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Open Finance and Financial Inclusion



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Speakers









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Open Finance & Financial Inclusion Part I





- 1. Inclusive data ecosystem: The foundation of open finance
- 2. Open finance: How to design for financial inclusion?
- 3. Data protection
- 4. Financial inclusion use cases



Inclusive Data Ecosystems

The Foundation of Open Finance



Inclusive Data Ecosystem (IDE)

A complex system of relationships and interactions that consists of various **elements** such as:

- data itself
- providers
- rules & enforcement
- technology

- customers
- public authorities
- infrastructure
- capabilities

where data related to low-income individuals is effectively generated, processed, analyzed, shared and used in design and delivery of inclusive and responsible financial services to those individuals.



Role of financial sector authorities

Policymakers are responsible for shaping the data ecosystem, with a view to make the best use of data for the provision of responsible & inclusive financial services to low-income population while concurrently mitigating against risks. Levers policymakers can use include, among others:

- Regulatory change
- Awareness campaigns
- Innovation facilitators
- Tax incentives
- Capacity building

Many of the elements go beyond the purview of financial sector authorities. Yet it is important for them to understand the roles of other stakeholders and consider what interaction/ cooperation/ coordination is required when working towards the shared objective of developing an IDE



Elements of an IDE

1. Foundations:

Necessary conditions for an IDE that policymakers should prioritize

Can be clustered under four broad **categories of policy interventions** through which a data ecosystem can be made (increasingly more) inclusive:

- **Inclusive Data**, goes beyond the existence of data, looks at its quality and quantity and the capacity to analyze it;
- **Regulation and Compliance**, focuses on the interplay between rule setting and how the industry responds;
- **Technology and Infrastructure**, required for the good functioning of an IDE;
- Financial Services Market, where providers and customers meet.

2. Accelerators:

Elements that can play an important role in accelerating uptake once the foundations are in place.

- more sophisticated or advanced versions of the foundational elements; or
- additional elements that play a role in acceleration.

Foundations & Accelerators of an IDE



CGAP

Foundations

Accelerators

Open Finance

How to Design for Financial Inclusion



CGAP definition of an Open Finance Regime

Public sector driven or supported regulatory framework for data sharing



Sharing is upon **customer consent** and usually **data users are accredited**



The journey from Open Banking to Open Data



Open Finance, if properly designed, can empower the lowincome population

- Create products with improved value for underbanked
- Competition leads to lower prices & more affordability
- New data users view unbanked/underbanked as profitable resulting in:
 - an increase in the customer pie; and
 - incentivizing innovation by other stakeholders (ex. incumbents)





Open Banking products help overcome typical challenges faced by the poor



Volatile and irregular income

Savings trackers and automatic saving sweepers



No access or inappropriate credit product



Lack of control over budget and funds



High tariffs for household bills (poverty premium)



Lack of ID to access financial services

Increase access to credit through use of alternative data

Personal finance management

Utility switching and personal finance management tools

Collaborative approach to CDD

Open Banking products can assist even feature phone users

- Many of the open-banking enabled products make use of the data only on the back end – ex. automatic savings sweeping, smart loan repayment and decentralised KYC
- Others are usable through a series of SMS/ USSD menu, even if not full functionality ex. switiching utilities, budgeting apps





There are 12 design components for an Open Finance Regime

Scope

- 1. Types of services
- 2. Participants
- 3. Types of data
- 4. Payment initiation

Implementation

- 5. Lead regulator/policy mandate
- 6. Mandatory vs voluntary
- 7. Technical specifications for data sharing
- 8. Staged implementation
- 9. Data privacy and portability
- 10. Liability and consumer protection
- 11. Cost distribution for the data requests
- 12. Governance

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Of those, 5 are key to a "Financial Inclusion by Design"

"Financial Inclusion by Design": Mapping key inclusive OF products to design components

Product: Savings trackers/automatic sweepers



Further resources on open finance

Working Paper:

cgap.org/research/publication/open-banking-howdesign-financial-inclusion

Blogs:

cgap.org/blog/open-banking-7-ways-data-sharing-canadvance-financial-inclusion

cgap.org/blog/open-data-and-future-banking

Webinars:

cgap.org/events/open-banking-how-design-financialinclusion

https://www.cgap.org/events/spotlight-regulators-openbanking-and-financial-inclusion



Open Finance

Data Protection



Open Finance Needs Data Protection to Develop Consumer Confidence

60%

A Data Protection Framework:

- Is critical to adoption of open finance, particularly for low income and excluded people in EMDEs by promoting customer trust to respond to customer preferences for privacy
- If absent, results in all rules relating to data being either regulated by private contract (with the consumer being the weaker party) or left unregulated, exposing consumers to the risk of abuse, fraud and exploitation and resulting in a loss of trust in Open Finance and even banking



Source: CGAP

According to CGAP research, poor consumers care deeply about the privacy of their financial information and are willing to pay a premium for financial products that protect their data

Which Loan Option Did Low-Income Kenyans Select?

How Regulatory Frameworks Can Protect Customer Data



In adopting open finance, regulators need to decide if the current data protection laws in their country are sufficiently robust to protect consumers from the data risks of open finance



Open Finance Complexity

- Technology
- Ecosystem

GAP

• Overlapping legal frameworks



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Authorize

Risk of "Digital Divide" - consumers may not have requisite technology -- Some limited to USSD

Responsible Use of Data

Restricting data usage

- Data holder refuse transfer if could result in physical or economic harm
- Data subject revoke prior consent
- Data minimization collect only what you need & keep it only as long as needed
- Cross border transfers /data localization restrict processing/store outside the country

Permissive data usage

- Disclosures permitted or required by law, beyond consent
 - Court orders, legal obligations, credit reporting, contractual purposes (subject to legitimate purposes principle)



Data Security



Advantages of Open Finance:

 Use of secure APIs, instead of "screen scraping"

Risks of Open Finance:

 Massive amount of sensitive data moving through system

Safeguards include:

- Protect data at rest and in transit
- Authenticate requestors



Recommendations to support EMDE Consumers

Notice

In order to be meaningful, notices should be:

- Written at the appropriate level of data and language fluency;
- Avoid the use of legalistic language; and
- Take into account literacy and technology challenges for EMDE consumers

Consumer rights

- Make it easy to provide and revoke consent
 - ease the burden of consent by limiting use of data to specified purposes
 - have consent expire after a set period of time
- Provide access/correction/ deletion/objection rights
- Provide limited or no costs to exercise open finance rights

Dispute resolution

- Allow consumer associations to support complaint resolution for open finance disputes
- Allow regulators to use social media messaging platforms or mobile apps to directly receive complaints from consumers
- Permit class action lawsuits to be filed against firms involved in open finance.

Data minimization may reduce the consumer's decision-making burden



Regulatory Burden in EMDE Countries on Providers

When is the right time to introduce comprehensive data protection in the context of Open Finance?

- Risks of premature application on providers
 - Only larger financial service providers might be able to afford to comply
 - Even large players might be disincentivized to serve the lower end of the market as compliance costs bear more heavily on low value accounts and transactions
- Balanced with marginal cost of compliance if ecosystem mainly digital & strong consumer concerns about sensitive data

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Dealing With Regulatory Burden on Regulators

- Complexity of jurisdictional mandates important that the jurisdictional mandates for data protection and open finance are identified and cooperation formalized if there is concurrent jurisdiction
- Burden placed on resource limited regulators can consider leveraging technology, including use of Regtech and Suptech
- Taking into account the legal and technology environment in the country, regulators may decide to phase in data protections over time

"Data . . . is just plain complicated." - Professor Bhaskar Chakravorti



Open Finance & Data Finance: Considerations for EMDE <u>Regulators</u>

Benefits

- Catalyze competition in the financial services industry
- Support further inclusion
- Push further innovation

Disadvantages Burden on regulators

- May not have experience regulating:
 - APIs and related technology
 - Data protection
- May not prioritize open finance given (at least initially); low adoption levels
- Resource constrained
- Regulatory jurisdiction may not be clear
- May be missing certain legal frameworks



Further Recommendations for EMDE Regulators

- Assess how best to protect open finance consumers' data in light of the country's existing legal structure and willingness to adopt new laws
- Promulgation of implementing regulations
- Enhance consumer education, especially in early years of Open Finance
 - Employ guidance, such as use of graphics showing how consumers' data will move through the system
- Provide assurances regarding third party disclosures of customer data
- Consider requiring real time notice of data transfer as a check to make sure data transmissions were authorized
- Mandate meaningful consent for data transfers
 - Consider alternatives to consent, e.g., legal mandates, court orders, contract performance

- Harmonize data protection and open finance legal obligations
- Provide compliance guidance to providers
- Restrict data usage, e.g., due to potential physical or economic harm
- Consider cross-border transfers/data localization restrictions
- Accredit data users
- Breach notification requirements
- Mandate implementation provisions:
 - Recordkeeping, response times for consumer data requests, limits on costs imposed on consumers, security requirements, liability for losses, complaint resolution mechanisms including use of social media and consumer associations, redress mechanisms

Financial Inclusion: Use Cases of Data

Lessons from CGAP's work with providers



CGAP's on-going work with providers

- We have a few key takeaways from our initial work with providers
 - Strong interest from providers in using data with plans to leverage machine learning and use alterative data
 - However, providers struggle to fully leverage the value of even basic customer data
 - Providers find it challenging to estimate the potential value of external datasets → unable to extract value from them

• What CGAP hopes to influence

- Uncertainty around viability of data-driven business models has been identified as a barrier to provider innovation and growth
- Through research partnerships, we are highlighting the opportunity of business models and the value data can provide
- Our goal is to encourage providers to enter the space or become more data driven if already in it



We have identified some relevant use cases of data for further research



Learning Questions

- How can we reduce costs of using data?
- How can we improve capacity to use and share data?
- How can data support inclusive business models?
- How can data be used in inclusive algorithms?

Select provider examples on data use

JUM<mark>O</mark>

Use of transactional data for consumer lending

- JUMO is a mobile financial services platform for mobile network operators and banks
- JUMO uses telecom data including data on airtime tops and P2P transactions for credit scoring

Ghana, Nigeria, South Africa, Tanzania, Zambia, Pakistan



Use of transactional data for MSE lending

- Fundfina helps small businesses access affordable financial services through an open and secure marketplace platform
- Fundfina uses transactional and other data of retailers' buying stock from selected enterprise partners for offering loans to retailers to purchase more stock



Value of data generated on platforms

- KarmaLife provides financial services that enable platform workers to smooth uneven cash flows and stabilize incomes
- KarmaLife is working with CGAP to pilot a product that leverages work and earning data to unlock larger, longer tenure credit for workers

India

India

Open Finance & Financial Inclusion Part II



Agenda Part II

- 1. Selecting financial inclusion challenges
- 2. Imagining pathways to solutions
- 3. Defining inclusion impact of open finance
- 4. Discussion & next steps





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What are key inclusion challenges in Mozambique?



30 responses



What are root causes of the key challenges?



21 responses



How can open banking / open finance help?

Bring better	financial	services	for	poor
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Where can open banking / open finance help?



What may be major challenges to OB/OF implementation?



24 responses



Discussion & Next Steps



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