towards this new digital economy context. "There are many P2P lenders and e-commerce customers in the market, but 150 million of them don't have bank accounts. So they are currently offered loans at a higher interest rate, and we don't have the ability to acquire these customers. But fintech can reach these potential customers. The customers are looking for tech and mobile solutions. So, we rely on fintech to do the acquisition, and our API is the one that brings them to our loan books. The APIs underwrite the loan and bring the customers to us. And the regulator loves us because we are bringing the loans and migrating the unbanked into the banking system," Abdy explains.

Abdy gives two examples: a wealth management provider and a P2P lending platform.

"It's important to note that in both cases, the way we position the APIs is not by selling the technology. These new business relationships require us to identify opportunities by understanding their key pain points," Abdy cautions.

"This is an important starting point for any business looking to map out potential new business models with ecosystem partners."

In the case of the wealth management provider, the bank had a mobile app that allowed customers to buy and trade shares. The pain point the wealth management provider had was that, after new customers opened trading accounts in the app, they had to visit an offline bank to get their funding account open. But customers weren't doing that, resulting in a drop off-rate of around 60-70 percent. "That was their pain point, so we embedded our API into their app," Abdy explains. "When a customer opened a trading account, we could open a funding account for the customer as well. Now, the customer can get everything set up quickly and, within five minutes, they can go from opening their funding account to starting to trade."

In the P2P lending platform use case, a similar value chain would break down for their external partner. "Customers would download the app and start applying for unsecured loans," says Abdy. "P2P lenders use its sophisticated underwriting algorithms and big data analytics that can quickly offer loans to their customers. But to disburse the loan, where does the money come from? And where are they going to disburse the loan to? How are end customers going to make payments every month? So that's where we came in. We gave the fintech platform three APIs: one to open an account, one to channel the loan from the P2P lender to the customer account, and another to disburse the loan and accept monthly repayments."

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Business model outcomes

New account growth

- In FY 2016, Permata opened 1.6 million new accounts
- In FY 2019, Permata opened 7.6 million new accounts

Business model impacts

Through working with partners such as wealth management providers, P2P lenders, payment gateways, and online gaming providers, Permata is able to reach unbanked young entrepreneurs and highly educated under 30-year-olds and underwrite bank account services for the fintech partners. These new business relationships do not immediately impact revenue, although the customer acquisition cost is drastically reduced, resulting in operational savings.

Banking transaction volume growth

- In FY 2016, Permata conducted 153 million transactions/year
- In FY 2019, Permata conducted 288 million transactions/year

Over the same period, total headcount and cost remained flat. This translated to 17 percent CAGR improvement in productivity and 12 percent CAGR reduction in unit operating cost.

Business model impacts

Payment transactions are made with a small fee paid to PermataBank based on the transaction amount. The bank grows revenue through increased transactions generated by new customers using fintech partner services. Permata is also integrating its APIs with other partners such as telcos, lifestyle providers, schools, universities, music, rideshare, and travel platforms. This enables them to receive transaction fees from those platform end customers when they make payments.

"So, this is a new type of revenue stream for us. The new customer acquisition cost is very low," explains Abdy. This is in part due to the changing consumer dynamics where younger, digital-focused consumers prefer dealing with a fintech company rather than a bank. "The customer acquisition costs are borne by the fintech in their promotion and marketing strategies. We focus on establishing the partnership, and the customers flow in."

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Once these new business models have been established, some of the old transactional type of models kick in, Abdy explains. For example, payment transactions via API do have fees attached, so every time fintech end customers receive loans, make repayments, or make trades, PermataBank receives a transactional payment fee.

The API-enabled road ahead

"We are now exploring more opportunities with our existing partners thanks to the new mindset our business has around innovative business models and partnership relations," says Abdy. "Fintech can't issue credit cards, for example, so now we are thinking about how we can position ourselves through our APIs so end customers can use credit cards. That may be like co-branding, so perhaps we have virtual credit cards with fintech partners. Because of the initial good stories we have built with our partners, there are a lot of new opportunities we can pursue by working together. Fintechs who have used our APIs see the value and are reaching out to us to discuss more opportunities."

With APIs, Abdy has been able to introduce more standardized approaches and build governance processes that ensure compliance and regulatory oversight is as stringent with the APIs as it has been with more traditional banking products and services. That results in faster speed to market when working with partners.

"APIs are becoming a core part of our business now because the digital economy is progressing well in Indonesia. We have more than 1,000 partners using our services already, and have 150 APIs published that anyone can use, but we are just getting started.

"There are a lot more services in the area of supply chain, payments, transfer, loans origination, account opening, and wealth management we can offer, and next we will be moving into a lot more corporate account services and more back-office APIs that will complement our internet banking services. Everyone across the bank now sees the potential and understands the change to our business models. We can move faster with this different perspective."

Trusting in the promise of APIs

One of the key benefits of APIs for large companies is that they enable new business models to emerge. The banking sector is often specifically singled out as a spotlight industry where APIs will completely alter the landscape by facilitating new opportunities.

It's true that many banks have started creating APIs, in part to meet emerging regulatory standards being introduced around the world (in Europe, Canada, Australia, Hong Kong, Singapore, Japan, and Israel to name a few). But beyond APIs for regulatory compliance, there is still confusion about what potential new business models would look like.

Visualizing a potential revenue stream worth pursuing can be a challenge for enterprise leaders responsible for encouraging a move toward API infrastructures. After all, banking is a very traditional industry with a proven business model that has worked since the 1700s, so it's not surprising that there is a reluctance to devote too many resources to creating APIs to test ideas.

For banks to remain relevant, however, they have no choice but to innovate. And the opportunities for growth are very real:

- New business models can emerge through partnerships between internal and external ecosystem stakeholders.
- Internal services like algorithms, data, and identity verification, alongside externally engaging services like bank account creation and loan approval processes can be made available to trusted partners.
- Value creation for the bank can come through revenue-sharing agreements, fees on processes carried out via API calls, on API calls themselves, by compute power, or for licensing and maintenance fees.

Change is never easy. As PermataBank proved, the key is to trust in the promise of APIs.

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