

OPEN BANKING CONCEPT

World experience and trends and IFC experience in the region

Monday, 25 October 2021



Creating Markets, Creating Opportunities



КЫРГЫЗ БАНКЫ

The concepts that are we going to present...

01 What is Open
Banking and its
Benefits

02 Open Banking
Regulatory
Approaches

03 Open Banking
Roadmap to
implementation

04 UK Open Banking
Implementation
Lesson Learned

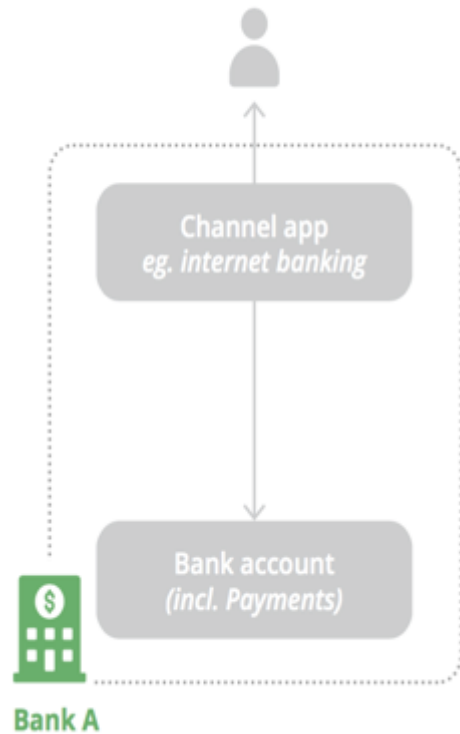
05 IFC projects in
the Region

06 Questions and
Answers

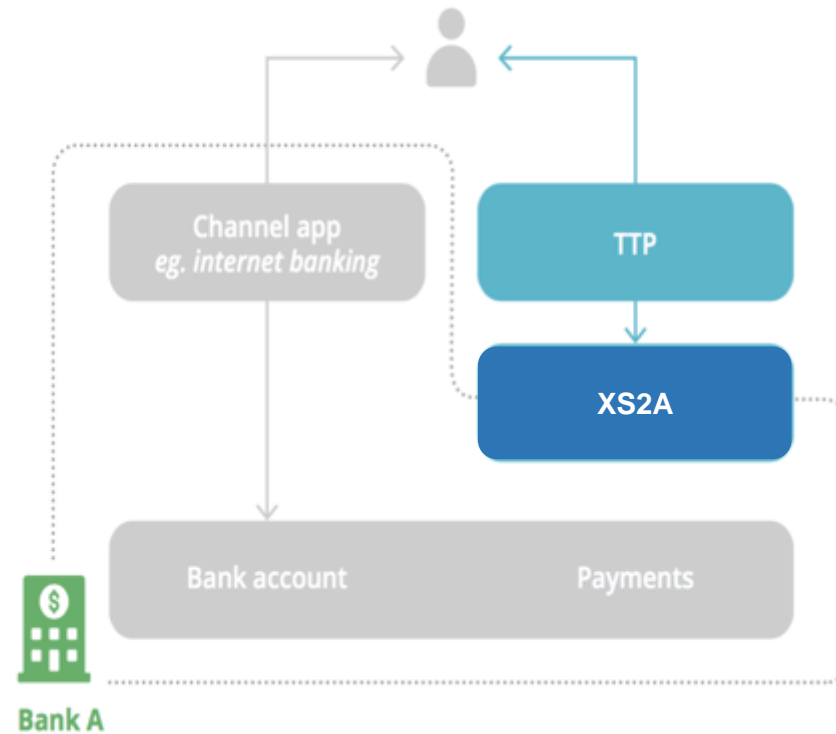
Open Banking

Additional insights about this movement

Before Open Banking



With Open Banking



Another definition of Open Banking

- Open Banking is a global movement that **motivates financial institutions to allow access to authorised third parties:**
 - to individual and business **customer data** (such as customer transactions)
 - to **banking services** (such as payment initiation)
 - in a **machine-readable format**
 - after the **client's consent**

Open Banking

Additional insights about this movement

Segment

Description of Use Case with Open Banking



SMEs

- An SME can potentially **save money** by using an intermediary to whom it had granted access to its account history to **calculate what bank charges it would have incurred if the transactions** it had performed over the previous 12 months **had been with another bank**
- And if it was looking for finance, by **sharing its bank transaction data it could quickly be directed to lenders whose eligibility criteria it met**

Consumer

- Consumers can make use of open banking services to **identify money saving opportunities through switching bank accounts** and can check their eligibility for a mortgage with different lenders
- There are use cases which are aimed at **protecting the more vulnerable** (e.g. alerting carers to unusual purchase behaviour by the people they are looking after¹⁰) **and facilitating access to financial services** (e.g. helping people with a thin credit file borrow money at lower cost)

Open Banking

Benefits for banks and users



New business model and revenue streams



New distribution channels and extended reach



Outsourced R&D and innovation promotion



Partnership development



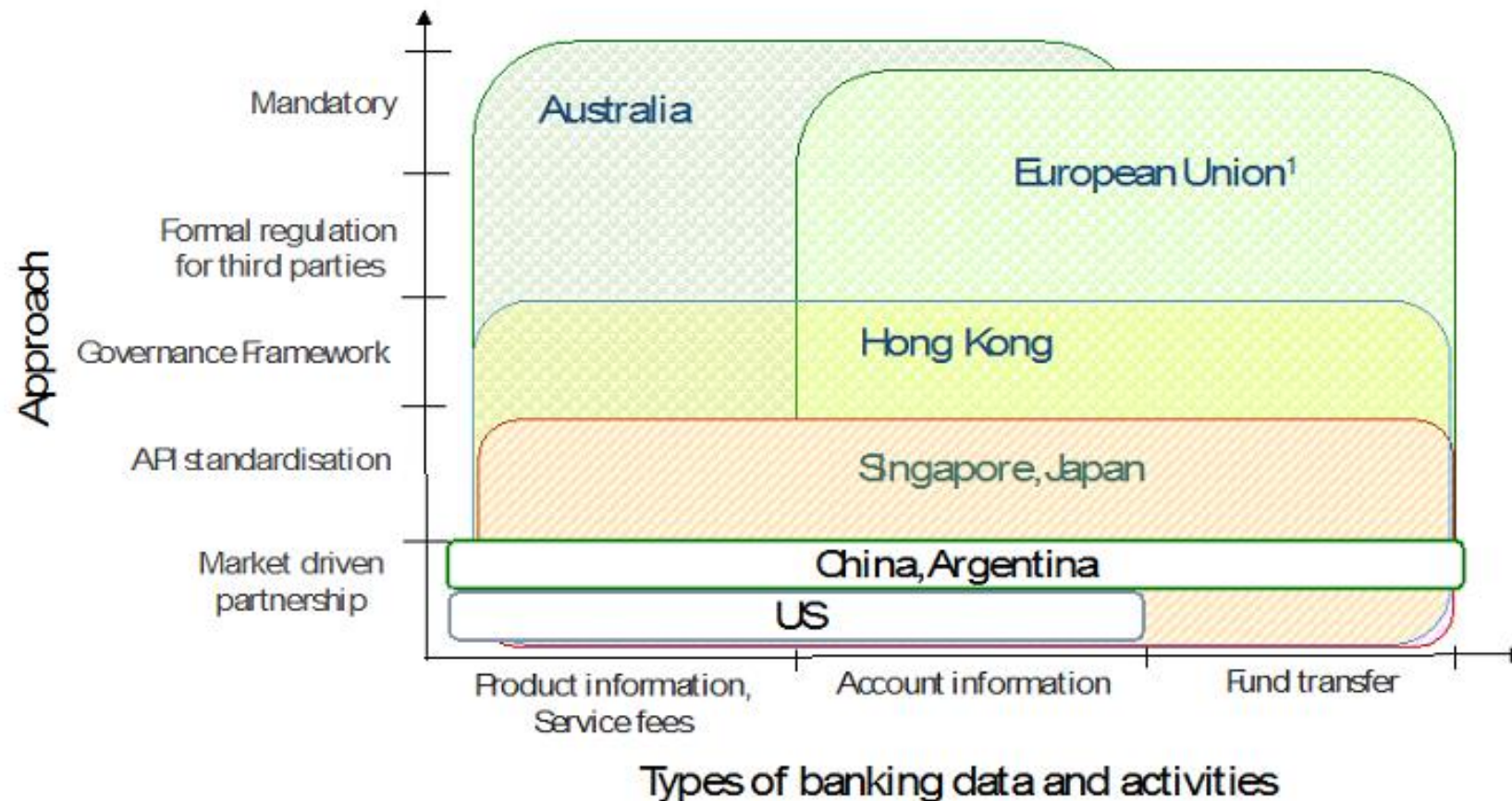
Rationalisation and control over who accesses your resources



Organisational flexibility with internal APIs

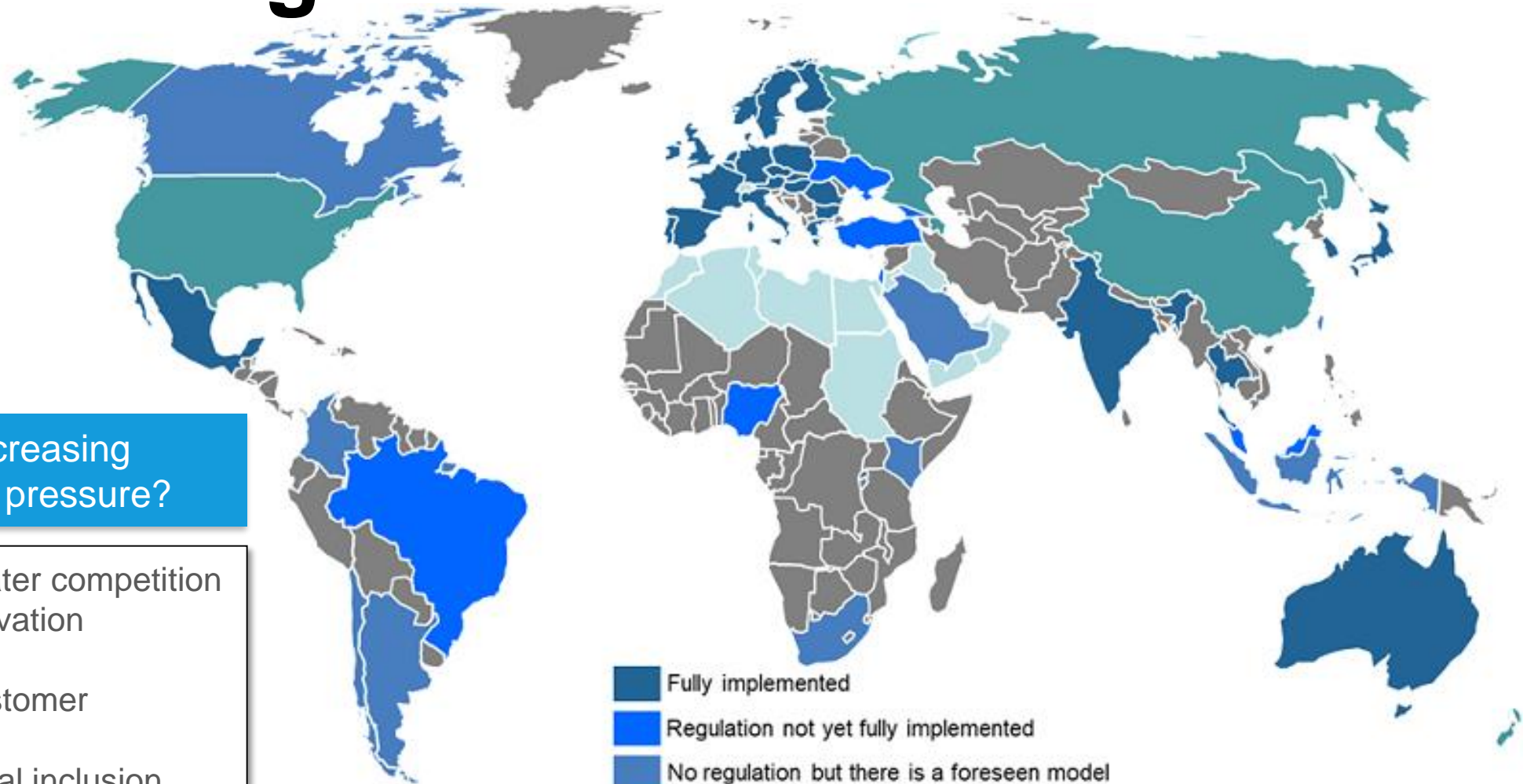
Different Open Banking regulatory approaches From market-driven... to mandated

Comparison of Open Banking frameworks



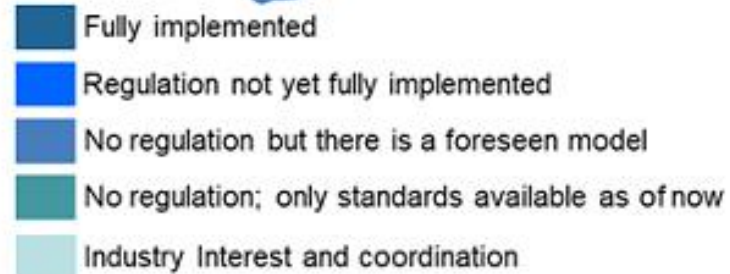
Source: BIS (2019) "Report on open banking and application programming interfaces (APIs)". The perimeter depicted in this figure represents the scope of EU's PSD2, which only applies to payment services

Status of Open Banking around the world



Why it is increasing the regulatory pressure?

- Encourages greater competition
- Accelerates innovation
- Ensures safety
- Improves the customer experience
- Promotes financial inclusion



Open Banking implementation in the UK

The Open Banking Implementation Entity



Open Banking implementation in the UK

Where is the UK now?

Stakeholder	Status
Banks	<ul style="list-style-type: none">As would be expected, adoption by the CMA9 is close to 100% but it is significant that they have almost all also launched open banking services themselves.Some provide payment services using open banking (as an alternative to card payments, for example) including the ability to initiate a payment from an account held at another bank.
Fintechs	<ul style="list-style-type: none">In March 2021 there are just over 130 TPPs with products generally available in the market.70% of TPPs provide account information services (such as aggregators or apps which assess creditworthiness or loan eligibility) and 30% offer payment initiation services enabling users to make single immediate or future or regular payments not using card systems.
End Users	<ul style="list-style-type: none">Call volumes have increased steadily since launch in 2018 and are now running at over 700 million calls a month in Jan 2021.OBIE estimates that around 3 million people and businesses a month are using open banking; SME penetration is almost certainly higher than in consumer markets with perhaps 50%

Open Banking implementation in the UK

Lessons Learned

Lessons Learned

Insights

Jurisdictions have had different reasons for adopting open banking

1

Financial inclusion/widening the tax net; boosting the Fintech Sector; stimulating competition... the regulator has to choose which ones

2

The mandatory implementation of open banking, including the role of OBIE, was one way of overcoming conflict of incentives to develop the ecosystem

Risks and the benefits associated with payment initiation services are higher than those with account information services

1

The “disruptive” nature of such service may mean they are likely to have a bigger competitive impact on the market and thus represent a greater commercial threat to incumbent banks

2

Regulators will have to “push” harder to ensure that payment initiation delivers its full potential, e.g. in functionality, and overcome incumbent’s opposition

Some banks were able to adopt open banking standards faster than others

1

Usually because of the configuration, including security standards, of their main banking platforms

2

The regulator faces a difficult choice between being too aggressive with targets or set targets that all of them could meet. The CMA chose the former and were quite explicit that they did not intend to move at the pace of the slowest provider

Be mindful of the opportunities that open banking presents for helping consumers who may not have been well-served

1

Not only include the provision of tools for relatively “technologically savvy” consumers to use to save themselves money...

2

... but also foster the development of applications whose aim it is to protect the interests of more vulnerable consumers

IFC is leading the process in the ECA region

Examples from Ukraine and Azerbaijan



Ukraine

- Prepared concept note on Open Banking for CBAR covering main areas such as international practices, Open Banking regulatory framework
- Designed the Project Management Office for Open Banking implementation suggesting resourcing levels and profiles
- Designed a financial services industry survey to check implementation readiness and level of awareness
- Supported contacts with main Standard Setting Bodies
- Suggested Working Group composition and governance
- Drafted full implementation roadmap

Azerbaijan

- Prepared concept note on Open Banking for CBAR covering main areas such as international practices, Open Banking regulatory framework and security aspects
- Review use cases with RESTFUL standard
- Designed a financial services industry survey to check implementation readiness and level of awareness
- Drafted full implementation roadmap

Questions?

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