

CONSENT, CONVERGENCE AND DATA PROTECTION: CORNERSTONES FOR THE SUCCESS OF INCLUSIVE OPEN FINANCE



CONTENTS

INTRODUCTION	3
SIGNING OF MoU WITH EBRD	4
SUMMARY OF KEY DISCUSSIONS	5
SUMMARY OF THE PRIVATE SECTOR AND BROADER STAKEHOLDER INPUTS	8
OPEN FINANCE AND FINANCIAL INCLUSION	9
OPPORTUNITIES, RISKS, AND CHALLENGES ACROSS MARKETS	11
REGULATORY ENABLERS FOR OPEN FINANCE INNOVATION	11
KEY TAKEAWAYS	13
NEXT STEPS	13
ANNEXURE I	14
ANNEXURE II	16

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INTRODUCTION

The Alliance for Financial Inclusion (AFI) has closely monitored the phenomenal growth of digital finance and its impact on financial inclusion. The scrutiny gained momentum when the network endorsed the Sochi Accord on FinTech for Financial Inclusion in 2018 and established the Developed-Developing Countries Dialogue Platform (3D Platform).



The Sochi Accord on FinTech for Financial Inclusion

[> View here](#)

The Accord outlines the learning agenda of enhancing like-minded dialogue among advanced and developing economies on emerging trends in inclusive FinTech. The 3D Platform enables a mutually beneficial dialogue between AFI member countries and advanced economies.

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AFI organized its first Global FinTech Dialogue (GFD) under the 3D platform in collaboration with the Czech National Bank in 2019. The dialogue spearheaded discussions among policymakers on regulatory approaches for inclusive FinTech and facilitated systematic dialogue between peers in developing and emerging countries, as well as developed economies, showcasing their international experiences in FinTech development and the implementation of innovative and proportionate regulatory approaches.

Linking to the success of the first global convergence and as a follow-on activity, the AFI network convened the next inclusive FinTech dialogue, Regulatory Responses to Fintech Innovations and Exploring

Convergence of Open Finance with Financial Inclusion. The second GFD on Inclusive Open Finance took place on 26 Oct 2021 in collaboration with the Ministry of Foreign and European Affairs and the Ministry of Finance of the Grand Duchy of Luxembourg. The GFD brought together thought leaders, industry experts, and policymakers from across the continents to deliberate on the convergence of open finance with financial inclusion. The event was supplemented by a knowledge exchange on regulatory approaches to inclusive open finance through the Member Training (MT) on Leveraging Opportunities and Minimizing Risks for Inclusive Open Finance.

The objective of the GFD is to showcase policy and regulatory considerations that leverage open data ecosystems to advance inclusive financial services. It proposes to achieve this by engaging with AFI member countries, developed country regulators, and other stakeholders.

The objectives of the virtual MT are to enable participants to define the various concepts related to open banking and open finance, and to identify policy and regulatory approaches through which open application programming interfaces (APIs), open banking, and open data can be leveraged to nurture innovative and inclusive business models to serve the financial inclusion agenda.

To achieve this, the enabling objectives of the training are to enable participants to:

1. Explain the key and standard concepts, global trends, and emerging business models for open banking and open finance, including their importance to financial inclusion
2. Describe the importance of data in designing open finance solutions
3. List the various regulatory approaches to open finance
4. Identify the underlying regulatory concerns about open finance, including information and data privacy, consumer protection, and so on

Panelists from CNBV Mexico, Central Bank of Nigeria, the Commission de Surveillance du Secteur Financier, Luxembourg (CSSF), Czech National Bank, and the State Bank of Pakistan presided over the dialogue, while speakers from AFI member institutions, non-AFI regulators from developed countries, and private partners led the Member Training. Some of the prominent speaker institutions included the University of Luxembourg, Mastercard, CGAP, Open Banking

Nigeria, Sahamati from India, Payments Solved, Jordan Payments and Clearing Company (JoPACC), Financial Sector Conduct Authority of South Africa as well as AFI member institutions, Bangko Sentral Ng Pilipinas (BSP) and Superintendency of Banking, Insurance and Private Pension Fund Administrators, Peru (SBS Peru).

84

Overall, the dialogue gathered 84 participants representing 34 AFI member institutions from which women comprised 48 percent of participants.

41%

The MT was attended by 54 policymakers from 27 institutions and 25 countries; women comprised 41 percent of the participants.

SIGNING OF MoU WITH EBRD

The dialogue also facilitated the launch of a partnership between the European Bank for Reconstruction and Development (EBRD) and AFI. Both the institutions signed a memorandum of understanding on 26 October 2021 to accelerate women's financial inclusion by improving access to and increasing usage of quality financial services in the Eastern Europe and Central Asia (EECA) region.

These include:

- > integration of gender dimensions into financial inclusion agendas and frameworks
- > providing support to AFI members in establishing sex-disaggregated data collection and reporting

The event concluded with a virtual exchange of signed documents between the AFI Head of Gender Inclusive Finance and the EBRD representative.

The dialogue paper summarizes the main points of the discussions and elaborates on the exchanges between speakers and members during the GFD and MT. It showcases countries leading the way in open finance adoption; the role of policies, regulation, and market incentives to enhance open data ecosystems; critical requirements for open finance innovations; data protection and governance insights; opportunities, challenges, and lessons learned in building an inclusive open finance framework.

SUMMARY OF KEY DISCUSSIONS

OPEN DATA ECOSYSTEMS AND FINANCIAL INCLUSION

The panel discussion on Open Data Ecosystems and Financial Inclusion highlighted that customer consent is at the heart of open finance and how to incentivize open finance.

Central banks must have a standardized data ecosystem categorizing open data, statistical information, and transactional data so that third parties can create customized financial products for the customers.

The discussion brought forth key requirements for a robust digital infrastructure, such as digital ID, API standardization, retail payment systems, and risk mitigation mechanisms to leverage open finance while safeguarding the interests of end consumers.

The speakers from CNBV Mexico, Central Bank of Nigeria, CSSF, Czech National Bank, and State Bank of Pakistan further emphasized the role of collaboration among various stakeholders of the open finance ecosystem, such as data protection authorities, FinTechs, financial services providers, and banks, among others, for the development of a successful open finance framework.

EMERGING REGULATORY APPROACHES

Members observed that different types of regulatory approaches for open finance have emerged across different jurisdictions.

Regulators may take into consideration the most relevant regulatory approach while designing their legal, technological, and institutional framework for open finance depending on their composition and capacity. For example, the open finance trajectory in the European Union (EU) has followed a different approach to the one adopted by the UK. Across EU markets, each bank develops its proprietary API whereas in the UK each bank connects to a single harmonized API gateway. Mexico and Russia follow a regulator-led approach while Nigeria has been driven by the industry so far. The Philippines and Singapore, on the other hand, have chosen to follow a hybrid

approach where regulators and the industry are jointly devising the legal and regulatory framework.

OPEN FINANCE REGULATORY APPROACHES FOLLOWED BY COUNTRIES THAT PARTICIPATED IN THE EVENT

MEXICO



CNBV Mexico presented on the country's FinTech law that provides an overarching policy framework for open finance. Data providers such as financial entities, money transmitters, FinTechs, sandbox participants, clearing houses, etc. are obliged to exchange data through APIs. This data may include open data (public data), aggregated data (statistical information), and transactional data (financial transactional information of clients, with their previous consent). The law also prescribes standards, security guidelines, architectural guidelines, and data dictionaries for the secure and interoperable exchange of data.



Transactional data is complex and hence requires customer consent. In Mexico, we are paying more attention to customer consent and have built mechanisms to ensure consent is being captured and used appropriately.”

Dorian Loyo, Adjunct Director General for Prudential Regulation, CNBV Mexico

NIGERIA



In contrast, the open finance ecosystem in Nigeria has, so far, been driven largely by the private sector and regulatory intervention is at the nascent stage. The Central Bank of Nigeria introduced the open finance framework in February 2021 and set up a committee to operationalize the framework by February 2022. Three sub-committees have been constituted with the mandate to recommend guidelines for standardized APIs for risk management and consumer expectation. The framework has further outlined four categories of entities that can access consumer data. These include:

- 1. Participants without a regulatory license:** These entities can access data ordinarily available in the public domain such as from a website. They largely access product information or service touchpoints (PIST) such as bank branches, ATMs and face relatively lower security risks.
- 2. Participants within the regulatory sandbox of Nigeria:** These entities have access to market insights data (MIT) and face moderate risk.

- 3. **Licensed FinTech and other financial services providers:** Such providers have access to personal information and financial transaction (PIFT) data. These kinds of data fall under the high-risk category.
- 4. **Licensed banks:** As gatekeepers of customers' entire financial transaction histories, banks manage customer profile, analytics, and scoring transaction (PAST) data which also makes them the owners of highly sensitive and confidential data; hence, this level of information exchange comes with the highest risk.

“

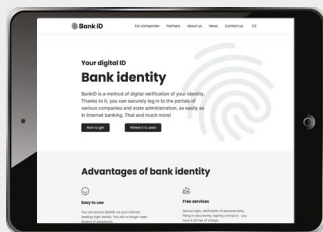
Open finance is built around customer consent and one of the sub committee's mandates is to secure information on - how to obtain customer consent? How to document it? Is it a one-time consent or consent would be needed every time there is a data exchange? These are some of the areas we are working on.”

Aisha A Isa-Olatinwo, Assistant Director Payments Systems
Department Central Bank of Nigeria

CZECH REPUBLIC



The Czech National Bank (CNB) spoke on the introduction of Payment Systems Directive 2 (PSD2)¹ for the regulation of electronic payment services and the harmonization of rules for electronic payments. Following the PSD2 directive, the CNB prescribed national API standards which have been implemented by most national banks. The central bank's willingness to provide open banking services further incentivized the development of usable APIs and standards. The role of CNB is limited to supervisory expectations and updating rules related to anti-money laundering, consumer protection, and so on.



The digital identity and authentication tool, Bank iD, has been the most beneficial outcome of the CNB's open banking framework which came into effect on January 1, 2021.

> [View here](#)

Bank iD allows customers to operate seamlessly across their accounts with one-stop verification. It is a unique identity offered by all major banks and includes an

e-signature. The usage of Bank iD is free for public services while private corporations and businesses can use the service for a fee. Some of the features and services facilitated by Bank iD include personal finance management apps, online payment initiation for payment gateways, credit scoring, and multi-banking.

THE PHILIPPINES



The Philippines' progress towards open finance has been a joint regulator and industry effort to achieve an inclusive economy. The country's open finance framework is built around the core value that customers are the owners of transaction data. Hence, the data is shared with authorized parties only if customers consent. Further, the framework propagates interoperable and collaborative systems. The **Bangko Sentral ng Pilipinas (BSP)** implemented the framework in a tiered manner depending on the sensitivity of data wherein openly available public information is released first and then confidential customer data. For example, the product and related information is released first followed by transactional data which requires customer consent. The main reason for staged implementation is for both the stakeholders and regulators to learn the pitfalls and identify best practices in small steps before committing to widespread sharing.

The collaborative approach encouraged players to look for a value proposition for which the BSP undertook readiness surveys among financial institutions, comparative study of other markets, consultation with the public on draft circular before issuance of the circular, and followed it up with its regulatory sandbox.

The sandbox observed the market trends and proceeded with flexibility and caution by understanding the business model and then adopted appropriate regulatory approaches with monitoring mechanisms in place. The regulatory sandbox also facilitated pilot use cases for account opening, statement sharing or account aggregation, and direct debit payments or fund transfer. This allowed the BSP to test new products and services in a controlled regulatory environment.

¹ PSD2 is a legislation to enable a single market for payments within the European Union. The directive aims to facilitate innovations and competition in the payment space at the same time ensuring security of online payments through adequate consumer protection and supervisory mechanisms. The link provides more information about the directive.

The BSP also has an open finance oversight committee which has members drawn from universal and commercial banks, thrift banks, rural banks, digital banks, e-money issuers, operators of payment systems, and FinTech industry representatives. This approach encourages policymakers to embrace an ecosystem mindset, look for synergies and facilitate a culture of creative confidence.

JORDAN



FinTech in Jordan gained popularity due to its ability to accelerate the financial inclusion agenda. In 2014, the launch of Jordan Mobile Payments Switch by the **Central Bank of Jordan (CBJ)** on behalf of the National Payments Council was a milestone in the growth of inclusive FinTech in the country. Unlike other mobile money markets, here the central payment switch preceded the mobile payment service providers, enabling interoperability by design. The following year, another important step was the launch of Electronic Transactions Law No. (15) of 2015 under which digital transactions and documentation were given the same legal status and protection as paper-based transactions and documents.

In 2017, the CBJ established the Jordan Payments and Clearing Company (JoPACC). The establishment of JoPACC separated the oversight function from the regulatory function. This enabled the CBJ to avoid conflicts of interest and ensure the safety and efficiency of the payment ecosystem. The functional regulations are introduced by the CBJ while technical implementations are done by JoPACC. It has prescribed a standardized model of specific standards and APIs that are followed by all participants without duplication. All stakeholders connect through a centralized platform housed at JoPACC. JoPACC's clear and transparent governance mechanisms encourage further innovation in financial services. Some of the specific examples of open banking implementation in Jord include DirectPay eFAWATEERcom, which enables direct payment on the eFAWATEERcom platform through bank account credentials with authentication; Credit Confirmation CliQ, through which a payer can be notified when money is credited into payee's account; National Aid Fund Service / UAI JoMoPay, that can verify lists of beneficiaries' mobile wallet credentials; Unified Agent Interface enables users to locate their wallet providers; and, IBAN Confirmation CliQ, ACH, RTGS, that checks the name associated with an IBAN before committing a payment.

Going forward, the regulator has several plans for the adoption of open finance, particularly among vulnerable

customer segments such as youths, MSMEs, forcibly displaced people (FDPs), and women.

PAKISTAN



FinTech is witnessing an exciting phase in Pakistan and has met financial inclusion goals. Since the country introduced a regulation for branchless banking in 2008, Pakistan has seen the digitization of payment systems, the launch of e-wallets, digital onboarding of consumers, the introduction of QR codes, and acceptance of bill payments made possible by a wide range of digital financial services. In the past decade, FinTech has evolved the payment landscape from being an over-the-counter channel into one that includes P2P platforms and e-wallets.

75M

The bulk of transactions are performed using e-wallets and the volume of transactions has increased during the pandemic, with the number of active e-wallet accounts standing at 75 million and daily transactions at more than 10 million.

The FinTech landscape in Pakistan continues to evolve as merchant aggregators and payment aggregators join the payment ecosystem. Pakistan does not yet have a FinTech law in place but has a payment service provider (PSP) regulation and a digital banking framework that was introduced a few years back. Like Mexico, Pakistan's approach to consumer protection and data privacy has three layers. In the first layer, public data that does not require customer consent is available. In the second layer, transactional information can be accessed with customer consent, and in the third layer, confidential and sensitive information can be accessed with customer consent.

SUMMARY OF THE PRIVATE SECTOR AND BROADER STAKEHOLDER INPUTS

Worldwide, open banking users are growing rapidly.

50% In 2020, about 24.7 million people used open banking services. The annual average growth rate of open banking users is expected to reach 50 percent by 2024.²

However, unlike open banking which is concerned with current accounts and transaction data, the scope of open finance is much wider, affecting home loan providers, consumer credit providers, investment and pension funds, as well as general insurers and intermediaries. Open finance has widened the scope of business with lower barriers to entry and opportunities to innovate through partnerships.

Professor Dirk Zetsche presented an overview of global trends in open finance, capturing innovative business models and use cases in both developed and developing markets. According to him, FinTech is witnessing massive growth in America, EMEA,³ and APAC⁴ markets with high-value venture capital funding and an ever-evolving range of open banking products and services. Open finance has led to new business models across markets such as digital payment solutions, digital or neo banks, account aggregation, alternative lending, insurtech, and personal and business financial management.

The demand-side and supply-side trends show open banking is making headway for open finance, ultimately, leading to critical policy decisions on regulatory framework, innovation and competition, customer protection, inclusion, data protection, security, infrastructure, scope, and reciprocity. In the jurisdictions where open finance is underway, policymakers are striving to perform a balancing act by choosing between framework design components (for example, whether regulator or market-led), ease of use or friction, API-led or screen-scraping, and responding to the impact of these decisions on new players, new functionalities, inclusion, and so on.

SAHAMATI INDIA AND MASTERCARD USA SHARED EXPERIENCES FROM THEIR GEOGRAPHIES

Sahamati India noted that the three biggest challenges for financial inclusion in the country were access, customer retention, and data empowerment. To address these barriers, India introduced in 2016 the Unified Payment Interface (UPI), a user-friendly 24/7 instant digital payment system that allows individuals and businesses to perform mobile transactions. By 2018, India had massively jumped ahead in its financial inclusion journey with 80 percent of adults having a bank account. To date, UPI is one of the most successful payment interfaces in the world with more than 100 million users and 300 million transactions a month.

UPI was conceived to provide equal access to banking services to all entities, from a small business to a multinational bank. It has a standard set of rules for every provider on the platform. Thus, smaller banks have as much of an opportunity to reach various customer segments as larger banks. This goal has been made feasible due to UPI's innovative technology architecture. With UPI, the receiving party is decoupled from the sending party's bank account. This allows third-party apps such as Google Pay, PhonePe, and Amazon Pay to collect and administer transactions on behalf of the customer.

UPI makes the process consumer-friendly by eliminating the need to enter long bank accounts and routing numbers for transfers. A virtual payment address, a simple username akin to an email address, replaces detailed information. UPI serves myriad functions and, simple, peer-to-peer monetary transactions are carried out seamlessly. Its interoperable feature allows for business-to-person (B2P) payments, customer-to-customer (C2C) payments, instant remittances, and customer-to-business (C2B) payments. It is low-cost and can be easily integrated with FinTech or Big Tech.

The payment rail has been further strengthened with the recently introduced data protection regulatory framework, Data Empowerment and Protection Architecture (DEPA). DEPA allows for synchronization between tech (electronic consent), institution (consent managers), and law (Data Protection Bill). Designated account aggregators facilitate consented sharing of financial information in real-time between financial services providers and users.

2 Open banking users worldwide by region 2020 | Statista

3 Europe, Middle East and Africa markets

4 Asia and Pacific markets

MasterCard expects the data revolution will unlock benefits for consumers and SMEs given the tremendous rise in consumer willingness to share data for beneficial services, and the exponential growth in the usage of financial apps. MasterCard noted that the open banking framework is driven by customer consent, trust, and experience, alongside innovative, open banking products and open finance business models. That data ownership remains with consumers, and a robust consent framework is necessary to enable open finance to scale, in which financial services providers act as custodians of consumer data. Responsible innovation creates trust and accountability in the system necessary for lasting impact and sustainability.

MasterCard provided case studies of successful open finance from the US, North America, and Europe and elaborated on its acquisition of Finicity, an open banking platform. It aims to build a cutting-edge platform for the next generation of digital financial experiences globally, with a focus on developing payment applications and to develop a global open banking network of high standards of governance, advanced safety, and security features. MasterCard reiterated that data governance, data ownership, data integrity are at the core of platform governance. Consumer trust, technological innovation and the use of data as a force for good make for an ideal open finance data network that will have long-term growth and social impact.

KEY POINTS

- > Every country has its unique experience of implementing open finance
- > Open finance has led to innovative business models, organizational structures, and regulatory approaches
- > The supervision of financial services has its foundation in the optimal use of data on financial services and data protection frameworks such as GDPR; this foundation is essential to the success of open finance
- > Country examples are instructive for how open finance can work for different markets, for example, India's techno-legal approach is founded on a three-layer framework of regulation, neutral tech standards, and market alliance.

OPEN FINANCE AND FINANCIAL INCLUSION

Financial inclusion is not only about making financial services convenient, but also safe, sound, and sustainable. Since the pandemic, regulators and policymakers are focused on issues such as the financial resilience and financial health of the general public.

CGAP highlighted the relationship between open finance and financial inclusion and observed that open finance, if properly designed, can provide innovative products and services for low-income populations, helping them to save, gain access to credit, manage personal finances, and so on.

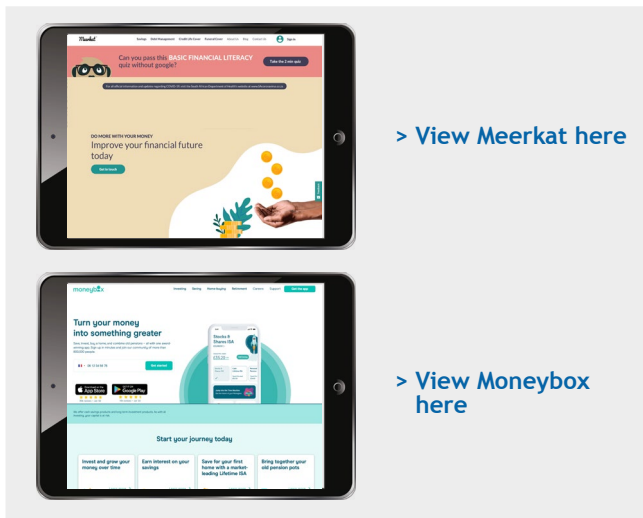
Therefore, players in open banking and open finance see the unbanked and underbanked as a potentially profitable customer segment. However, customer segmentation should also be considered to reap the full benefits of open finance for inclusive growth. This can be done by analyzing and matching customers' data to the types of services they need.

CGAP emphasized that regulators that have introduced open finance frameworks in their jurisdictions acknowledge that financial inclusion is an express objective of their open finance policies. However, to enable this, policymakers need to ensure a greater number of financial players are encouraged to share and access data, which in turn, can lead to a wider range of products and services.

OPEN BANKING/FINANCE PLAYERS BATTING FOR FINANCIAL INCLUSION

ENABLING AUTOMATIC SAVING TRACKERS AND SWEEPERS

Meerkat in South Africa and Moneybox in the UK are helping individuals to save, allowing them to create a financial cushion for emergencies that calculate what a consumer can save and when, based on their financial history, and then automatically transfer those funds to a dedicated savings account.

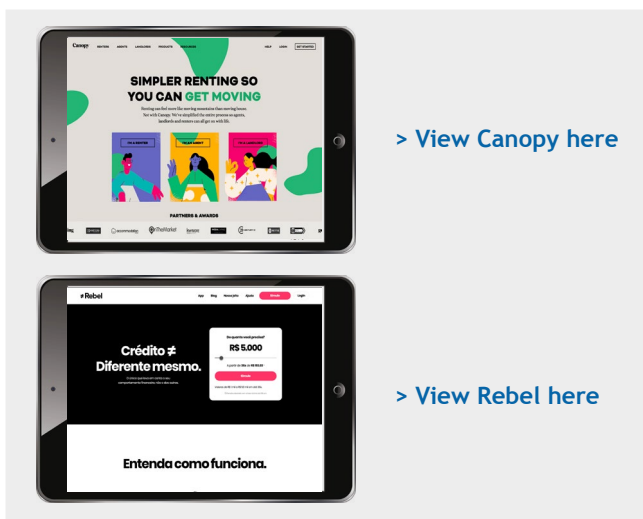


> View Meerkat here

> View Moneybox here

EASING ACCESS TO CREDIT

Canopy in UK, Rebel in Brazil are fine examples of open banking business model that are enabling access to credit using alternative financial data.

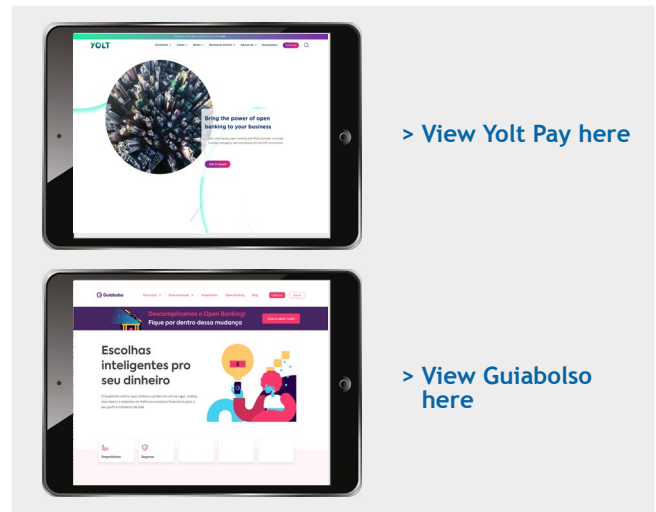


> View Canopy here

> View Rebel here

PROVIDING CONTROL OVER BUDGET

Yolt Pay allows users of the Yolt budgeting app to initiate money transfers using open banking APIs, while Guiabolso in Brazil offers its customers the ability to enter a suitable loan, directly from its application.

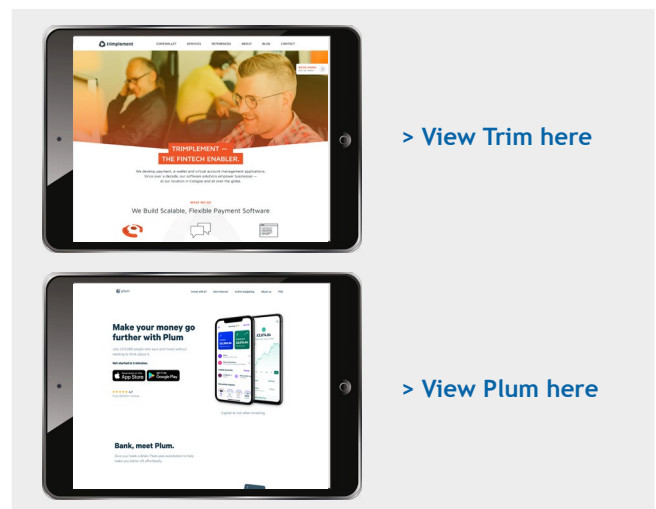


> View Yolt Pay here

> View Guiabolso here

ADDRESSING HIGH TARIFFS

Low-income individuals often pay a “poverty premium” for essential goods and services such as telephone, gas, electricity, and broadband. Open banking products such as Trim, that analyze spending patterns, identify opportunities for saving money, negotiate these new contracts on a consumer’s behalf as well as cancel their old subscriptions, can attack both the demand and supply side factors that create such a premium in the first place. Also, Plum in the UK works on the same principle.



> View Trim here

> View Plum here

UNIVERSAL ID

Onerous customer due diligence (CDD) procedures can result in high costs for low-income individuals or prevent them from accessing financial services in the first place. Brazil’s open banking regime foresees a collaborative approach to CDD by allowing the sharing of registration data between financial services providers. If open banking regimes are expanded to other data pools such as telecommunications or social media, then SIM card registration or other methods of CDD could even come into play (as long as the KYC regime allows for simplified KYC).

OPPORTUNITIES, RISKS, AND CHALLENGES ACROSS MARKETS

Evidence from various countries shows that standardization of APIs and common regulatory guidelines for open finance can enable banks and FinTechs to expand their client base and design customized financial services.

This will not only help serve the financial inclusion agenda but also allow close collaboration and peer-learning among industry players. A transparent and efficient open banking and open finance framework with strong technological and legal infrastructure will facilitate cross-border transactions. Policymakers will need to create a regulatory environment backed by robust prudential and supervision mechanisms.

Despite tremendous opportunities offered by open finance, countries also face numerous risks and challenges depending on their transition to an open finance regime. Regulators often find it difficult to navigate the pricing structure of service providers and FinTech players in the open finance framework. Rapid changes in technology also lead to new challenges and risks.

One of the key mandates for regulators is to maintain equilibrium between innovation and stability.

Trust is the bedrock of an open finance regime; hence, cybersecurity risk management is paramount. It can be a challenge for policymakers to come up with a holistic framework to minimize data fraud and risks associated with customer protection.

REGULATORY ENABLERS FOR OPEN FINANCE INNOVATION

Customer consent, data privacy, and data protection have been observed as the primary requisites of an open finance regulatory framework across markets. Secondly, the technology-laden financial environment requires data-driven supervision and oversight mechanisms to monitor datafication of financial services, which can be categorized as three layers: regulatory, tech standards and APIs layer, and the market.

Regulators in South Africa have identified six thematic areas: – consent, customer protection, dispute resolution mechanisms, data sharing standards, commercial models, and data protection – as the building blocks of a regulatory framework for open finance while the European model stands on Digital Regulatory Reporting Obligations, data protection (GDPR), right to data transfer with user's consent (PSD 2), and digital identity (electronic identification, Authentication and trust Services - eIADS).

GOVERNANCE MECHANISMS FOR DATA PRIVACY AND PROTECTION

Open finance promises several benefits but also poses risks. Financial regulatory approaches must safeguard the interests of end customers in terms of underlying risks associated with AML/CFT, cyber security, and data breaches. Regulators need to take into consideration effective governance and establish appropriate technical standards that align with international goals to protect customers and support inclusive open finance. From the customer's perspective, data privacy is paramount while traditional banks and third-party providers face risks around cybersecurity, interoperability, data protection, and cost of implementation.

NATIONAL STRATEGY FOR CYBERSECURITY

Given that open finance increases the number of information sources, and because a massive quantum of data is shared with third-party providers, regulators agree that data protection and data privacy need

to be considered from the onset. In Peru, regulators have designed privacy risk supervision under its open finance framework to control fraud related to digital identity and data breaches. In Egypt, the central bank has designed a national strategy for cybersecurity and has passed cybersecurity laws for banks and payment providers. These regulatory provisions allow the central bank to assess the cyber maturity of financial services providers (FSPs) and payment players; make it conducive for them to adopt the best standards, and develop cyber resilience and set expectations for the ecosystem. The regulator has also ensured that heavy sanctions are in place in case of data breaches, which dissuades FSPs from becoming lax on data considerations.

FORMATION OF INNOVATION HUB

In Luxembourg, the Commission de Surveillance du Secteur Financier (CSSF) has developed an innovation hub to work closely with the FinTech industry. It is structured to onboard FSPs and provide a guided governance and a regulatory environment so that a product can be smoothly brought on to the market. Concerning data protection and sharing of data among third-party players, Luxembourg falls back on the European Union's GDPR guidelines.

As a financial sector regulator, CSSF ensures that FinTech players are aware of GDPR rules and encourages their compliance with them. It prescribes different layers of customer consent to safeguard the interest of consumers.

The examples presented during the event highlighted the need for a robust licensing framework that will act as a guide for FSPs to undertake open finance activities within the framework. As part of risk-based supervision, FSPs must be inspected for data protection practices, customer education and protection, cybersecurity, AML/CFT compliance, and business models. Further, data-led SupTech tools must be taken into consideration to track data management via API, digital audit, digital misconduct analysis, among others, to create effective monitoring and supervision ecosystems.

GLOBAL CONSENSUS ON FURTHERING THE GOAL OF AFI'S 3D PLATFORM

The event provided a global platform for knowledge exchange and experience sharing between AFI members and developed economies. Members and speakers acknowledged the importance of regular conversations on emerging trends in financial inclusion to strengthen policymaking at the country and regional levels.

The Financial Sector Conduct Authority of South Africa recognizes data privacy and data protection as one of the core themes of its licensing, supervision, and enforcement framework.

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/ protection
- > 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

KEY TAKEAWAYS

Open finance has the potential to enhance market depth and choice for consumers and SMEs by providing them with high-value, customized service levels.

However, an appropriate regulatory framework is indispensable. Data-driven finance requires data-driven supervision. Security, privacy, accountability, transparency, and integrity go hand-in-hand with innovation, competition, and impact to reap the full benefits of open finance.

Key takeaways include:

- > Open data ecosystems can deepen financial inclusion albeit with proper risk mitigation instruments in place
- > Markets across the world are observing different types of open finance frameworks that may be broadly categorized as regulator-led, market-led and jointly-led
- > Open banking and open finance are not the same. Participants were able to define open banking and open finance and understood their significance to financial inclusion by enabling the creation of better-value products for the underbanked, such in personal financial management, savings, credit, and the like
- > Participants learned about key design components of an open finance regime, its scope and implementation
- > Member experiences, for example of BSP, guided participants on how to implement open finance, such as by highlighting the need to design open finance guidelines on the basis that customers are the owners of transaction data
- > The three principles of building a successful open finance framework are consent-driven data portability, interoperability, and collaboration or partnerships
- > To implement open finance, focus on value proposition, adopt an ecosystem mindset, and collaborate for long-term progress

NEXT STEPS

Participants agreed the discussions raised important issues around inclusive open finance. Many participants said they would raise awareness around open finance in their institutions and incorporate cybersecurity, data protection, and create standards to secure open APIs.

Some immediate next steps include:

LAUNCH OF AFI'S POLICY FRAMEWORK ON OPEN FINANCE

AFI's Digital Financial Services Working Group (DFSWG) is currently developing a policy framework on inclusive open finance. Discussion and inputs provided by the speakers and participants will feed into the development of the framework ranging from regulatory requirements, governance mechanisms, technical standards, and consumer protection aspects.

FOLLOW UP DISCUSSIONS ON OPEN FINANCE

The dialogue has kick-started an awareness campaign on open finance, however, further discussion and more dialogues are required at regular intervals on a regional capacity to bring all AFI member institutions at par.

INITIATIVES BY MEMBERS

The Bank of Ghana said it would recommend the development of an open finance policy or directive to accelerate financial inclusion in the country while another institution said it would recommend incorporating cyber security and data protection in its upcoming digital lending framework.

ANNEXURE I

AFI Global Fintech Dialogue on Open Finance: Innovations and Inclusion – Opening remarks by AFI Executive Director Dr. Alfred Hannig

Ladies and Gentlemen,

Hope you are keeping well.

A very warm welcome to AFI Global Fintech Dialogue on Open Finance - Innovations and Inclusion organized in collaboration with the Ministry of Foreign and European Affairs and Ministry of Finance of the Grand Duchy of Luxembourg. It is my immense pleasure to welcome delegates from the AFI network, our peers from developed countries, as well as other policymakers, and leaders to this global forum.

Today, as I speak at the 2nd Global Fintech Dialogue - 2021, I extend my appreciation to the Government of Luxembourg and Ministry of Foreign and European Affairs and the Ministry of Finance for co-hosting this event. The two Ministries are also graciously hosting our Europe Representative Office, which opened its doors exactly a year ago. Through its European Office, AFI has been able to provide unique added value through closer engagement with our members in Eastern Europe and Central Asia, and by strengthening peer exchange and technical cooperation between AFI members globally with policymakers and partners in Luxembourg and across broader Europe.

At this point, I must also acknowledge the leadership role played by the Czech National Bank in conceptualizing the idea of a Global Fintech Dialogue; the first took place in Prague in 2019. Leaders from developed and developing economies gathered to discuss regulatory approaches for inclusive FinTech. The GFD in Prague was a great success. Through broad-ranging discussions on FinTech, the Prague dialogue identified cybersecurity, digital financial literacy, and enabling FinTech ecosystems as topics of priority and mutual convergence. The event led to the cross-pollination of ideas and reaffirmed the need for systematic peer engagement on these topics for both developed and developing countries.

Our journey towards building inclusive technology-led financial services began at AFI's Annual General Meeting (AGM) in Sochi on 5 September 2018, when members from the AFI network endorsed the Sochi Accord on Inclusive FinTech. Our objective has been to leverage innovative digital financial solutions that serve 1.7 billion unbanked

people across the world. Since then, the Sochi Accord has provided overall guidance to AFI and its members on different segments of always evolving inclusive FinTech.

We have made significant progress in our inclusive FinTech journey through the establishment of the Developing-Developed Dialogue (3D) Platform under the aegis of the Sochi Accord. The 3D Platform acts as a neutral peer-learning forum for the fast-evolving FinTech world and other areas of mutual convergence and interest among AFI member countries and developed country partners.

I am sure you will agree that such global alliances are critical to enabling peer-learning and capacity building for our members to reap the benefits of emerging digital finance innovations such as open data ecosystems. It is also integral to achieving AFI's strategic objective of guiding member institutions on policies and regulations on financial inclusion.

Guided by this objective, the second edition of the Global FinTech Dialogue is designed as a learning event for convergence issues related to FinTech ecosystems. Specifically, the dialogue and the ensuing member training will focus on open data and open finance both of which are important enablers for inclusive FinTech ecosystems.

What makes Open Finance/Open Banking a convergence issue?

We are using a broad notion of financial inclusion across the AFI network. Financial inclusion is no longer just on access to finance, therefore not only about bringing unreached groups into access to formal financial services. Financial inclusion is increasingly about maintaining high levels of safe and sound financial access, with increasing usage and quality of financial services. Financial inclusion therefore also embraces important issues such as financial health and financial resilience, with the ultimate objective to ensure financial stability. This is exactly the point of global convergence among financial regulators.

With the rapid advances in digital financial technologies, countries around the world are exploring ways to strengthen their digital financial infrastructure. The open data ecosystem is one of such advancements that offer great potential to accelerate financial inclusion in emerging and developing economies and to improve the financial health of individuals in developed countries. Examples from some of the advanced economies show that financial data can be securely exchanged. Consumer data, if used in a mutually beneficial manner among customers and providers of financial services, holds in principle an immense potential in enabling access to and improving the quality of financial services. This is why we see open finance as a convergence topic that needs to be addressed

by both developing and developed economies.

According to a discussion paper by McKinsey (June 2021), the economic boost from the widespread adoption of open-data ecosystems in the European Union, the United Kingdom, and the United States could be as high as 1.5 percent of GDP by 2030. The paper also notes that emerging economies will benefit more than advanced economies as they tend to have lower levels of financial inclusion and less financial depth. A good example of that is India, for which a maximum increase in its GDP of 4 to 5 percent was forecasted.

In developing and emerging markets, we believe that open data can prove to be a boon for women and MSMEs who, in most cases, have remained outside the purview of the formal financial system. By tapping into and using the data related to numerous, small-value transactions done by women and MSMEs, open data can offer improved access to financial services, greater user convenience, and more suitable product options.

Developing countries that have made strides in establishing an open data ecosystem have seen a phenomenal increase in high-volume, low-value payment transactions, which are the critical enablers of financial inclusion. By bringing all financial entities on a common data-sharing architecture, these countries are beginning to see improved access, greater usage, and better quality of financial services among the people.

Both AFI member institutions and developed country partners have shown great eagerness to learn about inclusive open finance and other FinTech innovations from each other. Developed countries have made tremendous progress in the field of open banking in the last decade. They can provide rich insights into the role of open banking in widening financial services. The United Kingdom's open banking initiatives and European Union's open banking innovations linked to PSD2 (Payment System Directive 2) are some great examples to learn from.

Likewise, emerging economies and developing countries have, in the last few years, begun to innovate more broadly in the area of open finance. Mexico, Nigeria, and India, for instance, have been frontrunners in this regard. Innovations in these countries bring to the fore the increasing role of non-bank entities and FinTechs in the delivery of financial services, and more specifically in achieving financial inclusion.

Open finance is therefore an interesting topic of mutual convergence. This respect and need for mutual learning and experience sharing has once again encouraged us to organize this Global Fintech Dialogue on Open Data Ecosystems.

What are the conditions that need to be in place? Evidence shows that approaches to enable open finance ecosystems to differ across countries and regions, depending on factors such as existing legal and regulatory frameworks around fintech innovations, data protection, and information security; level of maturity of the broader fintech ecosystems, etc. It is therefore important for member institutions to better understand the key imperatives that would enable open finance ecosystems in their jurisdictions. I am confident that this dialogue and the ensuing training will bring out the nuanced aspects of open banking and open finance and provide key learnings to both developed and developing country regulators. We must also ensure that the solutions are relevant to a broader group of countries within the AFI network and beyond.

At this point, I must share that AFI is also in the process of developing a Policy Framework on Open Finance. This framework will act as a guide for central banks on how to harness the power of shared data ecosystems and develop country-specific regulatory oversight. Going forward, we would like to see extended collaboration with policymakers from developed countries in this area. At the same time, we will continue to support our members in developing appropriate policy and regulatory frameworks for open finance.

I am confident that GFD 2021 will serve as a platform to steer policy dialogue ahead on why and how open, interoperable data ecosystems can be leveraged by regulators in both developing and developed economies to build efficient and inclusive financial services.

I want to also highlight that at the end of today's event we will have a ceremonial signing of a Memorandum of Understanding with the European Bank for Reconstruction and Development (EBRD) to advance gender-inclusive finance in several AFI member jurisdictions. We are pleased by the evolution and the like-minded nature of the partnership with the EBRD and look forward to the cooperation ahead.

I must extend my sincere thanks to our members who have always inspired us to organize such high-level policy events. It has been a pleasure to engage with policymaking partners from developed countries. There is always some learning for us to take from them.

Once again, I welcome you all to this Global Fintech Dialogue.

All the best.

ANNEXURE II

AGENDA

AFI Global Fintech Dialogue on Open Finance - Innovations and Inclusion

26 Oct 2021

13:00 - 15:30 UTC | 15:00 - 17:30 DST | 21:00 - 23:30 MYT | Other Cities

FinTech has transformed the way financial institutions do business. It has revolutionized the banking and financial services industry with its promise to operate 'at scale' with 'cost-effectiveness' and 'operational efficiency'. Under these potentialities, FinTech-led innovations are seen as a game-changer for the agenda of financial inclusion. However, there are underlying risks associated with fintech operations. These include risks associated with AML/CFT, cybersecurity and data breaches, predatory pricing, consumer protection, responsible lending, data privacy, etc.

The Sochi Accord on FinTech for Financial Inclusion provides a platform for AFI members to understand the risks of technology, share lessons and experiences with FinTech and design appropriate regulatory interventions. The Sochi Accord laid the foundation for the establishment of the Developed- Developing countries Dialogue Platform (3D Platform). The platform enables a mutually beneficial dialogue between peers from financial regulators across the world facing similar challenges.

The proposed Global Fintech Dialogue (GFD) 2021 will facilitate high-level dialogue among peers within the AFI network and their developed country counterparts on the benefits of open finance in improving financial inclusion and overall financial health of individuals – including vulnerable groups such as women, youth, elderly – and MSMEs. The member institutions in the AFI network are at different stages of maturity in terms of policies and regulations for FinTech and digital innovations. Given the rapid pace of advancements in digital technologies, regulators need to have a forward-looking approach, keep abreast with developments and prepare adequately to embrace digital technologies at an appropriate time. The GFD will bring global perspectives to help member institutions better understand the opportunities and risks in open finance, particularly for promoting inclusive finance.

The objective of the GFD is to showcase policy and regulatory considerations that leverage open data ecosystems to advance inclusive financial services through engagement with AFI member countries, developed country regulators, and other stakeholders.

The one-day Global Fintech Dialogue event will focus on a key global convergence topic of open and interoperable data ecosystems. Discussions on GFD will dwell upon why and how interoperable data ecosystems can be leveraged by member institutions to build efficient and inclusive financial services and the underlying policy and regulatory approaches that can facilitate this innovation. Those who would best benefit from the Global Dialogue are heads and deputy heads of AFI member institutions.

TUESDAY, 26 OCTOBER 2021

13:00 - 15:30 UTC

13:00 - 13:05	Welcome & Housekeeping Madhurantika Moullick, Head - Capacity Building, AFI
13:05 - 13:20	Opening remarks Dr. Alfred Hannig, Executive Director, AFI
13: 20 - 15:20	Session 1: Open Data Ecosystems and Financial Inclusion In this session speakers and participants from diverse countries and having different stages of maturity of FinTech industry will discuss the evolution of open finance, its potential in serving the financial inclusion agenda, the role of governments and policymakers in building data ecosystems to foster this innovation. Moderator: Kennedy Komba, Director, Strategy & Financial Inclusion Policy, AFI Panelists: <ul style="list-style-type: none"> > Dorian Loyo, Directora General Adjunta de Regulación Prudencial (Adjunct Director General for Prudential Regulation), CNBV Mexico > Aisha A Isa-Olatinwo, Assistant Director - Payments System Management Department, Central Bank of Nigeria > Muhammad Imaduddin, Additional Director - Digital Innovations & Settlements Department, State Bank of Pakistan > Karen O’Sullivan, Head - Innovation, Payments, Market Infrastructures and Governance, CSSF, Luxembourg > Michal Vodrazka, Director of Financial Market Regulation Division III Director of Financial Market Regulation Division III Czech National Bank <i>Modality: Panel discussion (100 mins), Q&A (15 mins), Summary (5 mins)</i>
15:20 - 15:35	GFD Closing Remarks & EBRD-AFI MoU Signing Ceremony
15:20 - 15:25	Ilya Sverdlov, Director for Europe and Global Partnerships, AFI
15:25 - 15:30	Christoph Denk, Managing Director for Economics, Policy and Governance, EBRD
15:30 - 15:35	Helen Walbey, Head of Global Gender Inclusive Finance, AFI
15:35	The signing of the MoU

WEDNESDAY, 27 OCTOBER 2021

13:00 - 16:30 UTC

DAY 2: GLOBAL TRENDS AND EMERGING OPEN FINANCE BUSINESS MODELS

13:00 - 13:10	Welcome & Housekeeping Madhurantika Moulick, Head - Capacity Building, AFI
13:10 - 13:20	Opening Remarks <ul style="list-style-type: none"> > Arsène Jacoby, Director of Multilateral Affairs, Development Cooperation and Compliance, Ministry of Finance Govt. Of Luxembourg > Elike Boletawa, Head, Policy Programs & Regional Initiatives, AFI
13:20 - 14:35	Session 1: Open Finance: Evolution and landscape analysis Globally, open finance is leading to innovative business models and use cases in both developed and developing markets. Observing this growing trend, this session would analyze the evolution and current landscape of open finance highlighting the need for DFS account and information sharing, payment initiation, and other financial services facilitation. Moderator: Ghiyazuddin Ali Mohammad, Senior Policy Manager, DFS Theme Setter: Prof. Dirk Andreas Zetsche, University of Luxemburg Presentation: <ul style="list-style-type: none"> > Siddharth Shetty, Fellow - iSPIRT, Co-founder - Sahamati, India > Nick Thomas, President and Chief Product Officer of Finicity (Mastercard) <i>Modality: Theme-setting (15 mins) Presentation (45 mins) Panel Discussion (30 mins)</i>
14:35 - 14:40	Break
14:40 - 16:00	Session 2: Policy approaches to Open Finance This session would delve deep into the types of regulatory approaches that have been observed across markets, which the regulators may take into consideration while designing their legal, technological, and institutional framework for open finance. Facilitator: Adeyemi John Omotoso, Policy Specialist - Inclusive FinTech, AFI Speakers: <ul style="list-style-type: none"> > Stefan Staschen, Senior Financial Sector Specialist, CGAP > Anatoly Gusto, Bangko Sentral ng Pilipinas > Nilixa Devlukia, Founder, Payments Solved <i>Modality: Poll (5 mins), Presentation (15 mins each) Q&A (25 mins)</i>
16:00 - 16:20	Plenary Exercise Moderator: Bhavana Srivastava, Financial Inclusion Policy & Training Specialist, AFI <i>Modality: Quiz</i>
16:20 - 16:25	Evaluation & Group Photo
16:25 - 16:30	Recap Ghiyazuddin Ali Mohammad, Senior Policy Manager, DFS
16:30	End of Day

THURSDAY, 28 OCTOBER 2021

13:00 - 16:30 UTC

DAY 3: SUPERVISION AND OVERSIGHT OF OPEN FINANCE FOR DATA PRIVACY AND CONSUMER PROTECTION

13:00 - 13:10	<p>Welcome, Recap & Agenda Setting Garima Singh, Financial Inclusion Policy and Training Specialist, AFI</p>
13:10 - 14:45	<p>Session 3: Regulatory considerations for Open Finance</p> <p>The objective of this session is to shed light on regulatory consideration that needs to be evaluated in the context of dispute resolution mechanisms, digital financial literacy, and governance & standards.</p> <p>Facilitator: Bhavana Srivastava, Financial Inclusion Policy and Training Specialist, AFI</p> <p>Speakers</p> <ul style="list-style-type: none"> > Moayad Ghannam, Business Innovation, and Analytics Specialist, JOPACC > Awelani Rahulani, Senior Fintech Specialist, Financial Sector Conduct Authority, South Africa > John Owens, Senior Digital Financial Services Advisor <p><i>Modality: Introduction (5mins) Moderated Presentation (20 mins each) Q&A (30 mins)</i></p>
14:45 - 15:00	<p>Session 4: Draft Policy Framework Discussion</p> <p>Moderator</p> <ul style="list-style-type: none"> > John Owens, Senior Digital Financial Services Advisor > Ghiyazuddin Ali Mohammad, Senior Policy Manager, DFS <p><i>Modality: Presentation and Q&A (15 mins)</i></p>
15:00 - 15:05	Break
15:05 - 16:05	<p>Session 5: Data Privacy and Protection - Critical Requirement for Open Finance Innovations</p> <p>This session would bring perspectives and lessons on financial regulatory approaches from developed and emerging markets that supervisors must evaluate to govern FinTechs and safeguard consumer interest in terms of the underlying risks associated with fintech operations like risks related to AML/CFT, cyber-security and data breaches, etc.</p> <p>Moderator: Robin Newnham, Head - Policy Analysis, AFI</p> <p>Panelists:</p> <ul style="list-style-type: none"> > Alejandro Medina Moreno, Superintendente Adjunto de Riesgos en Superintendencia de Banca, SBS Peru > Mima Benson-Aruna, Program Manager, Open Banking Nigeria > Adil Zbir, Head of oversight of Financial Markets Infrastructures and payment systems, Bank Al-Maghrib <p><i>Modality: Discussion (50 mins) Q&A (10 mins)</i></p>
16:05 - 16:20	<p>Way Forward & Evaluation Ghiyazuddin Ali Mohammad, Senior Policy Manager, DFS</p>
16:20 - 16:30	<p>Closing Remarks Madhurantika Moulick, Head - Capacity Building, AFI</p>
16:30	End of Program

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