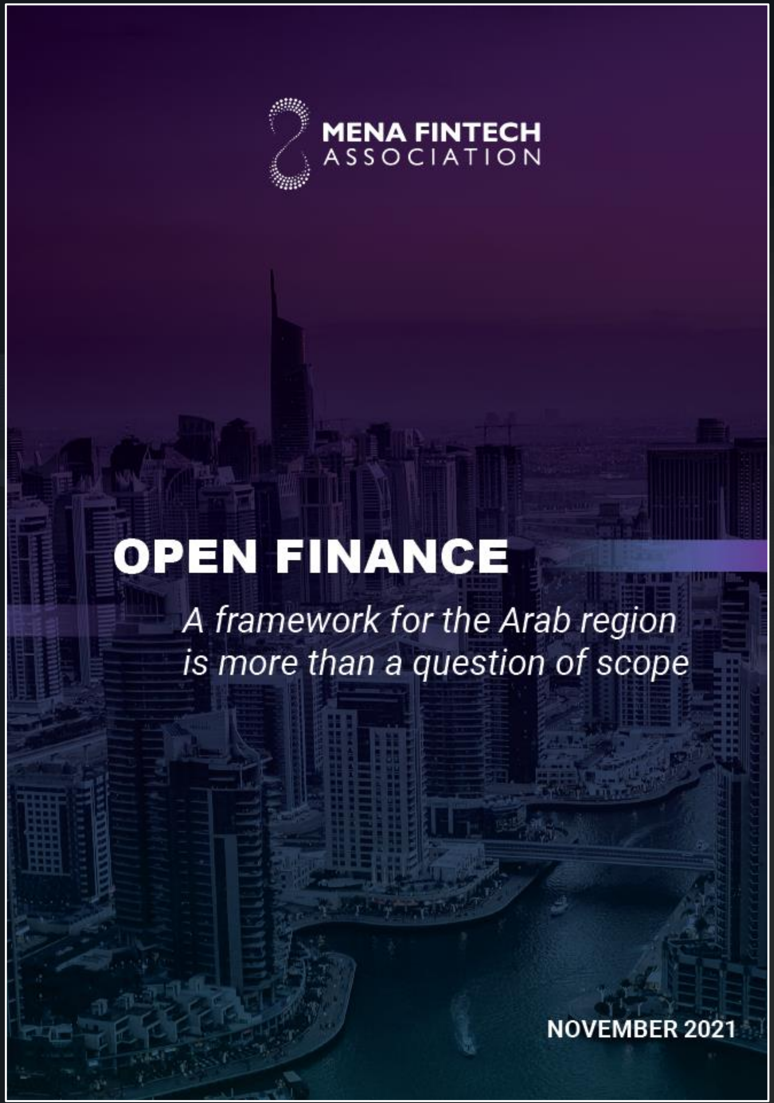
صندوق النقد العربي
ARAB MONETARY FUND



OPEN FINANCE

A framework for the Arab region is more than a question of scope

Regional Arab Fintech Working Group Meeting
24th November 2021

Hakan Eroglu
MFTA Open Banking Working Group Chairman
Global Open Banking Lead, Advisors at Mastercard

From open banking to open finance…

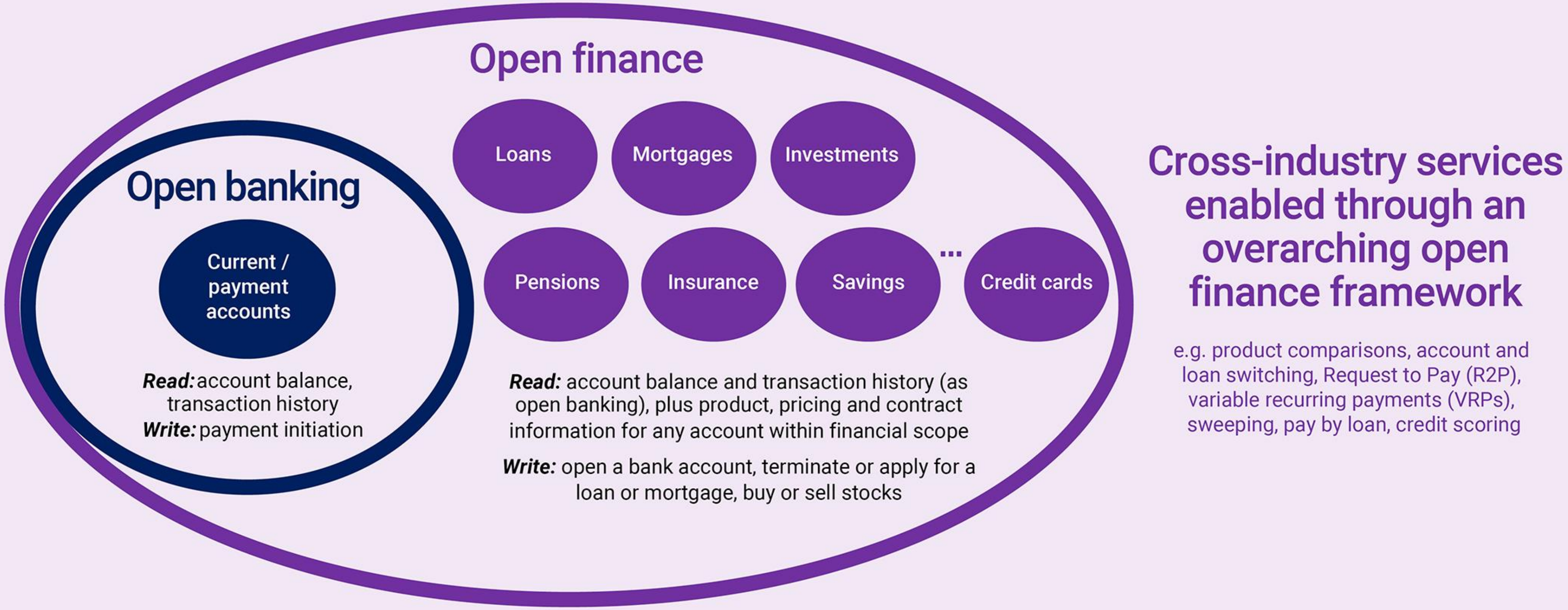


Figure 1: Open banking compared with open finance

…enabling new type of cross-industry services such as “sweeping”

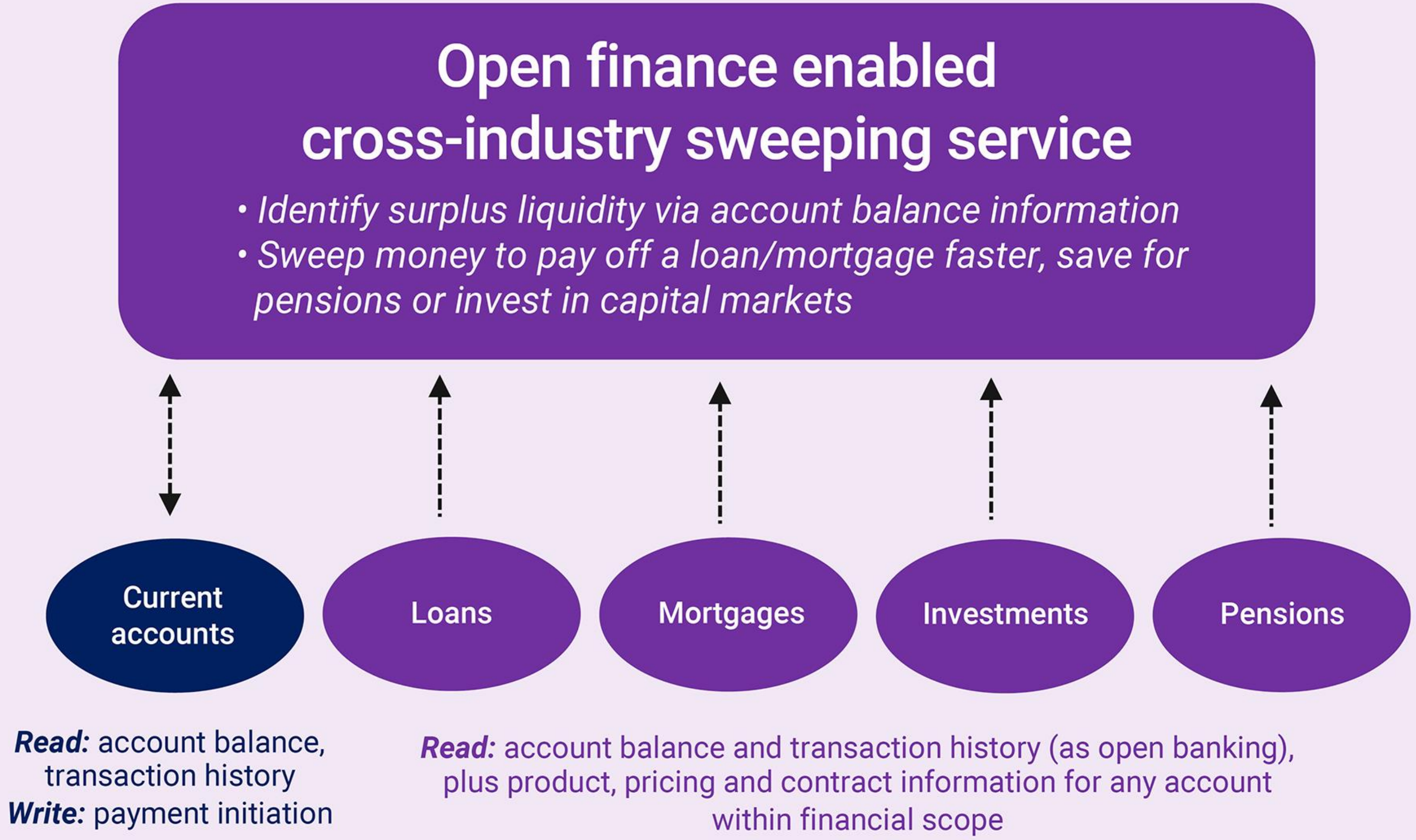


Figure 2: An example of sweeping through an open finance framework

Global movement from open banking to open finance…

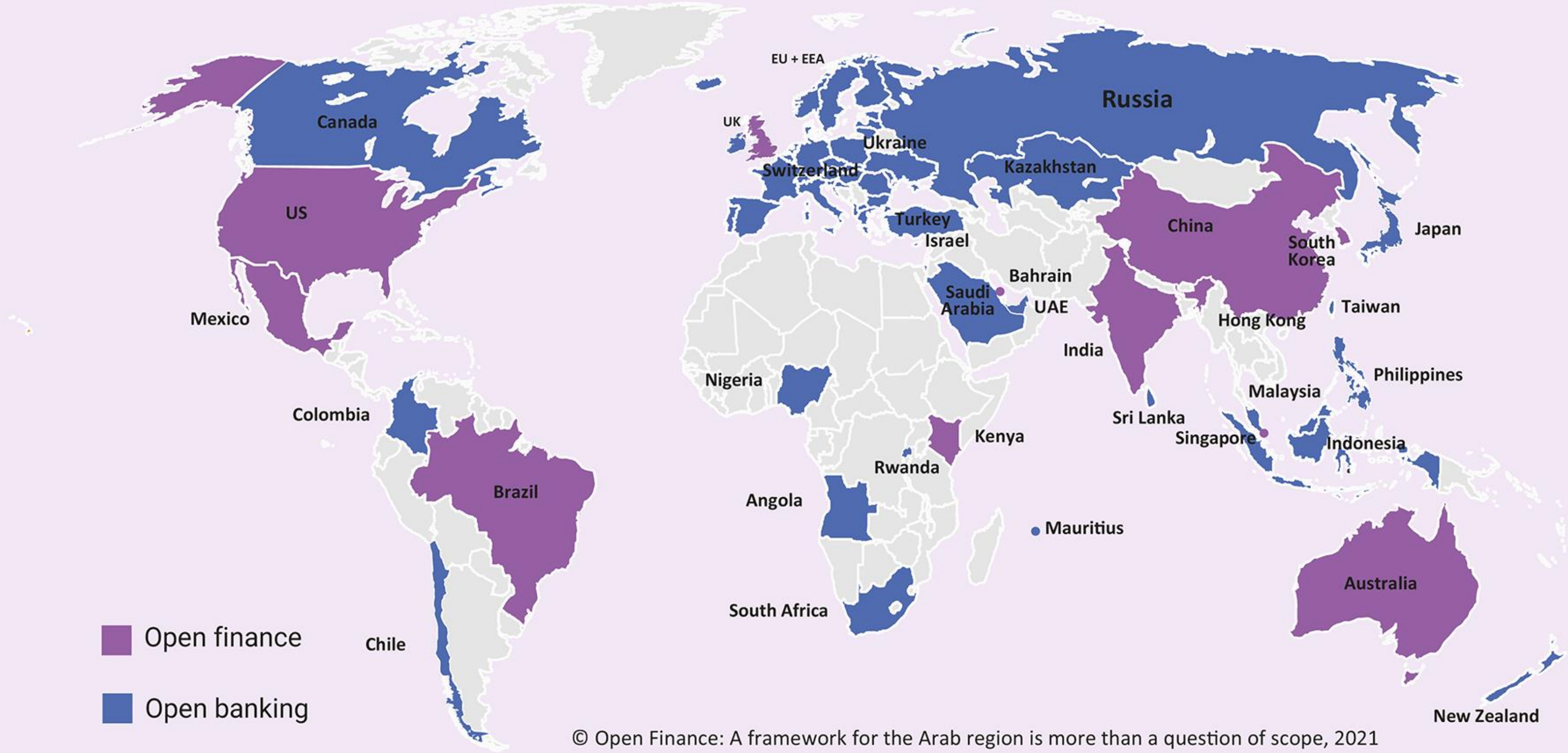


Figure 3a: A scope-based classification of open banking and open finance initiatives around the world

…driven by regulations and market-driven initiatives

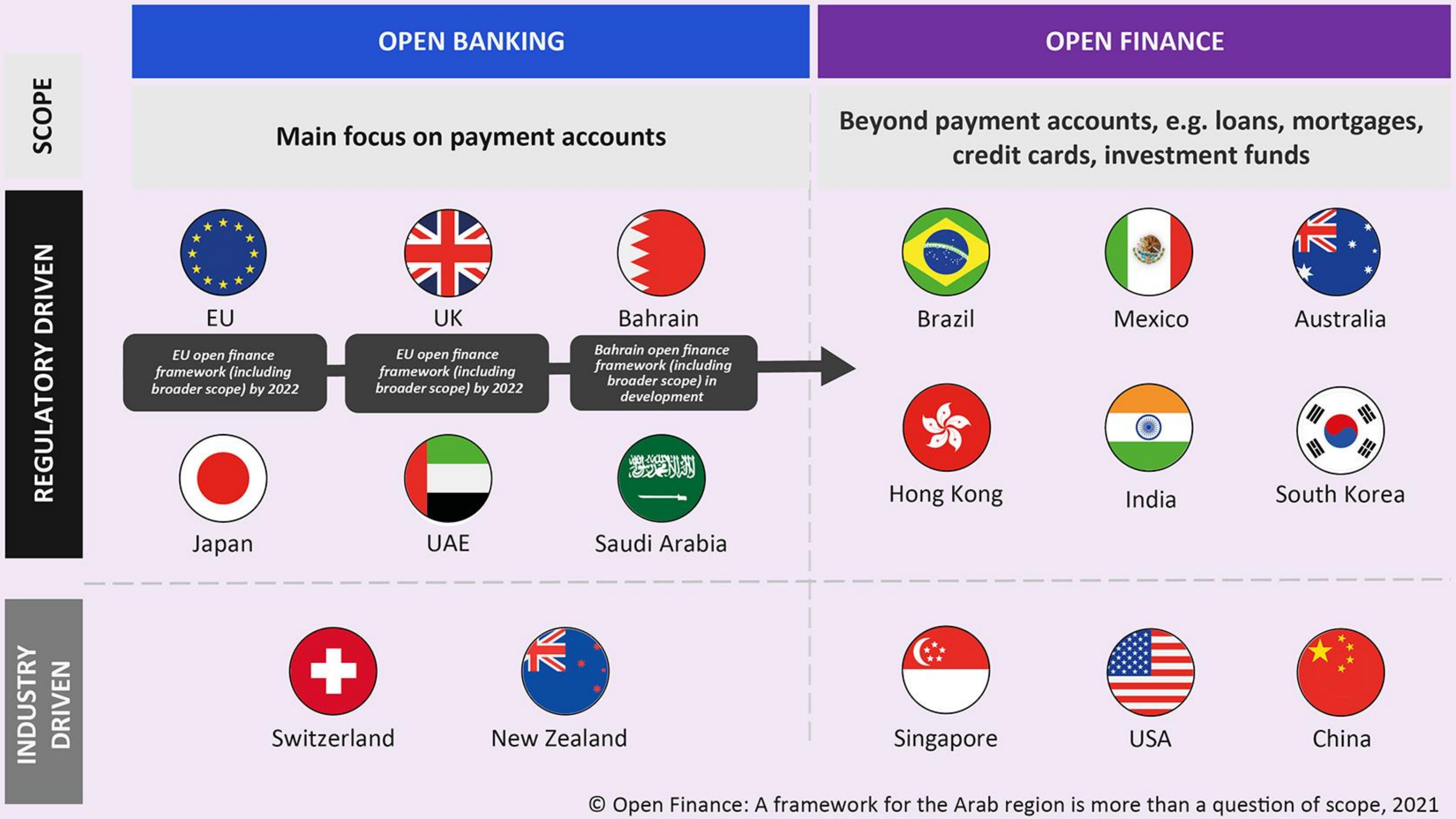


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Figure 3b: Select examples of regulatory-driven and industry-driven open banking and open finance initiatives around the world

Examples of global developments in open finance

Request-to-Pay

Allows a payee, such as a mortgage provider or utility company, to send a payment request to any payer regardless of their preferred banking app and with all their information pre-confirmed.

Variable Recurring Payments

Subscription services providers can trigger a payments on behalf of the customer without requiring repeated strong customer authentication (SCA) every time a transaction is made

Sweeping

Sweeping moves money between customer accounts to improve liquidity by making smart financial adjustments when agreed triggers occur, such as meeting a balance threshold.

Berlin Group openFinance

The Berlin Group—a pan-European payment standards initiative—is planning several innovative services supported by open finance, including pay by loan, reservation of funds, and direct access APIs for corporates.

An Arab perspective

Financial Management and Pension Planning

Provide a holistic view of finances and then help manage cash flow and strategic investments through examples like sweeping and VRPs to boost savings and earnings

Credit Provisioning

Better access to credit in the Arab region matters as much for businesses as for individuals

Know-your-customer (KYC) verification

KYC is often still conducted in person with physical documentation. It's also important for anti-money laundering (AML) and countering the financing of terrorism (CFT), where a standard framework is needed for all participants

Regulatory intervention
The degree

Regulators may consider two key factors when assessing the depth of intervention needed:

Market structure

The number of banks per capita in several countries in the Arab region is high by global standards.

***The more relationships customers** have with financial service providers, **the more value open finance can provide**. But more relationships across more sectors may also **require more centralised intervention to coordinate efforts** and may also increase the potential for disputes from customers and between participants themselves*

Technological maturity and industry cooperation

Need for a holistic approach to digitization of the financial sector that encompasses all stakeholders.

*Approaches will depend on countries and their institutions. Where there is a high degree of cooperation and proactivity, a **facilitative role** for regulators might be appropriate. Where investments and developments are slow, **regulators might intervene more heavily with incentives and mandates***

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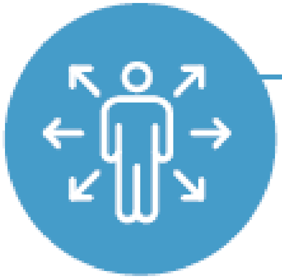
Regulatory intervention
The models

The three models may be portrayed accordingly:

Mandated

Regulators set out ***prescriptive legislation*** *that mandates common technical standards and a liability framework across providers. An initial spurt of acceptance and rapid growth* ***may slow once minimum requirements are met and regulation hinders innovation***



Facilitated

Regulators set out a ***legislative framework for supervising providers*** *but acts as a facilitator with guidelines rather than mandates to balance standards with innovation. Anti-competitive behaviour can be prevented without necessarily impeding the freedom to innovate,* ***but broad acceptance might be a challenge***

Market-led

Regulators intervene through ***dialogue and engagement rather than legislation****. Providers work together to develop industry standards for connectivity and risk management without any specific regulatory regime. This approach allows sustainable growth via consensus building,* ***but it may be slow as a result and could enable anti-competitive behaviour***

Technological standards
A standard need

A variety of technological standards will need some degree of centralised control.

Licensing

The proliferation of participants in open finance intensifies the need for proper licensing

Consent & privacy

The scope of data protection extends beyond banking into multiple sectors, albeit also extending into non-financial areas – data protection laws will shape how open finance develops

User experience

Any success is going to hinge on customers having easy to navigate and consistent user experiences regardless of the provider and the provider's sector

Operational

Minimum operational standards are key to cover system responsiveness, such as API and interface response times, and availability, such as uptimes of user interfaces and disaster recovery systems

A cultural shift

The tying together of otherwise disparate products and services under an open finance framework assumes extensive participation by data providers and recipients:

Level-playing field

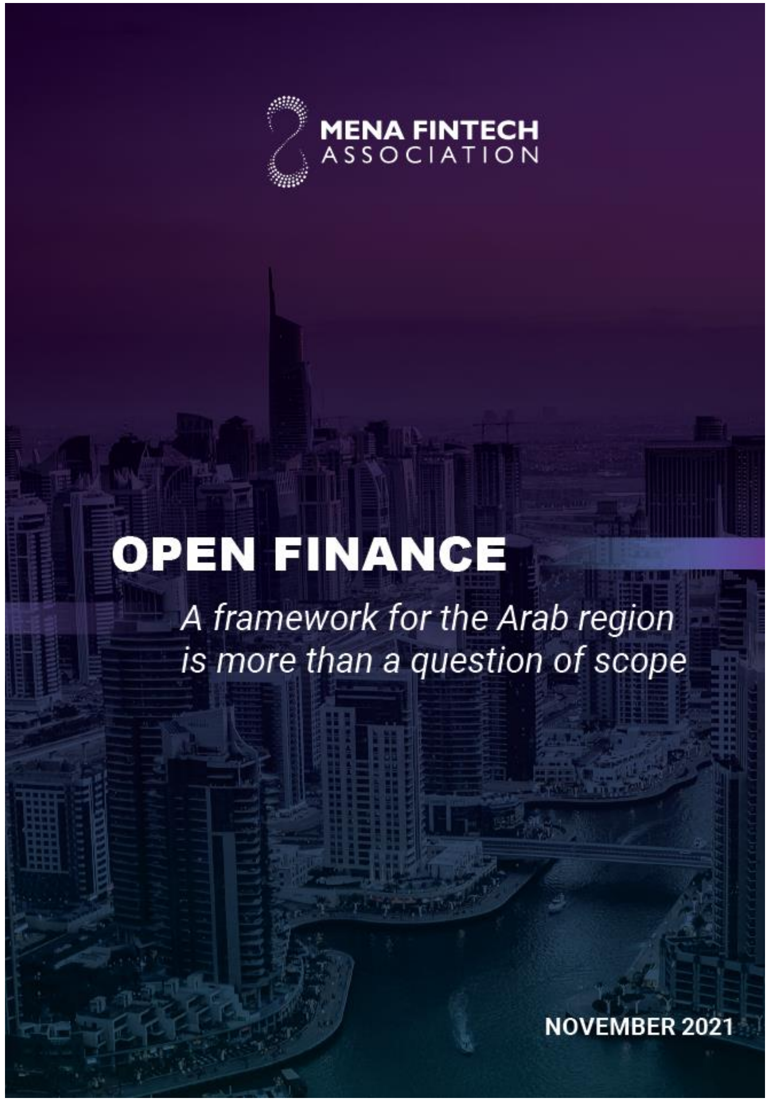
*Level-playing field in terms of building **new business models and a competitive technical infrastructure that serves all participants** of the wider open finance ecosystem*

All-party data sharing

*The rise of open finance means all-party data sharing will make sense across the world as countries adjust their regulations and guidelines. Unlike open banking in Europe, which had the aim of unleashing competition specifically in the banking sector, **open finance is about innovation across multiple sectors in a consistent manner***

Ecosystem mentality

***Open finance requires more centralised oversight than open banking**, but it still needs to flex in a continuously evolving landscape. The ecosystem can't protect itself without working in conjunction with those around it on an equal footing. It requires a collaborative cross-sector approach*



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TO BE PUBLISHED SOON
(week of 28th November)

Q&A

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Thank you!