Using Composable Banking To Keep Up in a Digital World

technology digital banking

Summary: Bank tech is a rapidly changing landscape. Composable banking — building banking solutions through use of multiple APIs and plug-and-play platforms — offers a way for CFIs to more easily and effectively stay abreast of the latest trends.

No one has embraced modular design quite like IKEA. Functionality and low pricing over durability have been their business model from day one, and we see that reflected in their modular furniture design, where they manufacture separate furniture pieces that can create dozens upon dozens of different products.

Modular design is gaining popularity in digital and financial spaces, as well. Bank tech changes quickly, and community financial institutions (CFIs) often struggle to offer competitive digital solutions to their customers. One answer might be to adopt composable banking. The term refers to the use of open-source platforms that allow for the implementation of plug-and-play modules.

The Basics of Composable Banking

What is composable banking, and why should your CFI use this approach? For starters, composable banking is a solution that is, well, composed of multiple existing solutions. Through a variety of different methods, multiple platforms can be connected to your own platform. Thus, rather than building all of your own solutions, you simply plug ready-made ones that deliver the capabilities you need into your platform.

Composable banking can be a game-changer for smaller institutions to help them compete more effectively with large banks as customers demand more high-tech banking solutions. With a collection of tailored and customizable apps to create a seamless, cohesive experience, financial institutions can create a custom platform for their unique customer base, without having to build their own in-house digital solutions, which can be costly and labor-intensive.

A digital banking system that revolves around plug-and-play modules that can be added, swapped, or updated is a change from financial institutions' original goal to create a one-stop shop for digital banking. The one-size-fits-all approach has proven problematic, given how quickly customers' digital needs and wants change and how widely they vary.

Composable banking offers a way to respond to those rapid changes quickly and effectively. It provides smaller banks a way to move more nimbly in the digital space and thus be more competitive, particularly against new arrivals like neobanks that specialize in digital services.

How Composable Banking Works

To effectively tackle composable banking, CFIs need to understand the difference between modular systems and composable banking. The terms are often used interchangeably, but there are distinct differences. To say a setup is "modular" often refers to a vendor's specific core banking system, and the available modules are often limited to modules offered by the same vendor.

Composable banking is an open system. It revolves around application programming interfaces (APIs) that allow modules from different vendors, such as fintechs, to plug into the financial institution's systems. Open APIs give CFIs an almost unlimited choice of modules and vendors to use.

For composable banking to work effectively, financial institutions need to make sure their vendors have APIs that will allow application software to link up easily. The chosen APIs should also be easy to swap in and out to allow customization for a more dynamic set of solutions.

For instance, PCBB's cash management and international banking platform is an example of a user-friendly API. It allows cores and financial institutions to provide a comprehensive and tailored domestic and international wire offering to customers.

Advantages and Considerations of Composable Banking

Composable banking offers a number of advantages, including the following:

- Greater flexibility in offering digital solutions.
- Faster implementation of new solutions.
- Reduced cost of innovation.
- More personalization for customers.
- Ability to pick and choose among vendors for different needs.

Venturing into composable banking should involve a number of considerations, such as:

- Committing to an open banking platform.
- Employing a skilled tech team proficient in sourcing and assessing vendors.
- Possessing a deep understanding of customers' digital preferences and requirements.
- Having a robust digital integration plan capable of individual module swapping.

When deployed effectively, composable banking systems can enable CFIs to deliver the latest and best tech solutions quickly. This method provides a way for CFIs to become nimbler and more competitive, particularly when trying to respond to the challenge of neobanks.

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ECONOMY & RATES

Rates As Of: 02/13/2024 10:24AM (GMT-0800)

Treasury	Yields	MTD Chg	YTD Chg
3M	5.43	0.01	0.03
6M	5.27	0.09	0.01
1Y	4.97	0.26	0.20
2Y	4.62	0.41	0.37
5Y	4.28	0.45	0.43
10Y	4.29	0.37	0.41

30Y	4.45	0.28	0.42

FF Market	**FF Disc**	**IORB**
5.33	5.50	5.40
SOFR	**Prime**	**OBFR**
5.31	8.50	5.32