

Open Finance Feedback Session

May 2021



Financial Sector
Conduct Authority

Agenda



Recap of Open Finance Consultation Paper

Approaches from other Jurisdictions

Summary of Comments Received

Next Steps

13.33 x 7.50 in

There are three Open Finance/Open Banking Workstreams currently underway

NPSD



South African Reserve Bank

Paper focuses on crafting Regulatory frameworks on Open Banking with emphasis on the Payments System, consistent with mandate, with specific emphasis on addressing the question of APIs vs Screen Scraping

FSCA



Financial Sector
Conduct Authority

Paper takes a wider lens than Open Banking by focusing on crafting regulatory frameworks around Open Finance with specific emphasis on how the customer is treated from consent, to how customer data is handled across the data management chain, consistent with mandate,

IFWG



Open Finance Working group established to draw on perspectives from member regulators, unpack the wider implications of Open Finance, and articulate key policy imperatives.



Open Finance and data-sharing is growing in prominence in order to enhance the provision of Financial Services

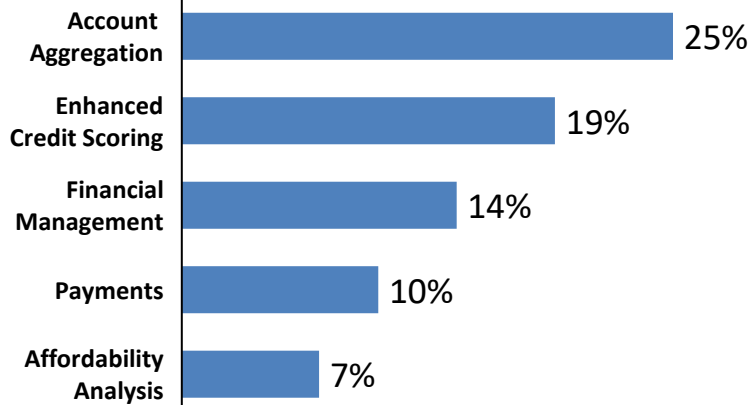
Open Finance trends

63% Customers are willing to share their financial data with a competitor to get a better deal

Customer churn/flight risk resulting from Open Finance **15 to 20%**

10 to 20% Profits at risk from Open Finance

Most Popular applications



Open Finance is spreading globally

In the European Union and the United Kingdom, PSD2 and the Open Banking Initiative are giving more control to the customer over personal account data. Digital banks such as N26 and Fidor, and digital lenders (eg, Klarna), are seeking to reinvent banking.



In the United States, large banks are striking data-sharing deals with individual partners in a departure from the aggregator model. Examples include Chase's partnership with Intuit and Wells Fargo's partnerships with Xero and Finicity.

In East Africa, new underwriting models are emerging from access to alternative sources of data, like mobile phone usage. Examples include M-Shwari, Tala, and Branch.

New digital finance ecosystems (eg, WeChat, AliPay) are emerging in China, based on data-sharing capabilities.

In South and Southeast Asia, fintechs are experiencing strong growth around APIs and data sharing. Examples include mobile wallet growth in India after demonetization and formal fintech governance at the Monetary Authority of Singapore.

What is Open Finance?

Definition

- A framework to allow consumers and enterprises to access and share their financial data with third party providers who can then use that data to develop innovative products and services with consent.
- Unlike Open Banking which is concerned with current accounts/transaction data, open finance's scope is much wider, affecting home loan providers, consumer credit providers, investment and pension funds, as well as general insurers and intermediaries
- *Our key regulatory position is that customer financial data belongs to the customer who therefore have the right to give consent for that data to be shared with licensed third party financial services providers*

Key use-cases



Payments



Digital Banks/ Neo Banks



Account Aggregation



Alternative Lending



Insurtech



Personal & Business Financial Management

Enabling Technologies



Open APIs



Screen Scraping



AI/ML & Big Data



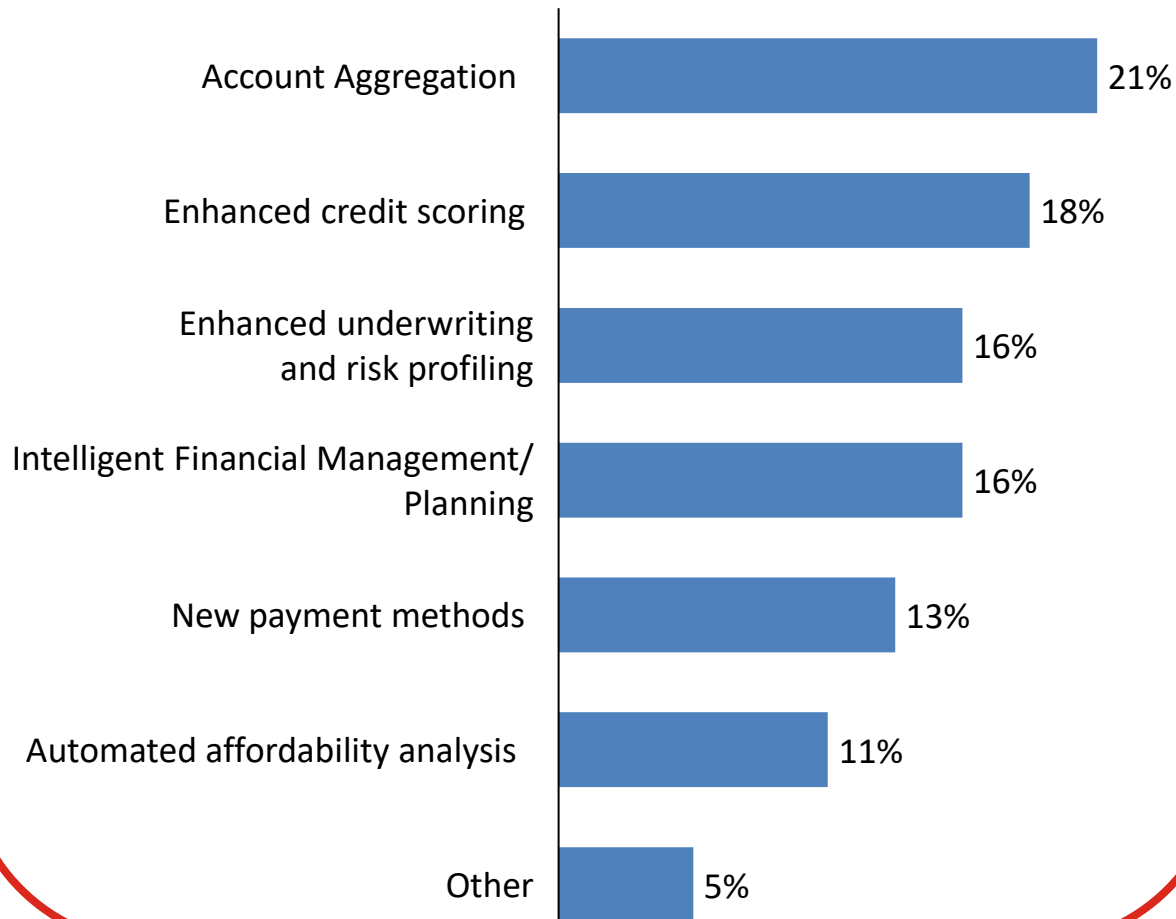
Cloud Computing



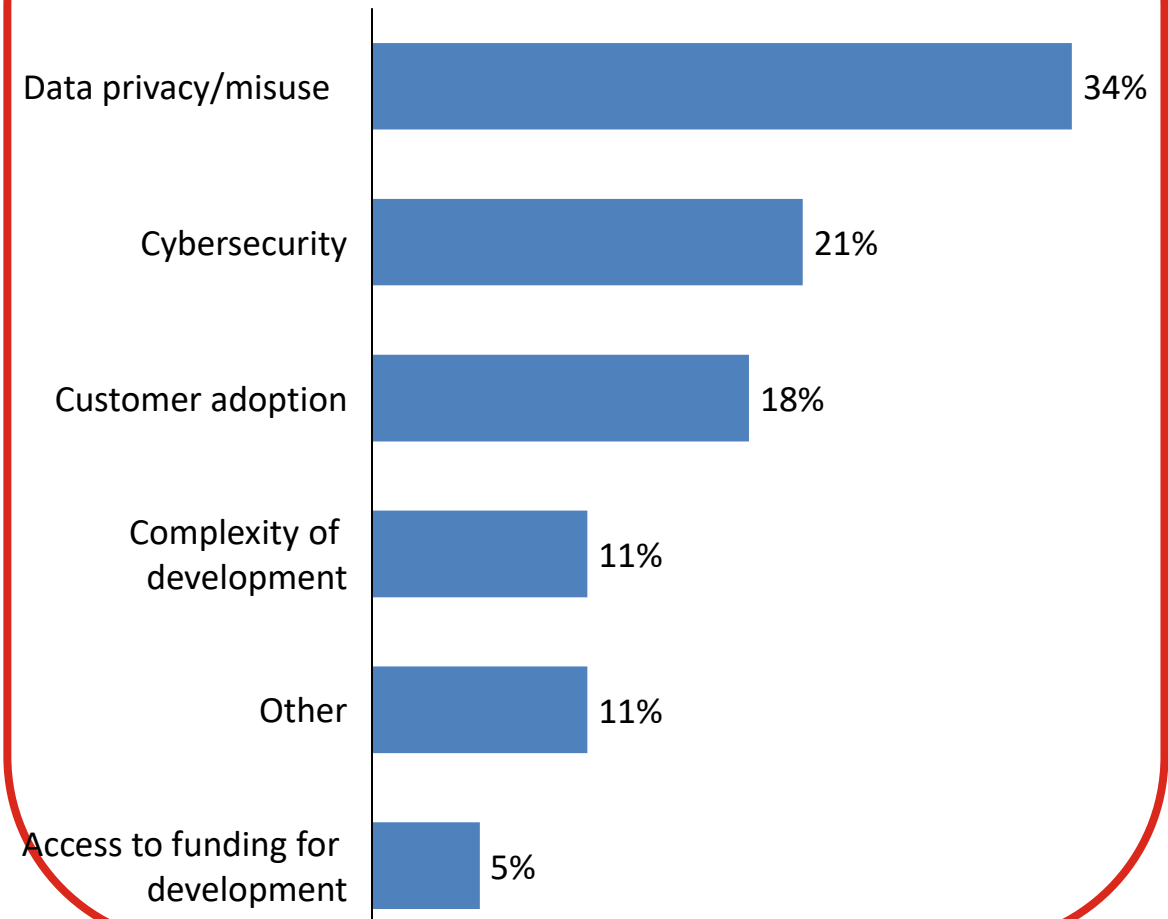
Open Finance Survey Results (1/2)

**75 Fintechs and Incumbent financial institutions surveyed*

Key Open Finance Benefits



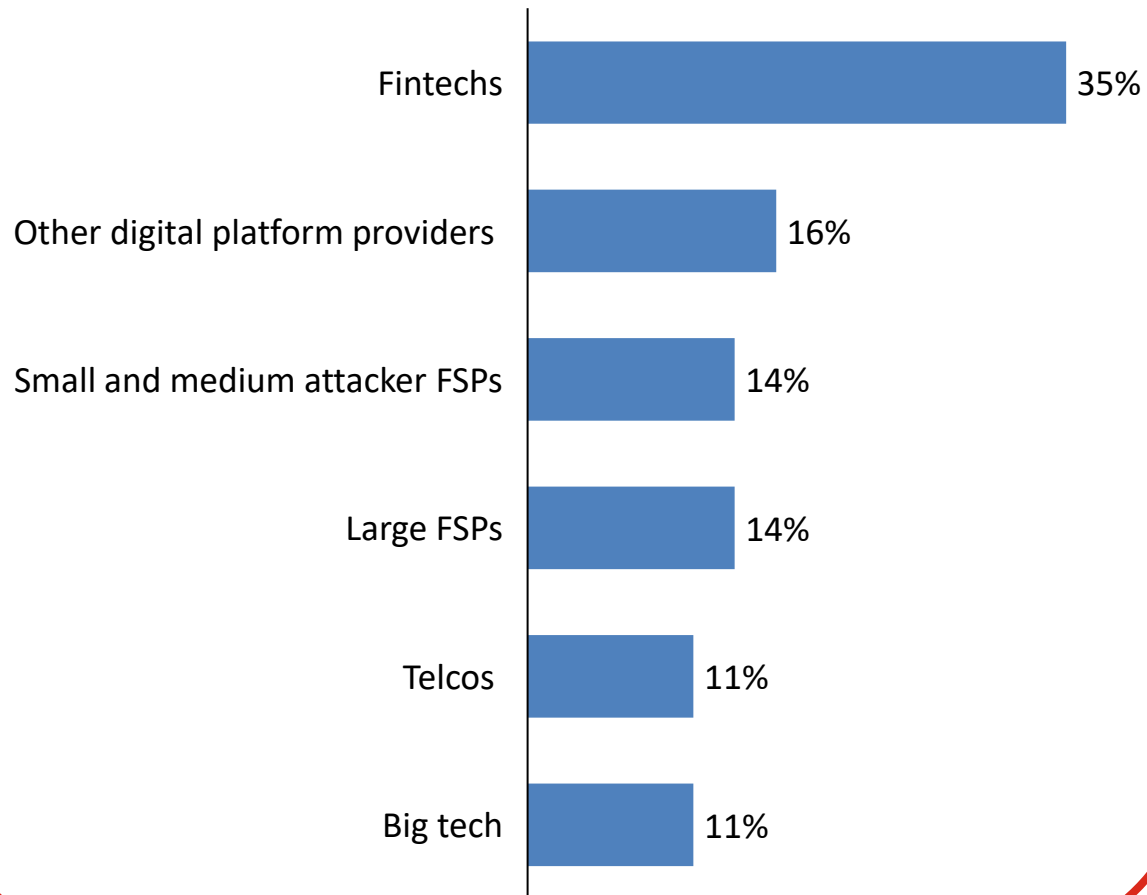
Key risks and Challenges



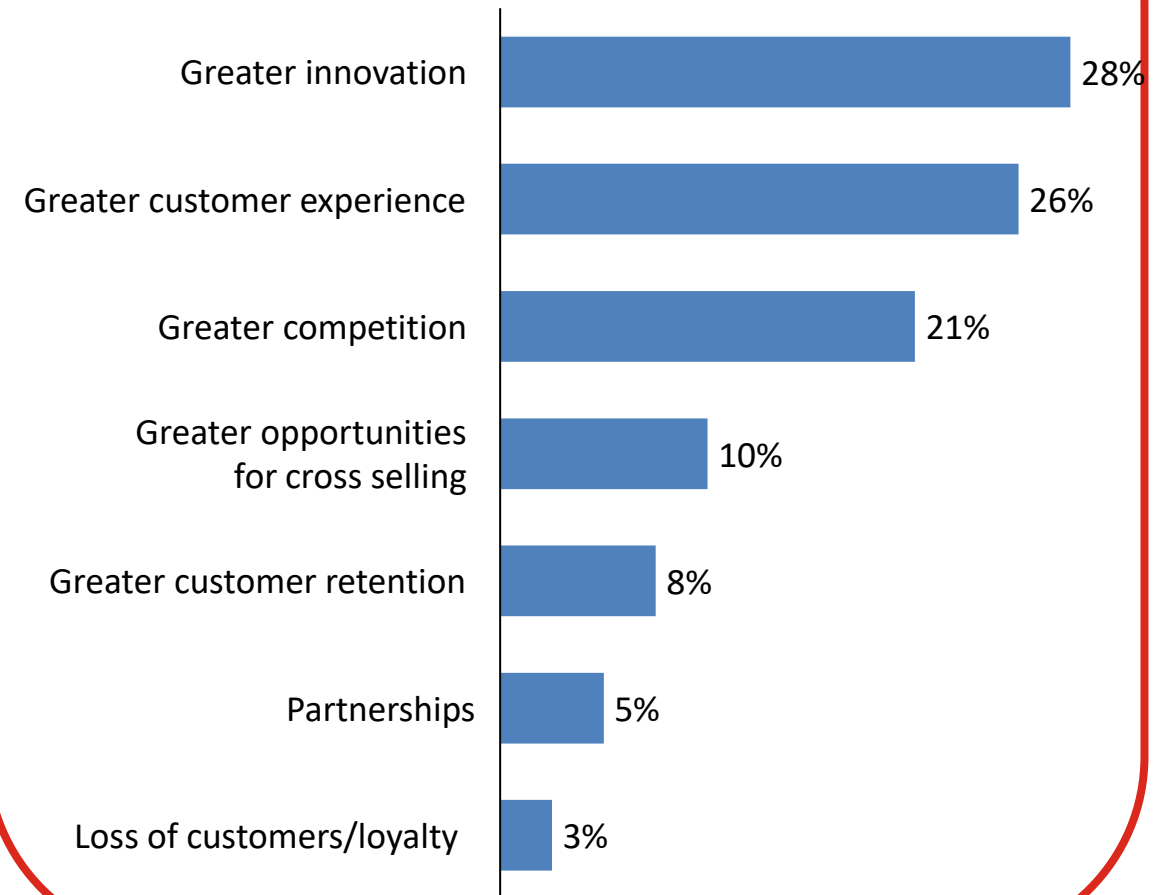
Open Finance Survey Results (2/2)

**75 Fintechs and Incumbent financial institutions surveyed*

Which players stand to gain most from Open Finance



Key expected outcomes from Open Finance



Survey findings revealed that Open APIs and Screen Scraping are the main technologies used to facilitate Open Finance

Open APIs

Open APIs are APIs that are used by external partners and developers to build innovative apps and products.

- Open API enable banks to exercise **greater control** over the type and extent of data shared and enable more secure access management and monitoring.
- Furthermore, open APIs provide advantages for third parties and customers, including potential improvements to **efficiency, data standardisation, customer privacy, and data protections.**
- Challenges regarding open APIs includes, the **time** and **cost** to build and **maintain APIs**;
- There is a lack the **lack of commonly accepted open API standards** in some jurisdictions; and
- The **economic cost for smaller banks** to develop and adopt open APIs have been cited as another challenge.

Screen Scraping

Screen scraping is the process of using automated scripts to collect displayed data elements from one application so that the data can be used by another application.

- Scraping from online platforms generally requires **the use of customer credentials to log in and access the data** as if the screen scraper was the customer.
- Screen scraping can undermine a bank's ability to identify **fraudulent transactions**, as banks cannot always distinguish between the customer, data aggregator, and an unauthorised third party that is logging in and extracting sensitive data.
- Screen scraping **doesn't allow customers to control the scope and duration** of access.
- Screen scraping may be perceived to **violate the terms and conditions** of customer accounts at financial institutions.
- However, screen scraping, when practiced by responsible parties, is a viable mechanism for data access with good control for security and operational risk.

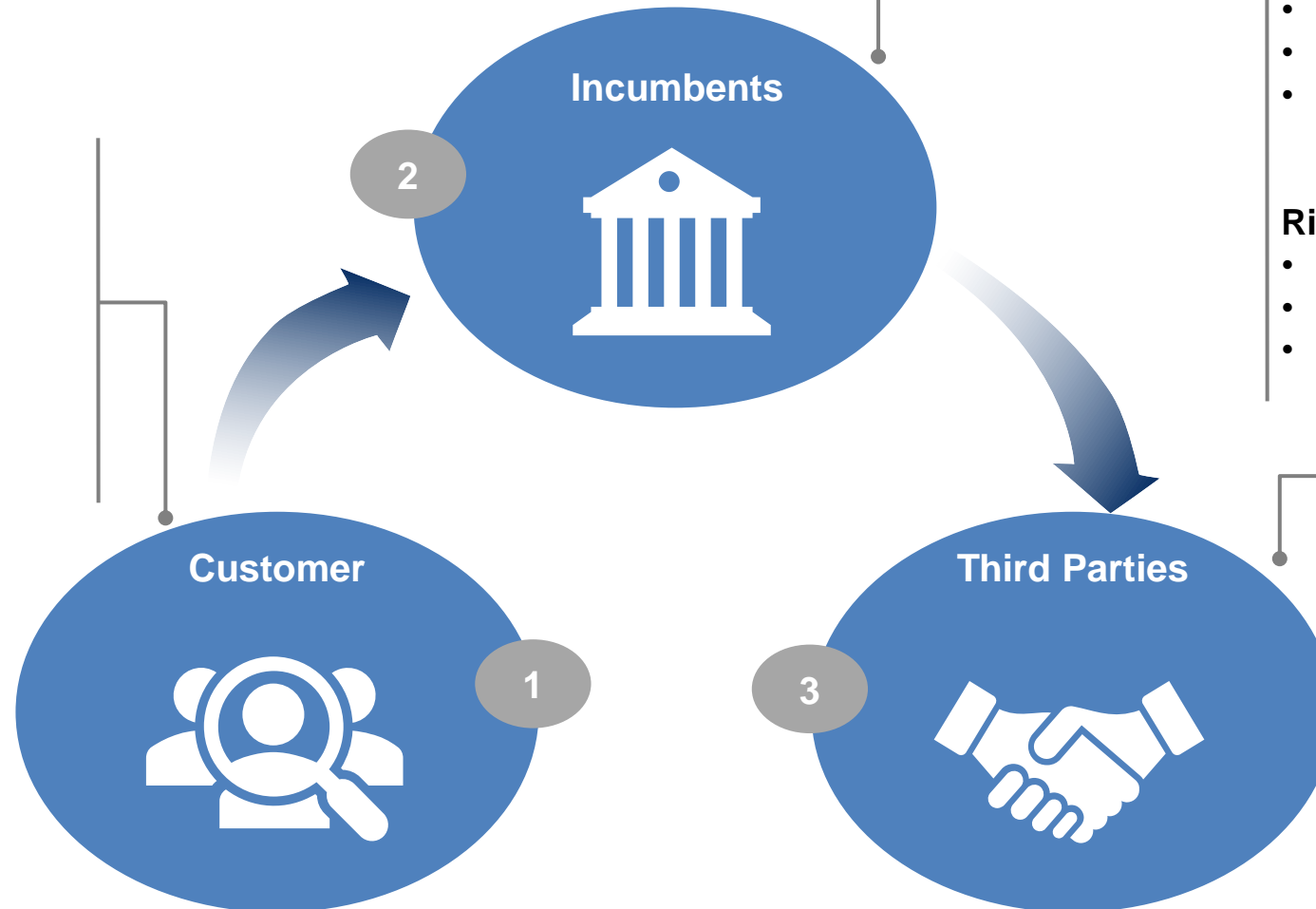
Open Finance promises a number of benefits but also poses some risks

Benefits:

- Increased options & competition
- Personalization
- Affordability
- Financial Inclusion

Risks:

- Data privacy/misuse
- Customer education



Benefits:

- Specialisation/focus
- Ecosystem orchestration
- Increased innovation through partnerships

Risks:

- Cybersecurity
- Interoperability
- Data Protection

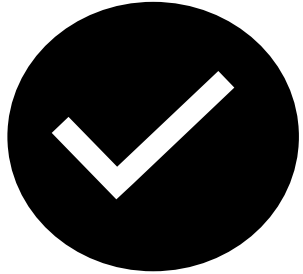
Benefits:

- Enables product and service innovation
- Lowers barriers to entry

Risks:

- Cybersecurity
- Interoperability
- Data Misuse
- Cost of implementation

Open Finance recommendations focused around 6 themes



Consent

Define customer consent, disclosures and customer education required to obtain it, and when it can be revoked



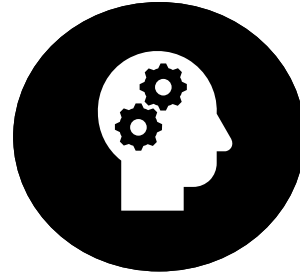
Customer Protection

Establish customer protection and dispute mechanism and complaints management processes required to ensure customers are treated fairly



Dispute Mechanism

Ensure a complaints management process is in place to resolve disputes between all parties in the customer chain



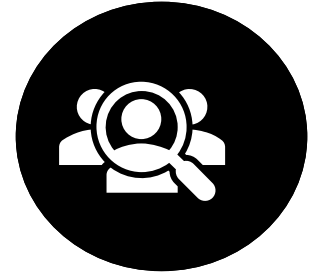
Data sharing Standards

Explore the benefits and risks around APIs and other Data Transfer mechanisms like Screen Scraping



Commercial Models

Distinguish between data that should be freely shared with third parties, and value added data sets that can be sold under a commercial agreement



Data Protection

Establish the level of data protection and liability framework required to ensure customers data is secure and customers' privacy is upheld



Agenda

Recap of Open Finance Consultation Paper

Approaches from other Jurisdictions

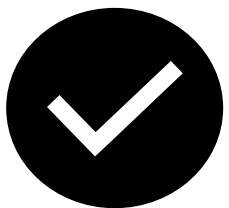
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Open Finance in other jurisdictions



Consent



Customer Protection



Dispute Mechanism



Data sharing Standards



Commercial Models



Data Protection



- **Renewable & use case specific**
- **Trackable and withdrawable**
- **Common Liability model for all use for**
- **Inaccurate data, misuse & harm TPP**
- **Single route for complaints, timely and free**
- **Implementation entity**
- **Common interoperable**
- **Free standard API**
- **Premium API**
- **Right to be forgot**
- **Data protection laws apply to Open Finance**



- **Framework issued for Consent**
- **Consent is trackable & withdrawable**
- **Participating TPP is Liable**
- **Existing complaints management mechanisms**
- **Oversight committee**
- **Technology standards set by industry**
- **Free standard API**
- **Premium Data Set API**
- **Data protection laws apply**



- **Renewable & use case specific**
- **Trackable and withdrawable**
- **Principle based Liability framework for all use cases**
- **Privacy regulator handles complaints**
- **Oversight committee**
- **Standards outsourced**
- **Reciprocity**
- **Free standard API**
- **Premium Data Set API**
- **No data deletion requirement**
- **Confidentiality provisions**

Agenda



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Overview of Comments Received (1/5)

Theme

Comment

Response

General

- How will **Open Finance fit into COFI**? How will aspects **not catered for in COFI** be handled?
- **Consideration must be given to other Legislation, Protection of Personal Information Act etc.**
- **Third Party Providers must be licensed**
- Other industry led modernization programs will be more effective. Open Finance will not lead to financial inclusion.
- Should we perhaps start with **Open Banking**, then **Open Finance. Staggered approach?**
- What is the “Customer Financial Data” that is being referring to? What about processed financial data?

- To be detailed further in forthcoming position paper
- Agreed. To be detailed further in forthcoming position paper
- Agreed, and recommended in existing paper
- Open Finance and other modernization approaches not mutually exclusive. Research findings suggest Open Finance to be a key enabler for financial inclusion
- Phased approached a possible consideration. However Open Banking only represents ~30% of Fintech activity.
- Primary Data and Secondary data collected from customers. Processed data not in scope. To be workshopped.



Overview of Comments Received (2/5)

Theme

Comment

Response

Data Sharing

- | Theme | Comment | Response |
|--------------|---|---|
| Data Sharing | <ul style="list-style-type: none">• Establishment of oversight committee to establishing standards, with Industry Included | <ul style="list-style-type: none">• Approach will be considered, to be workshopped further with industry |
| | <ul style="list-style-type: none">• Will there be contractual requirements between FSPs and TPPs? | <ul style="list-style-type: none">• No, to be replaced by Regulatory Framework |
| | <ul style="list-style-type: none">• Standards required for open APIs data sets needed. Are premium API/value added data sets included? | <ul style="list-style-type: none">• Agreed,. Standards to be workshopped further with industry |
| | <ul style="list-style-type: none">• Mixed views on screen scrapping on whether to Prohibit or not. APIs were indicated as the preferred mode | <ul style="list-style-type: none">• Screen scraping not prohibited by paper, but APIs are preferred |
| | <ul style="list-style-type: none">• Data Sharing standards<ul style="list-style-type: none">— Refusing consent should result in no data shared— Data should be time stamped— Only share data that is needed— Strict service level agreements— API should be maintained regularly | <ul style="list-style-type: none">• Detailed Data Sharing Standards to be workshopped further where various approaches will be considered |





Overview of Comments Received (3/5)

Theme

Comment

Response

Consent

- **Consent framework** needs to be **clearly defined**.
 - Is the **consent use case specific? Will it be time bound?**
 - **Will customer** have to be **informed** how their **data** is **used within a group?**
 - **Consent Standards**
 - **Consent** should **include who** is the provider, **what** data is being used and for **how** long.
 - **Consent** should be **linked to customer verification**
 - **Consent** should be **recorded**
 - **Consent** should **not** be **too broad** or **narrow**.
- Agreed and proposed in Consultation Paper. This will be further workshopped
 - Yes, this will be further unpacked at Consent workshop
 - To be considered and discussed at the Consent Workshop
 - To be considered and discussed at the Consent Workshop





Overview of Comments Received (4/5)

Theme

Comment

Response

Customer Protection

- **Defined liability framework** defining **data security, consumer education, data sharing and data use.**
- Who would be **liable for data breaches?**
- **Customer protection Standards**
 - **Data deletion** processes should be demonstrated **throughout the lifecycle** and **data lineage customer record.**
 - **The deletion** process should be **integrated** with **automatic triggers**
 - **FSP will know when data is shared but how it is being used.**

- Agreed, and conveyed in consultation paper
- Liability framework proposed in paper, to be further workshopped
- Approaches to considered. Standards to be workshopped further with industry

Dispute Mechanisms

- Dedicated **Ombudsman** specializing in **Open Finance** should be considered
- **Current complaints mechanisms** should be used

- Approaches to considered and workshopped
- Approaches to considered and workshopped



Overview of Comments Received (5/5)

Theme	Comment	Response
Commercial Model	<ul style="list-style-type: none">• Mixed views on free vs. fee on data being shared to TPP• Defining value added data sets• Consumer to not pay for connect costs and access to data. Borne on the TPP.	<ul style="list-style-type: none">• Free Open APIs in scope, Premium APIs out of scope• Agreed, guidelines and standards to be workshopped with industry
Data Protection	<ul style="list-style-type: none">• Where does the liability sit?• Liability and implication of POPIA• Strong data protection is needed in the data sharing chain.	<ul style="list-style-type: none">• Liability framework proposed in paper, to be further workshopped• Agreed. To be detailed further in forthcoming position paper• Agreed, and currently recommended in existing paper, workshop to further detail
Authentication	<ul style="list-style-type: none">• Card details, in-app authentication and biometrics	<ul style="list-style-type: none">• To be considered and discussed during workshops

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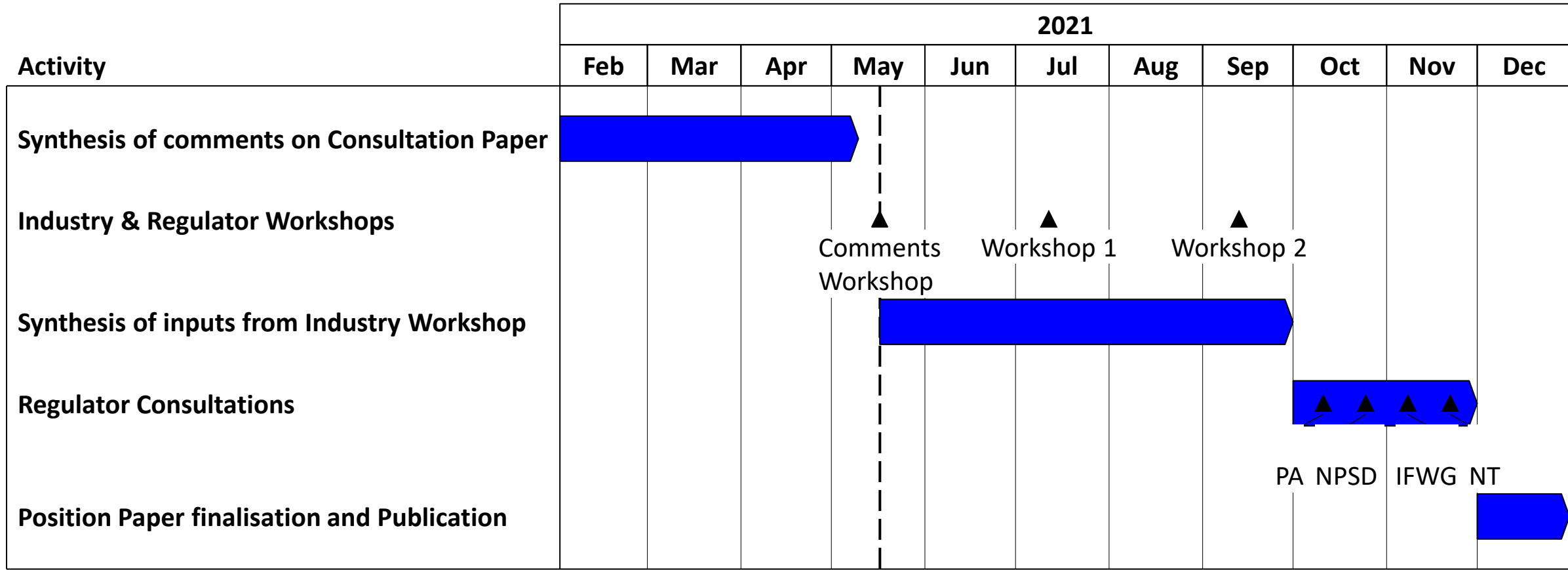
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Next steps: Workplan

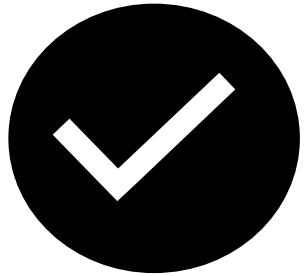


Today



Next Steps: Two workshops will be undertaken, focused on detailing the six themes identified in the paper

Workshop 1



Consent

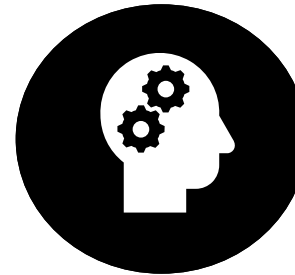


Customer Protection

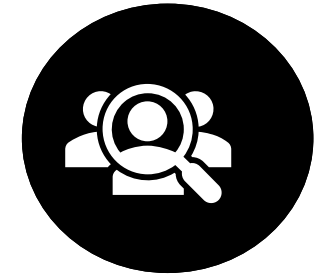


Dispute Mechanisms

Workshop 2



Data sharing Standards



Data Protection



Commercial Models

Questions

