



# Open Banking: How to Design for Financial Inclusion

FINANCIAL  
INCLUSION  
WEEK 2020

OCT  
13-16

CFI Financial Inclusion Week

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14 October 2020



# Speaker



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# 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**

# 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.

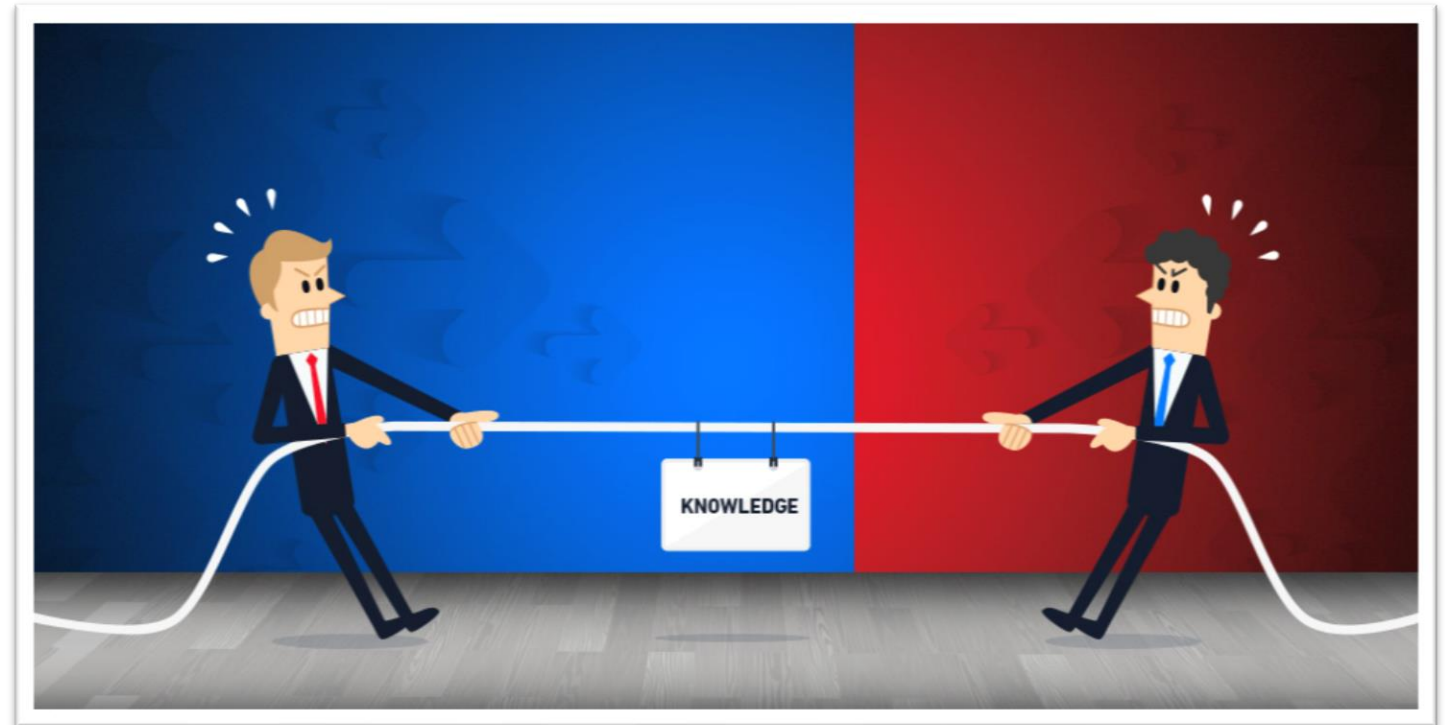


Image source: [pinnacle.com](http://pinnacle.com)

## 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: [castelighfinancial.com](https://castelighfinancial.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



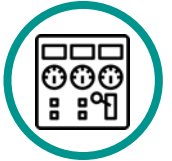
Savings trackers and automatic saving sweepers



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

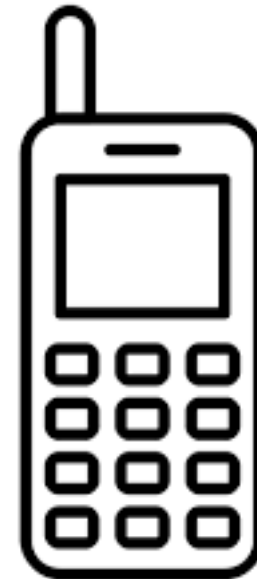
# Key functionality: Payment initiation



[Source image](#)

# 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”






# “Financial Inclusion by Design”: Comparision of Brazil’s & UK’s open banking choices



Design Element	UK	Brazil
Types of services	Banking	All services regulated by CB
Participants	Mandatory 9 largest UK banks; no data reciprocity	Mandatory Segment 1 and 2 Prudential Conglomerates and all authorized payment institutions; data reciprocity
Types of data	Product data, transaction data	Product data, transaction data, customer registration data
Payment initiation	Yes	Yes
Cost distribution: data calls & infrastructure	Paid by 9 largest banks	Tiered pricing for calls, infrastructure by all participants, proportionate to MS

# “Financial Inclusion by Design”: Mapping key inclusive OB products to design components

Product: Savings trackers/automatic sweepers

PARTICIPANTS	TYPES OF DATA	TYPES OF SERVICES	PAYMENT INITIATION	COST CONSIDERATIONS
Banks, EMIs, PSPs, other FSPs	Customer transaction data	Banking, payments	Recurring payment initiation	Real time, continuous data calls
				

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# Discussion

Please post any question using the chat box.

For more, please visit: [www.cgap.org](http://www.cgap.org)

Resources:

[cgap.org/blog/open-data-and-future-banking](http://cgap.org/blog/open-data-and-future-banking)

[cgap.org/blog/open-banking-7-ways-data-sharing-can-advance-financial-inclusion](http://cgap.org/blog/open-banking-7-ways-data-sharing-can-advance-financial-inclusion)

# Thank You!

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