Arab Regional Fintech Working Group

Open Banking:
A Vision from the Arab World

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Arab Regional Fintech Working Group

Open Banking:
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This visionary report comes about as one of the resulting effort of the Arab Regional Fintech Working Group (WG) aiming to share information and exchange knowledge in the journey to strengthen the capacity of the regulators in the Arab world as well as strengthening the network of peer to peer between Arab and international experts from the public and private sectors to promote Fintech landscape and foster innovation.

The "Open Banking: A Vision from the Arab World" report was complied based on contributions by members of Arab Regional Fintech Working Group in particular MENA Fintech Association (MFTA), and its Open Banking Working Group, Abu Dhabi Global Market (ADGM) and Dubai International Financial Center (DIFC).

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The opinions expressed in this visionary report are solely those of the key contributions:
Nouran Youssef, Senior Financial Sector Specialist, Arab Monetary Fund.
Nameer Khan, Chairman MENA Fintech Association (MFTA).
Hakan Eroglu, MFTA Open Banking Working Group Lead, Global Open Banking Lead Data & Services, Mastercard.

Accordingly, no responsibility is taken by entities they represent.

Foreword

The growth of open banking around the world comes down to one consistent opportunity: innovation. It's the specific regional opportunities that add variation to that consistency. In the Arab region, opportunities might include an overbanked country wanting to serve its underbanked population or a commodity-dependent country wanting to diversify its economy into a financial technology (fintech) hub. Approaches may vary too: regulation-led as in Europe at one end; market-led as in the United States at the other. The result in the Arab region is a global open-banking microcosm.

Neither compliance issue nor passing fad, open banking has moved from core payment services to all types of asset classes. As it expands into a broader concept of "open finance," simple account information and payment initiation services can address specific needs—including regional priorities like efficient remittance payments or know-your-customer (KYC) verifications—and cross-industry collaborations. Open-banking models, such as banking as a service, banking as a platform and banks operating as third-party providers, show open banking as a potentially lucrative pursuit.

While the Arab region benefits from hindsight relative to areas that introduced open banking earlier, that doesn't mean it's destined just to follow their practices. A couple of countries in the Arab region lead the world in 5G deployment. Providing a powerful open-banking system to run on that powerful infrastructure will rely on the flexibility of the open-banking framework as much as on the flexibility of the banks.

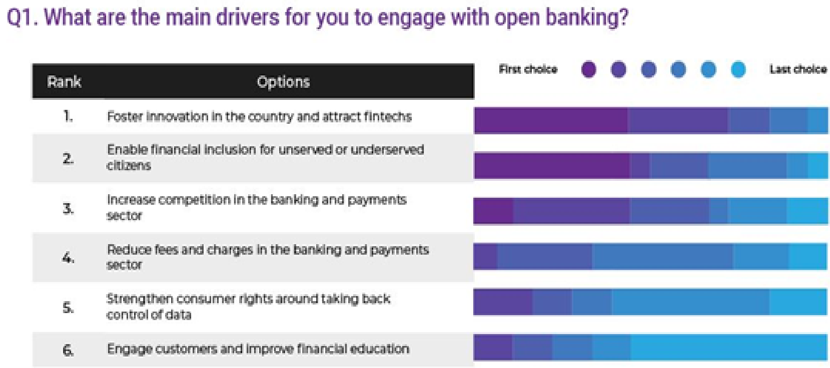
This report presents open banking as a key enabler of fintech innovation in the Arab region. It aims to bring regulators, banks, fintechs and other parties together around a common vision for open banking and open finance. It combines insights from the Open Banking Working Group of the MENA Fintech Association and the Arab Regional Fintech Working Group. The information presented in this report was derived from a recent survey of central banks and monetary authorities across 18 Arab countries. The report concludes with a five-step vision for open banking in the region.

Introduction

A combination of regional needs and global hindsight will shape open banking in the Arab region.

Competition in the banking sector was a core consideration of European open-banking regulations. But it's the innovation on the back of increased competition that's behind its spread around the world. And now its vision is being shaped as much by regional needs as by global hindsight.

Economic diversification, often into financial technology (fintech) hubs, and financial inclusion are pressing issues for many countries in the Arab region. Of 18 central banks and monetary authorities surveyed in the region, eight ranked fostering innovation and attracting fintechs as their top priority for open banking. Another eight ranked financial inclusion first. Only two prioritized increased competition.[1]



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The lower prioritization of competition isn't surprising in a region where many countries have been termed "overbanked" on account of their many banks[2]. That's not to say competition isn't important; the region just has higher priorities. After all, those overbanked countries are also often home to many underbanked and unbanked populations.

Despite fundamental commonalities, there are now as many versions of open banking as there are countries or single markets using it. In a sense, the Arab region is already emerging as a global open-banking microcosm[3]. Notable initiatives include a European-style regulation-driven approach in Bahrain and an American-style market-driven approach in the United Arab Emirates under the guidance of the Abu Dhabi Global Market and Dubai International Financial Centre. Meanwhile, Saudi Arabia's market-driven initiatives have shifted toward a more formal regulatory framework. But the Saudi regulations

[1] Survey conducted in August 2020 by the Arab Monetary Fund in collaboration with the MENA Fintech Association. The 18 Arab central banks and monetary authorities surveyed are: Banque d'Algérie, Central Bank of Bahrain, Central Bank of Egypt, Central Bank of Iraq, Central Bank of Jordan, Central Bank of Kuwait, Banque du Liban, Central Bank of Libya, Banque Al-Maghrib, Central Bank of Mauritania, Central Bank of Oman, Palestine Monetary Authority, Qatar Central Bank, Saudi Arabian Monetary Authority, Central Bank of Sudan, Central Bank of Tunisia, Central Bank of the United Arab Emirates, Central Bank of Yemen.
[2] "Three's Company: An Overbanked Region Sees Some Welcome Consolidation," The Economist, February 2, 2019.
[3] "A Global Microcosm: Open Banking in the Gulf States and Egypt," Mastercard, 2020.

don't follow Bahrain in requiring the opening up of application programming interfaces (APIs), which facilitate data sharing, or in mandating security standards.

Defining a holistic vision for this microcosm will likely have global ramifications far beyond its dedicated regional scope. This report aims to establish a framework to guide the formation of an open-banking ecosystem in the region. Supported by the survey data across 18 Arab countries, this report is divided into the following sections:

- A global context
- From open banking to open finance
- Monetization opportunities
- The right environment
- A proposed framework

A Global Context

Regulators are emerging as enablers and innovators of financial change.

Regulation-led and market-led open banking represent two ends of a spectrum rather than a split. For example, the EU's revised Payments Services Directive (PSD2) is often considered the origins of regulated open banking. But, while it includes regulatory technical standards around strong customer authentication and secure communication, it doesn't incorporate standards for the APIs in its regulations. Meanwhile, far from letting regulators adopt a laissez-faire attitude, the US Treasury actively encourages federal and state financial regulators to involve themselves in a market-led approach toward more secure efficient data sharing, such as via APIs[4]. In addition, the US Consumer Financial Protection Bureau has recently announced plans to develop regulations to support consumer access to financial records.[5]

Different approaches have their pros and cons. An emphasis on regulations could ensure actual change but could also be overburdensome and paralyzing—regulated markets have often missed their implementation deadlines. Conversely, putting faith in the markets themselves could engender greater acceptance in the absence of administrative burdens. Still, it could also lead to incompatibility issues beyond private arrangements if no overarching standards are in place.

[4] "A Financial System that Creates Economic Opportunities: Nonbank Financials, Fintech, and Innovation," U.S. Department of the Treasury, July 2018.
[5] Consumer Financial Protection Bureau Releases Advance Notice of Proposed Rulemaking on Consumer Access to Financial Records," Consumer Financial Protection Bureau, Oct 22, 2020.

Open Banking Around the World

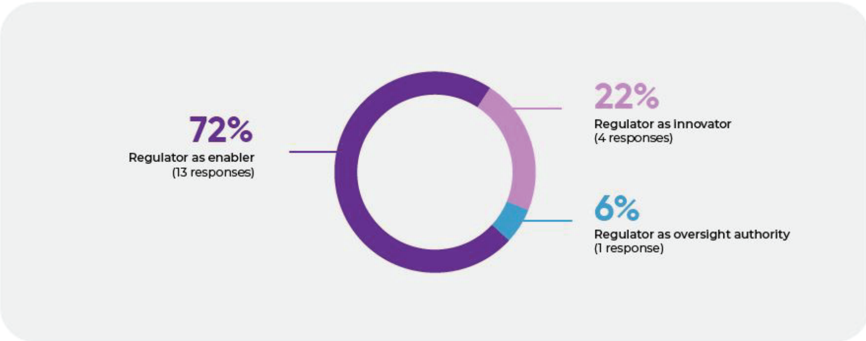
	UK	EU	Hong Kong	Brazil	Japan	Australia	USA
Lead	CMA (Competition & Markets Authority)	EU Commission (European Union)	HKMA (Monetary Authority of Hong Kong)	CBB (Central Bank of Brazil)	FSA (Financial Services Agency)	Treasury Department Consumer Rights Act CDR)	CFPB (Consumer Financial Protection Bureau)
Status	(Launched 2018)	(Launched 2019)	Launched 2018 (First 2 out of 4 phases begun)	Launched 2020 (3 Phases)	Launched 2019	Launched 2019 (2 Phases)	Investigation Mode
Service Provider	Mandatory 9 major banks in the UK	Mandatory All banks and payment service providers	Voluntary All banks	Mandatory 10 major banks (at present) and third-party providers	Mandatory All banks	Mandatory All banks, telcos, utility companies	Mandatory All financial institutions
Product Scope	Current and Savings Accounts	Current and Savings Accounts	All banking products/ Asset classes (current accounts, investments etc.)	Current accounts, credit cards, loans, insurance, know-your-customer (KYC) information	Bank Accounts (current, savings, deposits)	Current accounts, loans, mortgages, credit cards (later telco accounts, utilities data)	As per the consumer (any finanical data)
	API	API + Screen Scraping	API	API	API	API	API + Screen Scraping
Access Type	Read (account and balance info) Write (payment initiation)	Read (account and balance info) Write (payment initiation)	Read (account and balance info) Write (transaction initiation)	Read (account and balance info) Write (payment initiation)	Read (account and balance info) Write (payment initiation)	Read (account and balance info)	Read (account and balance info) Write (transaction initiation)

Only three (17%) of the survey respondents envisioned regulators letting the market lead. The other 15 were divided between two viewing regulators as moderators with non-binding guidelines and 13 as prescriptive regulators with binding standards (72%).

Q2. What overall role do you see regulators playing in open banking in your market?

But a preference for prescriptive regulation by no means implies any less emphasis on regulators' roles as enablers of new products and services or as innovators of change—17 of the 18 survey respondents (94%) viewed themselves that way.

Q3. How do you see regulators' future roles in open banking and innovation?

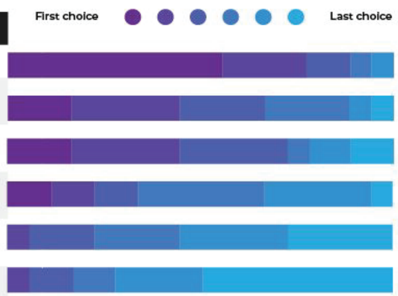


Clearly, binding is not all-binding, and success in the region will come from knowing where to draw the line between binding standards and non-binding guidelines within the regulations.

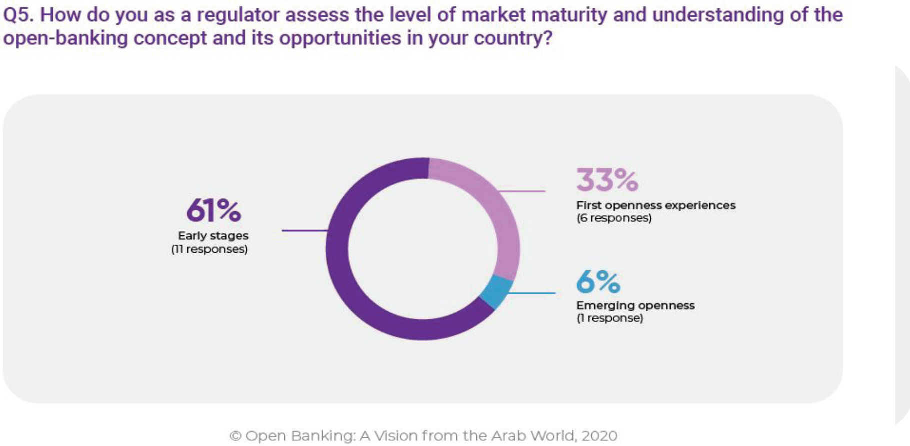
There are also data security and privacy issues that exist irrespective of guidelines. It's perhaps to be expected that 10 of the 18 survey respondents ranked cybersecurity as open banking's key challenge.

Q4. What are the key challenges for banks when adopting open banking?

Rank	Options
1.	Cybersecurity while opening up core banking systems
2.	Technical capabilities to connect with fintechs (API platforms, developer portals etc.)
3.	Change of culture to adopt to agile and open innovation (new target operating model)
4.	Identification of new business models for monetization
5.	Finding the right fintech partners to form reliable and stable customer propositions
6.	Poor customer engagement



But privacy tells a less predictable story. It bodes well that 22% of Middle Eastern customers have already adopted a fintech solution for their banking needs—of which 78% use peer-to-peer transfers and account aggregation[6]. And only two-fifths of the 18% unwilling to start using fintech solutions cite privacy concerns. Compare that with the UK where only 23% of the population are happy to grant financial providers access to their financial data held by other companies[7]. It remains to be seen whether sentiment in the Arab world will change. Open banking is much younger in the Arab region than the UK, and 17 of the 18 survey respondents considered their markets to still be in initial stages (94%).



Regardless of global differences, Covid-19 has had a consolidating effect worldwide. Even if digital banking—a basic tenet of open banking—wasn't the norm in most regions before Covid-19[8], it is now. That's not to discount the future of physical bank branches. As with any retailer, they provide complementary experiences in an online–offline fusion. But open banking isn't simply about smoother online banking experiences. It's about the host of new product benefits that come with it and continue to grow. Improved financial planning and more efficient liquidity management are key concerns for individuals and businesses struggling during the economic downturn.

Ultimately, the overarching opportunities are similar. Open banking lets individual consumers and business customers control the sharing of their data between banks and fintechs or other third-party providers. And with that come opportunities for innovation.

[6] "Middle East FinTech Study," Deloitte, June 2020.
[7] "ING Survey: We're Still Suspicious About Open Banking," ING, October 5, 2020.
[8] "Dropping 'Digital' from Digital Banking: 5 Trends for 2020," Banking Dive, January 13, 2020.

From Open Banking to Open Finance

It's no longer just about payment accounts and payment services.

With its origins in the EU's revised Payment Services Directive (PSD2), open banking was originally focused on payment services based on information from payment accounts. It provides two core services:

- account information
- payment initiation

Access to customer-consented account information allows third parties to aggregate financial data in one place to help customers and their service providers make better financial decisions. The further ability to initiate payments on behalf of customers adds convenience and efficiency.

But open banking has evolved. It's been steadily moving from just payments accounts toward all types of asset classes: savings accounts, credit cards, loans, mortgages, stocks and investments, insurance, credit scoring. And offerings are broadening into liquidity and cash management, loan applications, switching and asset factoring. As a result, the "open banking" moniker seems outdated as it starts to cover finance more generally. "Open finance" is a more suitable term for many of the key challenges it now addresses:

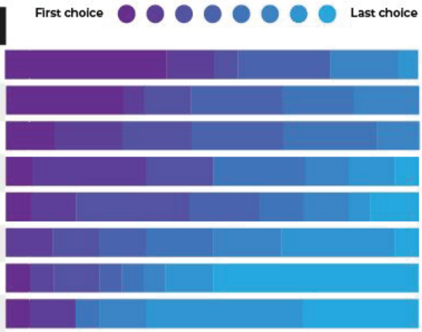
- financial account aggregation across all asset classes
- account-to-account payments
- remittances
- credit access
- identity verification

The first two points are extensions of account information and payment initiation as the core open-banking services. Unsurprisingly, the top potential customer uses for open banking identified in the survey were a personal finance manager with account aggregation services and new alternative payment types in combination with real-time payments. They were chosen by 12 of the 18 respondents in an almost equal split of seven and five. The potential for new payment types to improve the speed and cost of remittances is particularly relevant to the Arab region; the United Arab Emirates and Saudi Arabia are the largest senders after the United States[9].

[9] "Migration and Remittances," World Bank Group and Knomad, April 2019.

Q6. What are the core customer use cases you would like to see enabled by open banking?

Rank	Options
1.	Personal Finance Manager with account aggregation
2.	New alternative payment types (in combination with RTPs)
3.	Cash and liquidity management
4.	Business Finance Manager with account aggregation
5.	Improved credit scoring and smoother loan processes
6.	Product comparisons and product / account switching
7.	Financial marketplaces for lending and mortgages
8.	Automated bookkeeping and invoicing / invoice matching



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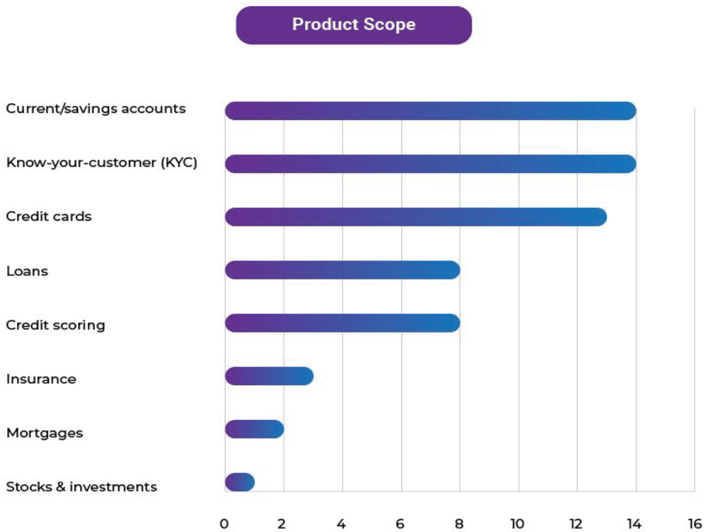
Turning to potential uses of specific APIs, respondents to the survey put credit cards almost on a par with payment and savings accounts. And credit scoring and loans were notably higher than mortgages, investments and insurance. That reflects the importance of financial inclusion in the region and the ability to better extend credit to underbanked people by using insights from aggregated data.

Q7. What API use cases should be provided by banks as a baseline for innovation in your country?



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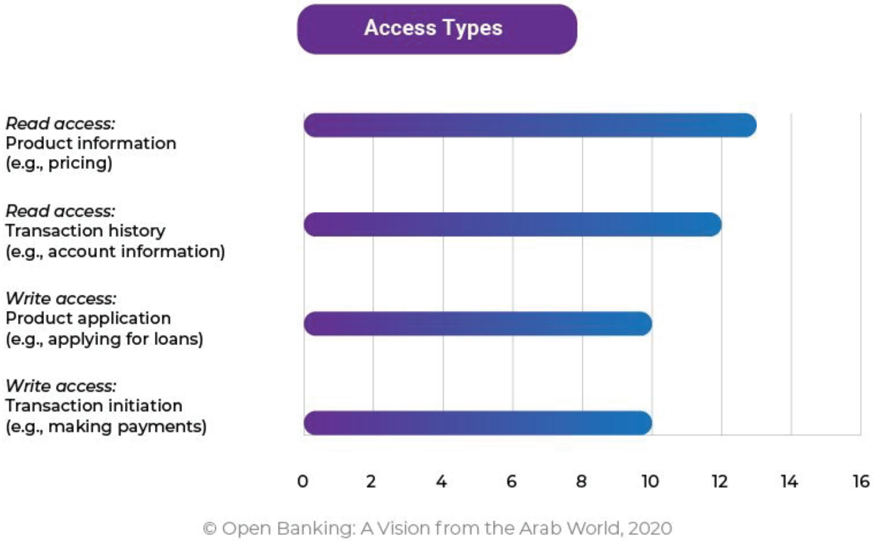
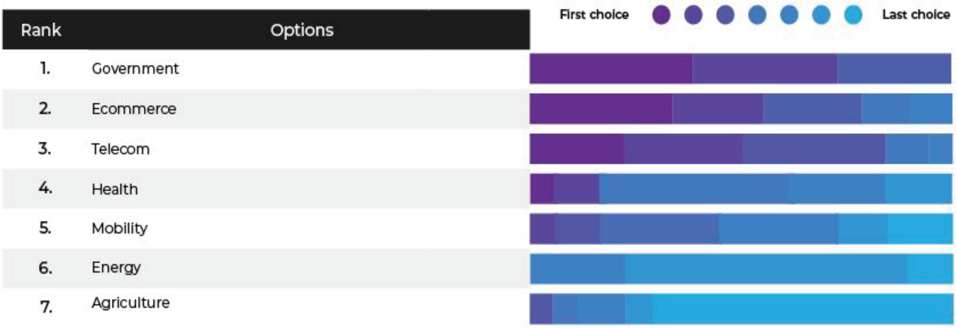


Sharing the top API spot in the survey with payment and savings accounts are know-your-customer (KYC) verifications. That's connected to KYC in the region often still being conducted face-to-face in physical bank branches that store their own sets of documents. As a result, third parties are entirely reliant on the banks.

The association of KYC with government-sponsored developments of electronic identification (eID), such as UAE Pass and Bahrain's eKYC platform, highlights the importance of "open finance" for sectors outside of banking. Open banking in Australia notably refers to its Consumer Data Right (CDR)—effectively a privacy regulation similar to the EU's General Data Protection Regulation (GDPR)—applied specifically to banking as opposed to any other sector[10]. With payment protection falling outside its scope, Australia's CDR is less prescriptive than the EU's PSD2 in terms of strong customer authentication. Australia's push toward electronic IDs, such as Australia Post's government-accredited Digital iD and the government's myGovID, will likely shape developments in that area. It's likely not coincidental that the government sector was prioritized by seven of 18 respondents to the survey for external partnerships in the Arab region.

[10] "Consumer Data Right Overview," Australian Government—the Treasury, September 2019.

Q8. What other industries should also open up to partner and create new services with banks and fintechs in an open-data ecosystem?



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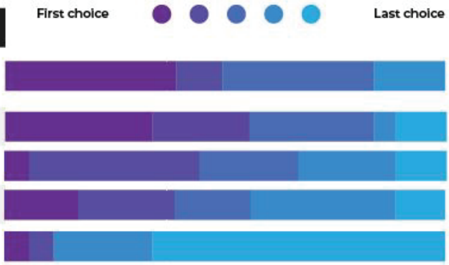
Closely following the government sector was ecommerce, which was prioritized by six respondents. A model for ecommerce outside the Arab region comes from Hong Kong's trade finance platform eTradeConnect, which was facilitated by the Hong Kong Monetary Authority in collaboration with several major banks. It uses distributed ledger technology to avoid the security risks associated with data being stored in one central location instead of immutable ledgers and allows buyers and sellers to trade and provide trade finance products through efficient data sharing.

Cross-industry innovation may be enabled by regulators through the provision of "sandboxes," where innovations are tested in a controlled setting, to allow banks and fintechs to develop solutions themselves. Alternatively, it may be enabled through the leadership of a consortium to work in open collaboration toward a common goal. Forming industry working groups was ranked as the most important success factor for open banking in the survey. After all, fintechs originally emerged to solve specific niche needs of banks—or more specifically emerging customer demands—but aren't usually able to meet the comprehensive needs of banks on their own.

Q9. What are the most important success factors for a functioning open-banking ecosystem in your market?

Rank	Options
1.	Forming industry working groups with banks, fintechs and regulators to create promising use cases
2.	Level playing field : API standards and infrastructure
3.	Use cases with clear business models for monetization
4.	Industry sandbox to test new use cases
5.	Customer experience for higher customer adoption rate of use cases



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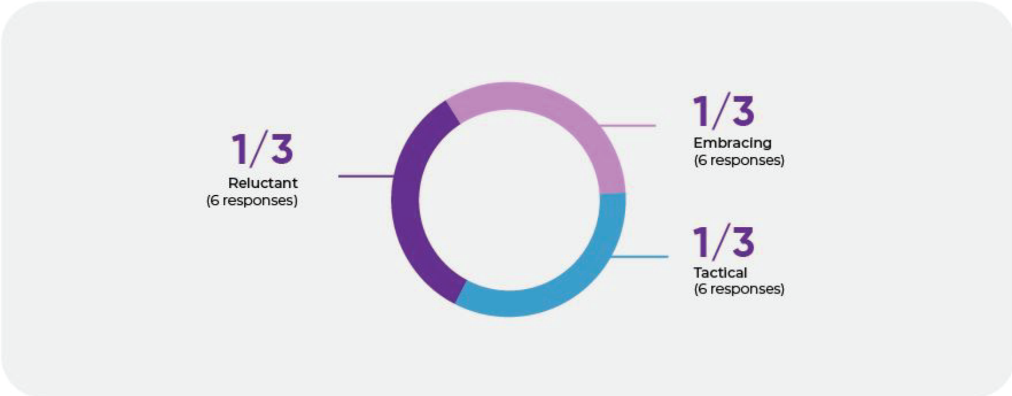
Monetization Opportunities

New models—banking as a service, banking as a platform and banks operating as third-party providers—represent new revenue.

While many Gulf countries might have limited opportunities to charge customers for certain regular banking services like minimum balance fees, many North African countries are more used to such charges. In terms of open banking, some open-banking regulations, such as Mexico's, allow banks to charge third parties a fee to access financial data. Others, such as the EU's, currently prohibit such charges. Regardless, any charges are nominal, and banks want better monetization opportunities.

Where incumbent banks once ran the risk of commoditization as providers of financial infrastructure to third-party providers, open banking is now recognized as a potential source of new revenue and a basis for innovation. The perspective of Arab central banks and monetary authorities on their incumbent banks' views of open banking show broad awareness that open banking is neither simply a compliance matter dictated by regulations nor a passing fad when led by the market. Two-thirds of the survey respondents were equally split between six seeing banks (one third each) fully embracing open banking and six seeing them approach it tactically as a potentially lucrative pursuit.

Q10. How do your country's incumbent banks welcome open banking as a shift in the wider banking and payments industry?



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- Only six deemed banks to be reluctant because they feared losing customer relationships and revenue streams. On the one hand, that reluctance may reflect countries with smaller banks not seeing much opportunity; on the other it may reflect countries with major banks in a comfortable outsize position not wanting to acquiesce to external trends. Demonstrating the three principal monetization opportunities for open banking will be crucial for its success in those countries:
- banking as a service
- banking as a platform
- bank as a third-party provider

Banking as a service refers to banks distributing their financial services through third parties. Third parties can offer services on behalf of banks by providing login-by-bank solutions to allow for automated form-filling across multiple interfaces, soft-credit scoring to pre-fill credit applications, and KYC verifications to allow for approvals on third-party sites. Banks generally profit through improved customer acquisition, but commissions may also be exchanged based on the extent to which banks or third parties might want to prioritize a particular service or feature.

Banking as a platform refers to banks opening their product suite up to third parties to create ecosystems. Working together, the banks and third parties can better aggregate those offerings to provide new bank-branded products or third-party "white label" products. For example, First Abu Dhabi Bank's "payment as a platform" consolidates merchants' payment needs—covering payment cards, digital wallets, loyalty programs, QR solutions, buy-now-pay-later and installment plans—as a single package that can be used across multiple brands. Banks can profit from revenue sharing but may also charge a fee to third parties in white-labeling cases.

Bank as a third-party provider refers to banks sourcing services from third parties to address customer lifestyle needs. The relationship between banks and third parties is the opposite of banking as a platform. Its services include operating as a payment service provider and providing personal financial management. For example, National Bank of Bahrain and Bahrain Islamic Bank now allow customers to view all their bank accounts, including those from other banks, on their mobile apps. Banks generally profit from improved customer experiences, but that can also mean offering services provided by competitors as in the provision of a marketplace to compare investment opportunities.

The Right Environment

A powerful and flexible framework can redefine the potential of open banking.

Open banking, particularly when extended to open finance, involves a multitude of data used in a myriad of ways. The right environment demands a powerful infrastructure, a powerful network and a flexible approach.

Powerful Infrastructure

Many of the Gulf countries in the Arab region now lead the world in the deployment of 5G[11], which can handle data transfers at volume and with speed. As other countries follow suit, the region has the opportunity to redefine the potential of open banking for the world[12].

Still, technology won't matter if customers aren't using it. Mobile banking is favored over website banking in many countries in the region, but significant portions of the banked population still conduct all their banking in physical branches. KYC remains an in-person activity for most, and unbanked populations are sizeable and represent the majority in some countries[13]. Physical branches won't disappear any time soon, but mobile banking apps should be convenient alternatives now.

Powerful Network

There's little point having a powerful infrastructure without a powerful open-banking network to run on it. In addition to opening up their APIs and exploring the use of distributed-ledger technology to better handle the data, artificial intelligence to better analyze the data, and biometrics to better authenticate the source of the data, banks will require responsive systems. "Agile" methodology, microservice architecture, software-defined networking and cloud computing are becoming banking staples. Most important is a common framework that establishes API and licensing standards as a foundation for innovation.

There's some disagreement over how API standards should be developed. Survey responses are split between 10 wanting to define a common national standard (56%) and eight wanting to follow an international standard (44%).

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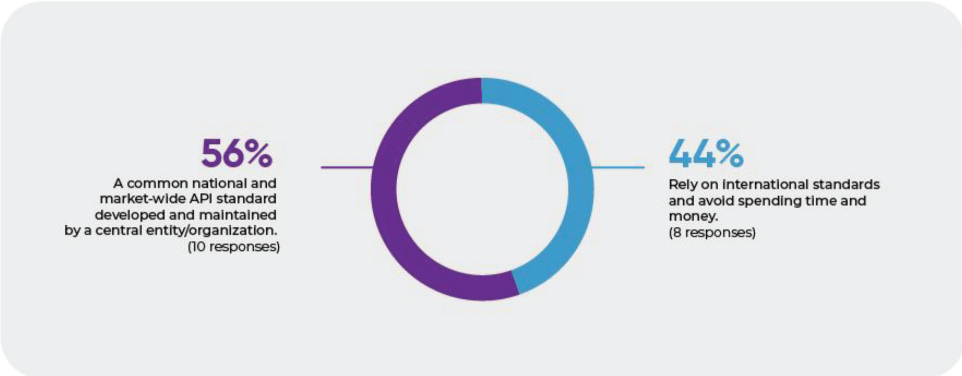
[11] "Roadmaps for Awarding 5G Spectrum in the MENA Region," GSMA, October 2020.

[12] "How the Gulf Could Benefit from a 5G and Open Finance Synergy," Forbes Middle East, September 8, 2020.

[13] "Middle East FinTech Study," Deloitte, June 2020.

Q11. When it comes to API standards, how should they be developed in your country?



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Regardless, leveling the playing field through API standards and a common infrastructure is the second most important success factor for survey respondents after forming industry working groups (see question 9). And those two factors aren't unrelated. A further consideration for the Arab region is the passporting of open-banking licenses across countries. That's possible in the EU but hasn't yet been broached outside of single markets.

Flexible Approach

From a certain perspective, the impact of the right environment can be seen in a comparison between the implementation of Bahrain's initial set of open-banking rules and the UK's and EU's regulations. Bahrain gave banks half a year to comply and mandated that all banks open up their APIs. The UK's and EU's regulations took several years to have an impact on customers and didn't incorporate standards for APIs. Many banks still missed their deadlines. Bahrain has recently developed its earlier rules into the Bahrain Open Banking Framework (OBF)—a set of guidelines and standards launched in October 2020 to ensure consistency in implementation and to boost adoption[14]. Once again, banks have half a year to comply.

The banking sector in Bahrain, where roughly 30 retail bank brands serve 1.4 million people[15], is less consolidated than in a country like the UK, where 32 of its banks merged into six between 1960 and 2010. Although the UK's regulations only pertain to its nine biggest banks, Bahrain had the benefit of hindsight when applying its regulations across the board. And while Bahrain did follow a PSD2-style

[14] "CBB launches the Bahrain Open Banking Framework," Central Bank of Bahrain, Oct 28, 2020.
[15] "Three's Company: An Overbanked Region Sees Some Welcome Consolidation," The Economist, February 2, 2019.

regulation, it offered a light-touch approach that allowed banks to adopt solutions most suitable to their individual circumstances—whether off-the-shelf or developed in-house.

In the end, if banks are expected to be flexible to meet the demands of open banking, then the open-banking framework itself should also be flexible enough to stimulate innovation. Eventually, an aligned approach should emerge from a flexible framework by incorporating a bottom-up approach to top-down regulation. There are three models:

- sandbox-based adjustments
- transitional regulatory periods
- alternative licensing arrangements

Sandboxes aren't just for banks and fintechs to adjust innovation to accommodate regulations. They're also for regulators to adjust their regulatory frameworks to accommodate the innovation emerging from the banks and fintechs. And that engagement through experimentation can also be helped by transitional regulatory periods. Instead of mandating desired outcomes at the outset, regulators can allow third-party providers to use secure workarounds until the infrastructure can be established. For example, European regulators permitted "screen-scraping" practices to access customer-consented account information prior to the widespread opening up of APIs.

An alternative approach avoids specific requirements in licensing to let the market arrive at them itself. For example, although the Saudi Arabian Monetary Authority and Dubai International Financial Centre have established licenses for account information service providers and payment initiation service providers, which can be considered forerunners of open banking, they have not mandated open banking per se. Meanwhile, the Abu Dhabi Global Market has issued guidance on API standards to encourage collaboration between banks and fintechs. However, it remains to be seen whether the market will truly lead or whether APIs will need to be mandated at a later stage as in the EU.

A Proposed Framework

The right approach should engender participation rather than defensiveness.

The benefits of a global perspective, the shift to open finance, opportunities for monetization and a promising environment bode well for open banking's prospects in the Arab region. On that basis, a powerful and flexible open-banking framework should consider two factors:

- broad global learnings
- specific regional needs

Together they inform the following five-step vision for open banking:

1. **Principles over Prescriptions**

   Technically detailed, top-down legislation hasn't always provided the intended clarity for open banking. Well-defined topics have ironically often been the source of the most contention around the world. For example, strong customer authentication has encountered implementation issues and introduced friction to the customer journey. Balancing regulatory definitions with market considerations will permit a focus on measures that can accelerate implementation and adoption while avoiding unnecessary delays due to administrative burdens and compatibility issues.

Still, high-level goals don't mean regulators are solely enablers of open banking who license providers, define standards for APIs and address cybersecurity. Real success will come from regulators being active participants in working groups to support the innovation process and adjusting their regulations to accommodate as appropriate.

2. **Phased Implementation**

Although a principle-based implementation can increase efficiency relative to a prescriptive one, open banking remains a transformational, long-term, structural undertaking. A gradual expansion of functionality will ensure all stakeholders have sufficient time to address local market and technological challenges.

For example, it's often simpler to ask banks to start by providing third-party access to account information services than to ask them to support third-party payment initiation services. The technological challenge is easier, and any apprehension about the impact of open banking on revenue can be better allayed early on.

3. **Customer Data Rights**

Open banking's treatment of customers as the owners of their data means that their right to share data with third parties falls under the protection of privacy regulations. And open banking needs to be in sync with those privacy regulations. Countries exploring new privacy regulations might consider automatically embedding open-banking regulations in a manner similar to Australia's Consumer Data Right. Any open-banking implementation should outline the processes and timelines for a third party to be granted access to financial data that customers have elected to share.

Global security standards, such as those established by the International Organization for Standardization or forming part of the International Standards on Assurance Engagements, are often considered a basic requirement for all data sharing regardless of specific privacy regulations. The development of electronic IDs for KYC compliance will address some of the issues experienced with strong customer authentication in Europe and elsewhere.

4. **Standardization and Neutral Technology**

Standards for APIs, data processing and storing, and cybersecurity will ideally emerge naturally from a flexible regulatory framework. Perhaps more realistically, aggregators will end up facilitating connections as intermediaries between banks and fintechs. Whichever it may be, close collaboration between stakeholders across different countries will help extend interoperability across the Arab region.

Further challenges will come as open banking makes connections with non-financial sectors and non-regulated players through open finance. Take, for example, an open-banking application wanting to use an API to incorporate individual account information from a telecommunications company into its credit analysis for loan applications. A technology-neutral and future-proofed ecosystem will be necessary to ensure compatibility, security and compliance with customer data rights.

5. **Level Playing Field**

A level playing field will ensure that all stakeholders have sufficient commercial and economic incentives to support open banking. On the customer side, incentivization should come as much from offering a personalized investment product to a few high earners as it will come from assisting underbanked consumers in meeting monthly expenses more efficiently.

On the implementation side, smaller banks and third parties should not feel restricted by a lack of technological infrastructure, investment capital and industry partnerships to innovate or even invest in basic compliance. And big banks can't always be expected to carry the financial burden and reputational damage if a fintech partner defaults.

To achieve its five-step vision for open banking, the Arab region will require active and flexible collaboration between regulators, banks, fintechs and other third parties. Although increased competition isn't the primary impetus for open banking in the Arab region, the result of open banking will be increased competition—not just between banks and fintechs but also among fintechs themselves. Far from breeding defensiveness, the outcome will be a participatory environment in the Arab region where banks and fintechs can innovate and better position themselves for economic growth through an improved and inclusive financial ecosystem.

Authors

- Abu Dhabi Global Market (ADGM)—Wai Lum Kwok, Senior Executive Director, Capital Markets
- Arab Monetary Fund (AMF)—Nouran Youssef, Senior Financial Sector Specialist
- Codebase Technologies—Raheel Iqbal, Managing Partner
- DAPI—Mohammed Aziz, Cofounder
- Dubai International Financial Centre (DIFC)—Christian Kunz, Head of Group Strategy and Innovation
- Arthur D. Little—Arjun Vir Singh, Head of Financial Services – MENA
- Lean—Hisham Al-Falih, CEO
- Mastercard—Hakan Eroglu, Global Open Banking Lead
- MENA Fintech Association – Nihal Abughattas, MFTA Founding Board Member
- OneConnect—Annie Ong, Head of Business and Product Development
- Tarabut Gateway—Prashant Shrivastava (PK), Executive Director—Bahrain

Survey Participants

- Banque d'Algérie
- Central Bank of Bahrain
- Central Bank of Egypt
- Central Bank of Iraq
- Central Bank of Jordan
- Central Bank of Kuwait
- Banque du Liban
- Central Bank of Libya
- Banque Al-Maghrib
- Central Bank of Mauritania
- Central Bank of Oman
- Palestine Monetary Authority
- Qatar Central Bank
- Saudi Central Bank
- Central Bank of Sudan
- Central Bank of Tunisia
- Central Bank of the United Arab Emirates
- Central Bank of Yemen

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