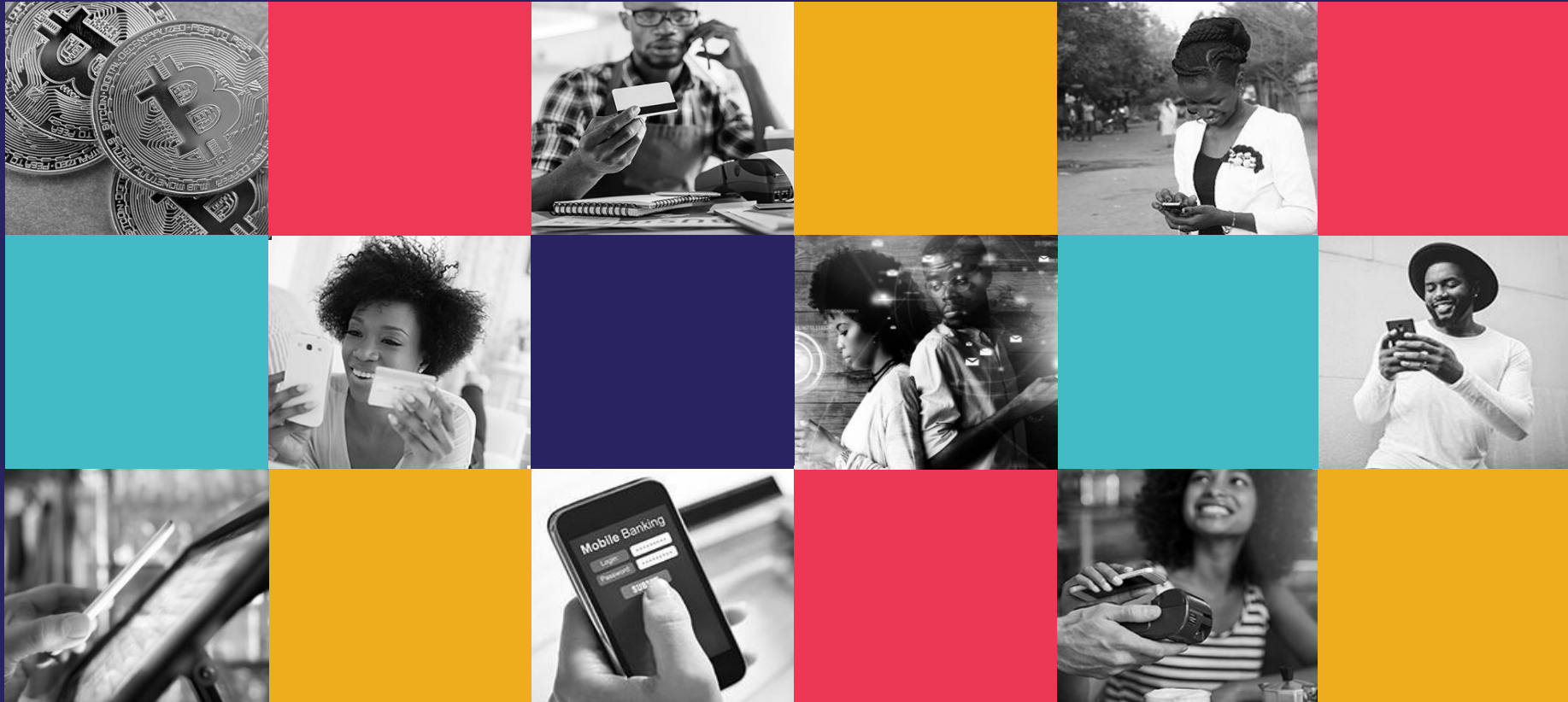


IFWVG

INTERGOVERNMENTAL FINTECH WORKING GROUP

FSCA's APPROACH TO REGULATING OPEN FINANCE



Welcome

Purpose of this session

- **Present the proposed regulatory approach to open finance** to key ecosystem players
 - Key Principles
 - Key Financial Activities
 - Industry Survey & Key Findings
 - General Recommendations on Open Finance Regulations



Key outcome sought

- **Signal to the market (financial sector) on our regulatory positions regarding Open Finance**, including some of the benefits we find compelling, and also some of the risks we'd like to mitigate
- Dialogue with and **obtain input from key ecosystem players** on;
 - Proposed regulations
 - Additional factors to be considered by regulators

Agenda

Open Finance Trends

Industry Survey Findings

Policy Recommendations



13.33 x 7.50 in

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 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

Financial Services Providers expecting Open Finance to result in increased competition

75%

15%

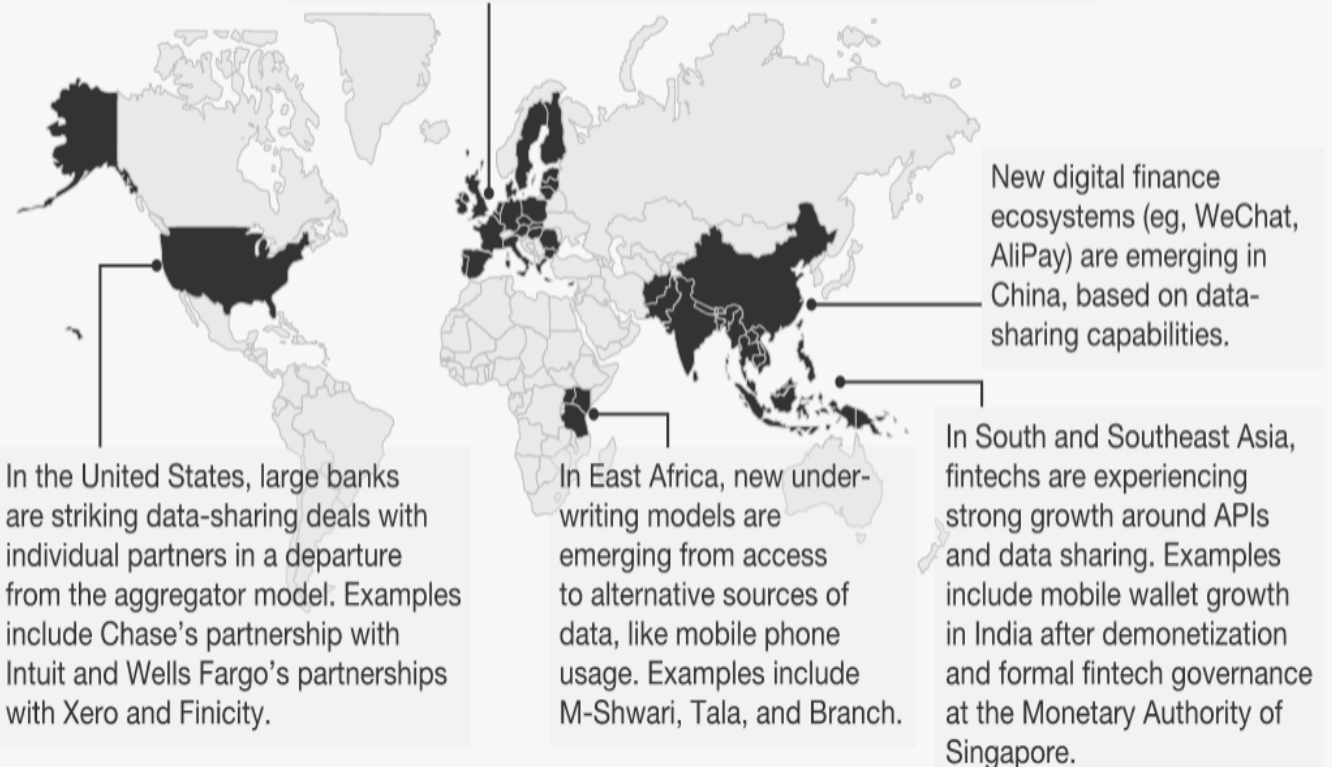
Profits at risk from Open Finance

Customer churn/flight risk resulting from Open Finance

20%

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.



Globally, Jurisdictions have approached Open Finance in a number of different ways

European Union



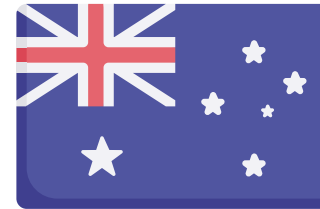
- In **EU PSD2** aims to improve competition by **opening up access to customer data held by banks**.
- Making it **easier for fintechs to offer services** like **account aggregation** or **bypass card networks** by making **payments straight from a bank account**. Essentially opening up payments to non-banks.

UK



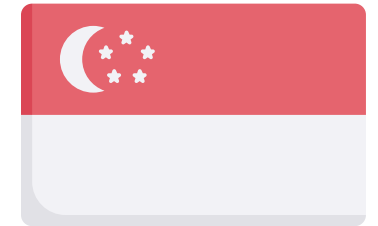
- **FCA drafted frameworks to enable Open Banking in the UK jurisdiction**.
- Furthermore the **UK Competition and Markets Authority ordered the 9 largest banks** to allow licensed startups direct access to customer data
- To date there are **202 FCA-regulated providers who are enrolled in Open Banking**, the majority offering **financial management apps or credit**.

Australia



- **Consumer Data Right Rules for Banking**.
- In Australia, open banking rolled out in stages.
- Only licensed and **accredited firms** by the Australian Competition and Consumer Commission are permitted to hold and transfer open banking data.
- Customers will be free to share their data with fintechs, enabling the startups

Singapore



- MAS published detailed **API playbook** in 2017.
- **Voluntary adoption**.
- **Prioritizes** the soundness and **stability** of its financial market **over any perceived benefits** of a more open, competitive landscape.



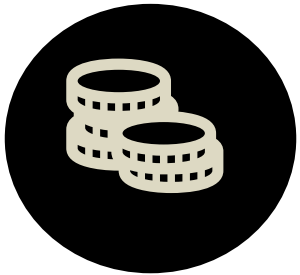


The top 6 open finance use-cases



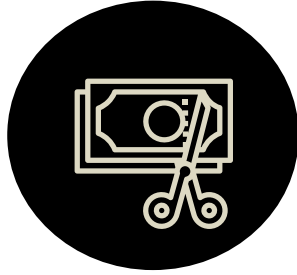
Payments

Customer transaction data is used by 3rd party providers to offer **alternative and value added payments products that offer an enhanced experience, are cheaper and faster**



Account Aggregation

Customer Data sourced from incumbent FSPs is used by 3rd party providers to **aggregate accounts into a single interface making it easier for customers to manage their financial services**



Alternative Lending

Customer Data sourced from incumbent FSPs is used by 3rd party providers for **credit scoring, affordability analysis and providing alternative lending products/value added services**



Financial Management

Customer Data sourced from incumbent FSPs is used by 3rd party providers to offer personal and business customers **financial planning and analytical tools to assist customers to manage and track their finances**



Insurtech

Customer Data sourced from incumbent FSPs is used by 3rd party providers to **help customers identify personalized and best priced insurtech products**



Digital/ Neo Banks

Digital banks **exchange data and integrate services from third party service providers via APIs**, in order to offer their customers a broader range of financial services



Agenda

Open Finance Trends

Industry Survey Findings

Policy Recommendations

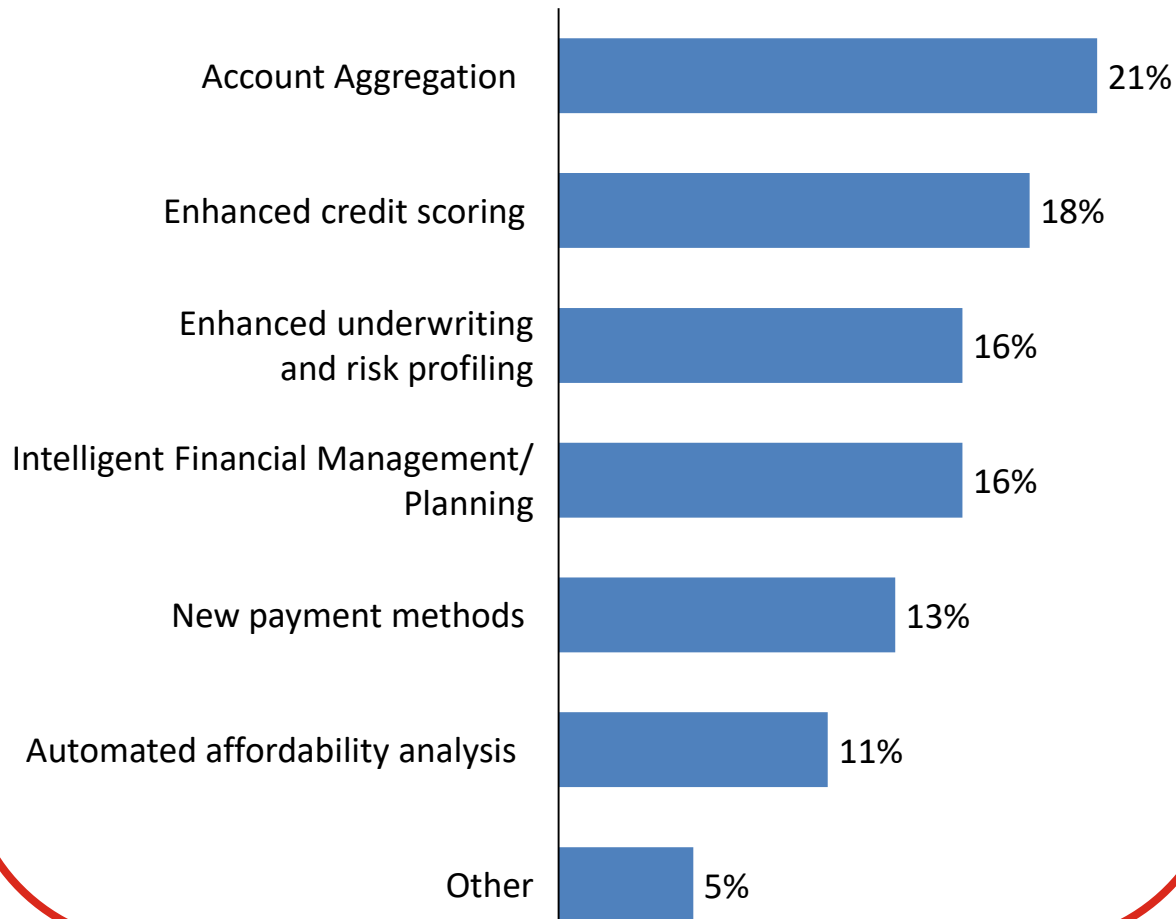


13.33 x 7.50 in

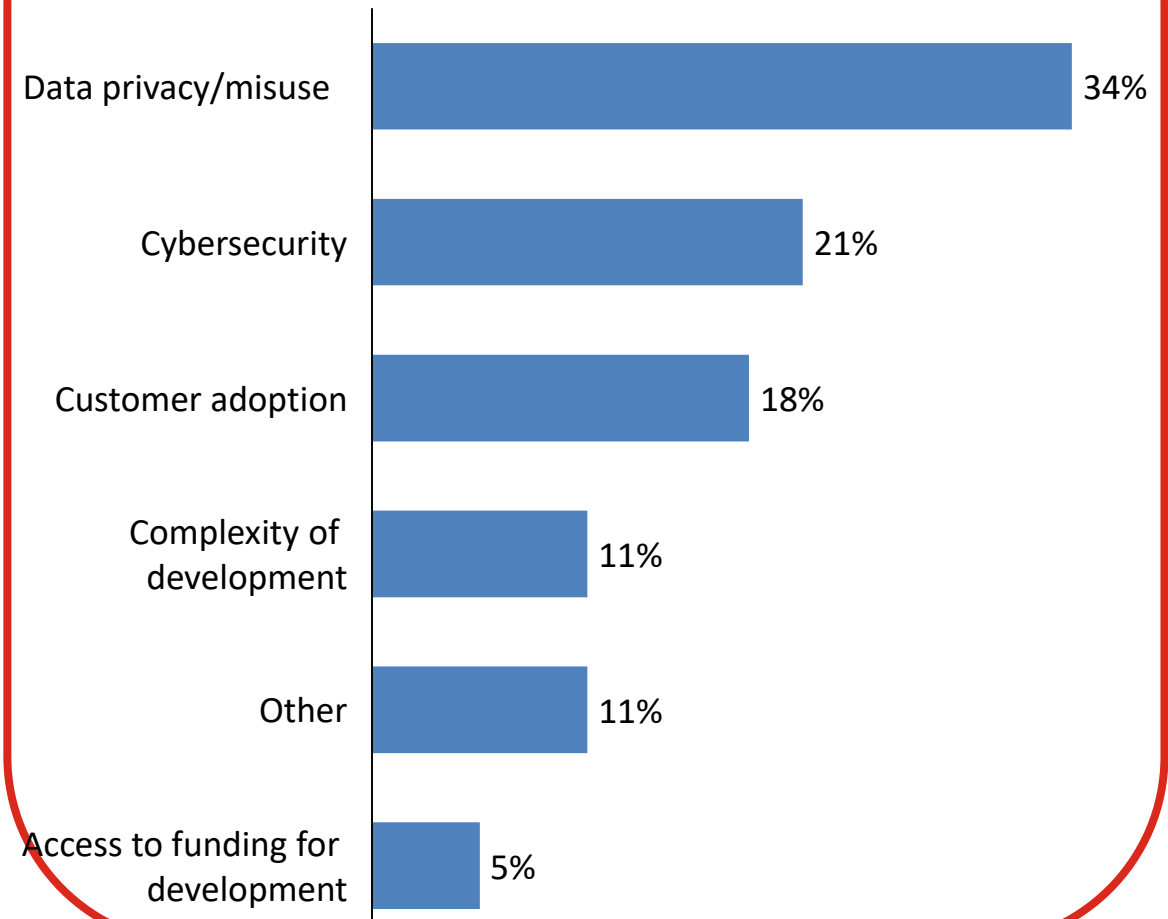
Open Finance Survey Results (1/2)

**75 Fintechs and Incumbent financial institutions surveyed*

Key Open Finance Benefits



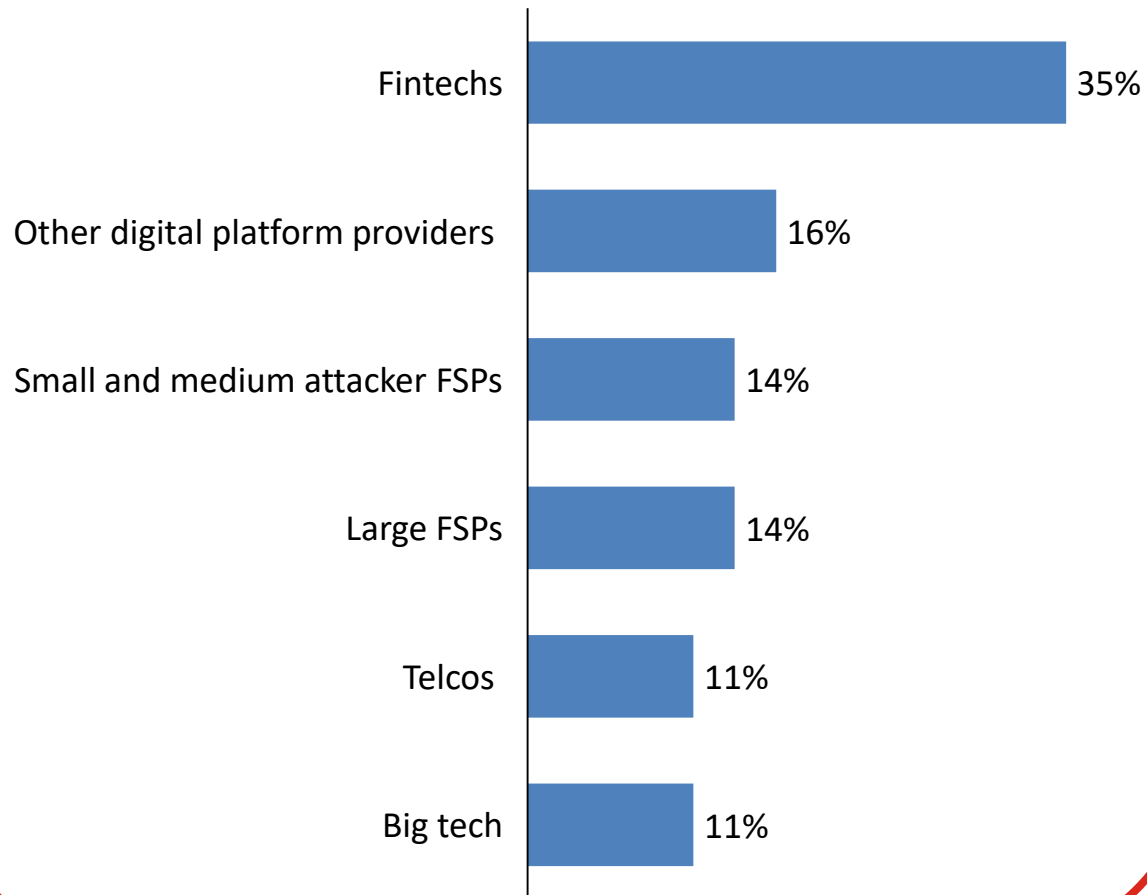
Key risks and Challenges



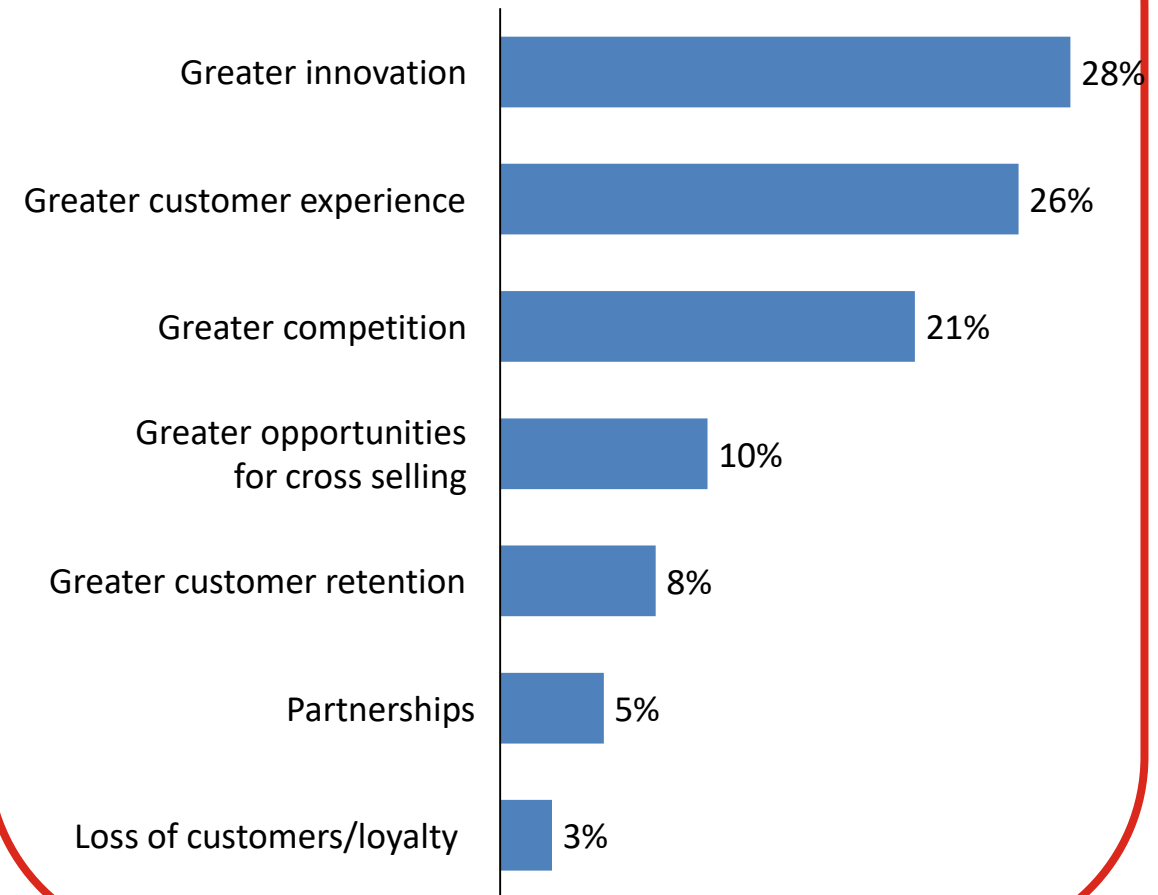
Open Finance Survey Results (2/2)

**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.

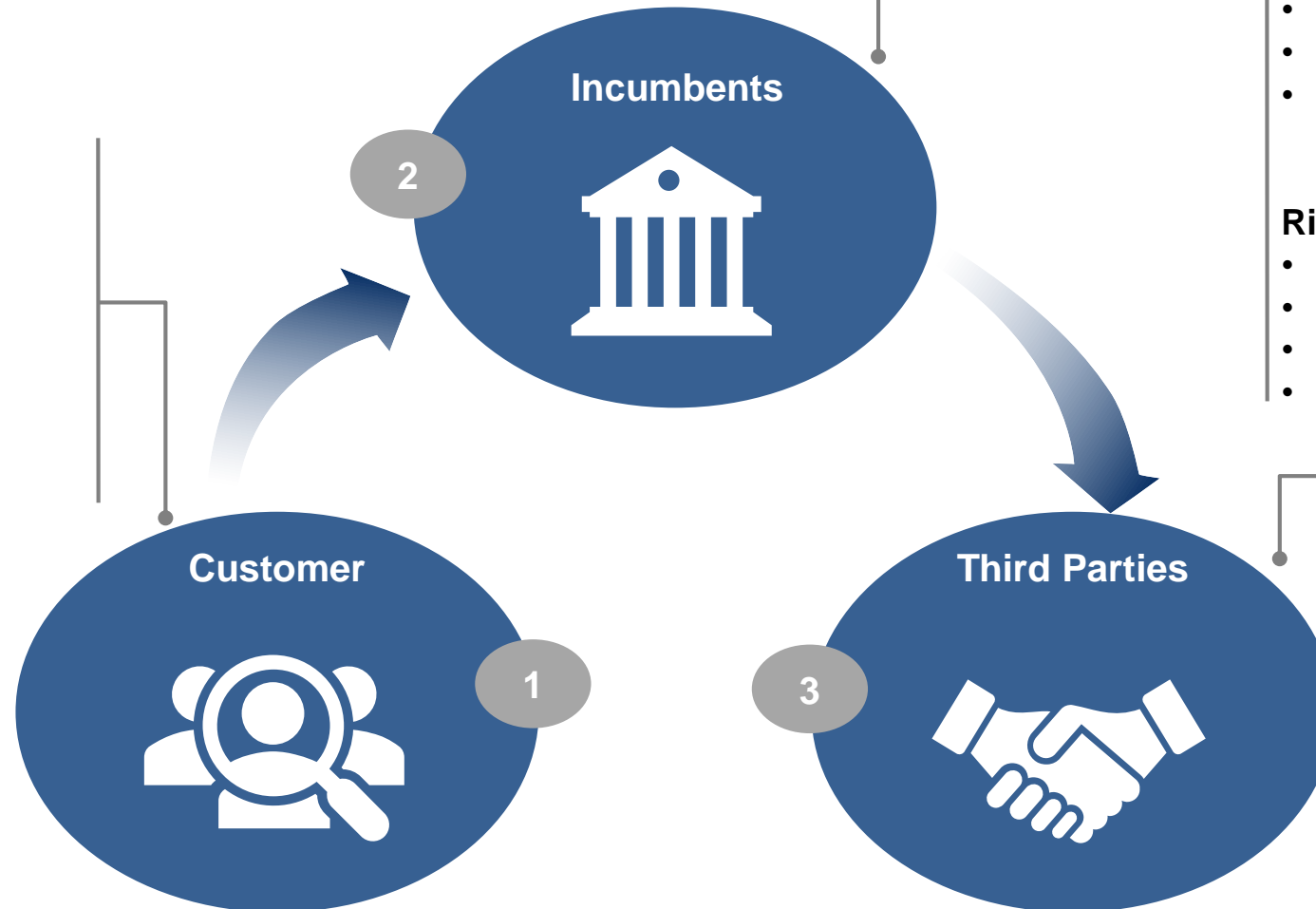
Open Finance promises a number of benefits but also poses some risks

Benefits:

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

Risks:

- Data privacy/misuse
- Customer education



Benefits:

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

Risks:

- Cybersecurity
- Interoperability
- Data Protection
- Cost of implementation

Benefits:

- Enables product and service innovation
- Lowers barriers to entry

Risks:

- Cybersecurity
- Interoperability
- Data Misuse
- Cost of implementation

Agenda

Open Finance Trends

Industry Survey Findings

Policy Recommendations



13.33 x 7.50 in

Recommendations (1/2)

Consent and Customer Protection

- **Customers have the right to give third party FSPs permission to collect their data** from incumbent institutions
- **Informed consent:** FSPs must visibly display their policies as well as terms and conditions to enable consumers can make an informed decision in granting access to their data.
- **Ability to revoke consent:** Customers should be able to request that data about them no longer be used by a third party (e.g. the right to be forgotten).
- **Informed Disclosure framework:** FSPs should have a framework in place that outlines the various disclosure mechanisms they will use to keep consumers informed, taking into account digital literacy levels.
- **Transparency:** Customers should be able to view or know the data that are collected about them and how they are used.
- **Challenge:** Customers should have the right to correct incorrect or incomplete data about them held by a TPP.
- **Accessibility:** FSPs should allow customers to download data about themselves.
- **Consumer education:** FSPs to take responsibility on regularly educating consumers on how their data will be used to shape the extent of products and services they will receive

Dispute Mechanism

- **All participants in the chain, TPPs and FSPs must be able to raise and resolve disputes** between all parties
- **Complaints management process:** FSPs should have a complaints management process in place



Recommendations (2/2)

Standards

- **Standardisation across Open Finance ecosystem:** through the development of API standards done in a way that promotes interoperability, efficiency and usability for all users.
- **Standardised API access:** to reduce barriers to entry (as third parties do not have to integrate on a firm-by-firm basis) and enhances security across the industry standardized APIs access must be established.
 - Existence of a common and open standard must not prevent a provider from differentiating themselves by providing access by another means (e.g. proprietary API), but such access should be provided alongside basic provision via the open standard.

Commercial Models

- **TPP right of access:** Licensed TPPs have a right to access data and execute actions on the customer's behalf with customer's explicit consent **without being charged a fee**
- **FSPs may also offer access to value added datasets on a commercial basis**, unless prevented from doing so by regulation, and provided consent has been obtained

Data Protection

- **A liability framework** to hold FSPs accountable for data misuse and harms caused by breaches of data duties of care (building on POPIA).
- A **Data Ethics Framework** should be in place to ensure data will not be used to unfairly discriminate against customers
- **Restriction of the use of blackbox algorithms** to guard against unfair discrimination



Implications for Financial Services Providers

Licensing

- FSPs to be licensed by FSCA to be able to undertake Open Finance activities, with the following key considerations
 - Informed consent framework
 - Dispute mechanisms
 - Customer education/protection
 - Business/ commercial models
 - Data transfer standards
 - Data protection practices
 - Data ethics frameworks

Supervision

- As part of our risk-based supervisory activities **FSPs to be inspected** on the following;
- Data protection practices
 - Customer education/ protection
 - Complaints management and dispute mechanisms
 - Cybersecurity
 - AML/CFT
 - Customer education/ protecton
 - Business/ commercial models

Enforcement

- As part of enforcement and investigation activities **data-led investigative suptech tools will be used** that focus on;
- Data Management via APIs
 - Digital Misconduct analysis/ financial crime surveillance/ identity management
 - Digital audit trails/cybersecurity detection
- 

Questions

