What is Open Banking?

Teaser: it is not fully open, and it is not only about banking
CGAP definition of an Open Banking Regime

Public sector driven or supported regulatory framework for data sharing

Sharing of customer transactional data by certain financial sector players (“data holders”) with other financial sector stakeholders (“data users”)

Sharing is upon customer consent and usually data users are accredited

Source: CGAP, based on a landscape study of 12+ regimes
Open Banking is a journey towards Open Data

Open Banking
Open Finance
Open Data

Open APIs
Why Open Banking?

Two main reasons
Reason No.1: Open Banking fosters competition

- Addresses data silos and informational asymmetry between traditional banks and other financial service providers
- Leads to the entry of more players, increases financial services offerings in number and diversity, and lowers prices
- Expands the pie for banks too.
Reason No. 2: Open Banking empowers customers

Data users’ access to transaction data allows customers to:

• Have a consolidated view of their data
• Access tailored products that are more suitable to their needs
• Make more informed financial choices, often resulting in significant savings

Source image: castelightfinancial.com
Open Banking, if properly designed, can also empower the poor

- Create products with improved value for underbanked
- Competition leads to lower prices & more affordability
- New OB entities view unbanked/underbanked as profitable resulting in:
  - an increase in the customer pie; and
  - incentivizing innovation by other stakeholders (ex. incumbents)
Open Banking products help overcome typical challenges faced by the poor

- Volatile and irregular income: Savings trackers and automatic saving sweepers
- No access or inappropriate credit product: Increase access to credit through alternative data
- Lack of control over budget and funds: Personal finance management
- High tariffs for household bills (poverty premium): Utility switching and personal finance management tools
- Lack of ID to access financial services: Collaborative approach to CDD
Key functionality: Payment initiation
Open Banking products can assist even feature phone users

- Many of the open-banking enabled products make use of the data only on the back end – ex. automatic savings sweeping, smart loan repayment and decentralised KYC

- Others are usable through a series of SMS/USSD menu, even if not full functionality - ex. switching utilities, budgeting apps
Open Banking: How To?

Twelve design components
There are 12 design components for an Open Banking Regime

Scope
1. Types of services
2. Participants
3. Types of data
4. Payment initiation

Implementation
5. Lead regulator/policy mandate
6. Mandatory vs voluntary
7. Technical specifications for data sharing
8. Staged implementation
9. Data privacy and portability
10. Liability and consumer protection
11. Cost distribution for the data requests
12. Governance

Of those, 5 are key to a “Financial Inclusion by Design”

Source: CGAP upcoming paper
“Financial Inclusion by Design”: Comparision of Brazil’s & UK’s open banking choices

<table>
<thead>
<tr>
<th>Design Element</th>
<th>UK</th>
<th>Brazil</th>
</tr>
</thead>
<tbody>
<tr>
<td>Types of services</td>
<td>Banking</td>
<td>All services regulated by CB</td>
</tr>
<tr>
<td>Participants</td>
<td>Mandatory 9 largest UK banks; no data reciprocity</td>
<td>Mandatory Segment 1 and 2 Prudential Conglomerates and all authorized payment institutions; data reciprocity</td>
</tr>
<tr>
<td>Types of data</td>
<td>Product data, transaction data</td>
<td>Product data, transaction data, customer registration data</td>
</tr>
<tr>
<td>Payment initiation</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Cost distribution: data calls &amp; infrastructure</td>
<td>Paid by 9 largest banks</td>
<td>Tiered pricing for calls, infrastructure by all participants, proportionate to MS</td>
</tr>
</tbody>
</table>
"Financial Inclusion by Design": Mapping key inclusive OB products to design components

Product: Savings trackers/automatic sweepers

<table>
<thead>
<tr>
<th>PARTICIPANTS</th>
<th>TYPES OF DATA</th>
<th>TYPES OF SERVICES</th>
<th>PAYMENT INITIATION</th>
<th>COST CONSIDERATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks, EMIs, PSPs, other FSPs</td>
<td>Customer transaction data</td>
<td>Banking, payments</td>
<td>Recurring payment initiation</td>
<td>Real time, continuous data calls</td>
</tr>
</tbody>
</table>

![Images of icons representing different concepts]
Discussion
Please post any question using the chat box.

For more, please visit: www.cgap.org

Resources:
cgap.org/blog/open-data-and-future-banking
cgap.org/blog/open-banking-7-ways-data-sharing-can-advance-financial-inclusion
Thank You!

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