MENA FINTECH ASSOCIATION

OPEN FINANCE

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

NOVEMBER 2021

Foreword

Barely a year has passed since the publication of our report *Open banking: A vision from the Arab world*. One of the more prescient sections of the report discussed the emerging shift from open banking to open finance. How quickly things have evolved since then! This year, open finance merits a report of its own.

Open finance brings together a host of participants across financial services. Any hierarchical notion of data providers and third-party recipients is long gone. In its place is a level playing field where all parties may share or receive data as part of a collaborative ecosystem.

Yet open finance is more than open banking with a broader scope. Where an open banking framework is designed to spur the innovation of products and services, open finance takes those products and services and then connects them across a shared framework as well. The result is a consistent and richer customer experience regardless of the businesses involved.

Such a cross-sectoral approach calls for at least some regulatory oversight of technology standards—even in countries where open banking has been largely market led. But the type and degree of centralised control will ultimately depend on the industry sectors and their markets.

Whether looking to improve financial inclusion, boost liquidity for small businesses, or facilitate know-your-customer (KYC) verifications, open finance is poised to lay the foundation for the future of finance across the Arab region. That's both an opportunity and a challenge for banks. It's also a development that chimes well with the economic diversification agendas and relatively youthful workforces of Arab countries.

This report on open finance is a product of the Open Banking Working Group of the MENA FinTech Association in collaboration with the Arab Regional Fintech Working Group. It has profited from the insights of many regional and international experts. We would like to extend our thanks to all of them:

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1. From open banking to open finance

No sooner had the term *open banking* become established than the approach moved on. Talk is now of *open finance*.

Many countries, such as Australia and South Korea, already incorporate the broader scope of open finance data within their regulations.[1] Open finance goes beyond the payment account information associated with open banking to include "read" access to entire financial footprints, which may cover product, pricing and contract information for savings accounts, mortgages, pensions, insurance, loans, investments and stocks.

In this new environment, the payment initiation services of "write" access are but a subset of transaction initiation services, which may include opening a bank account, buying a stock, paying by loan, or switching to a cheaper loan. Other essential services, such as telecommunications and energy, now sit alongside banking.

However, it would be a mistake to assume that open finance is just open banking with a broader scope. Although the breadth of data may automatically allow more long-term and useful insights and recommendations, the real difference comes from layering enhanced functionality on top of all the data through a shared framework (figure 1).

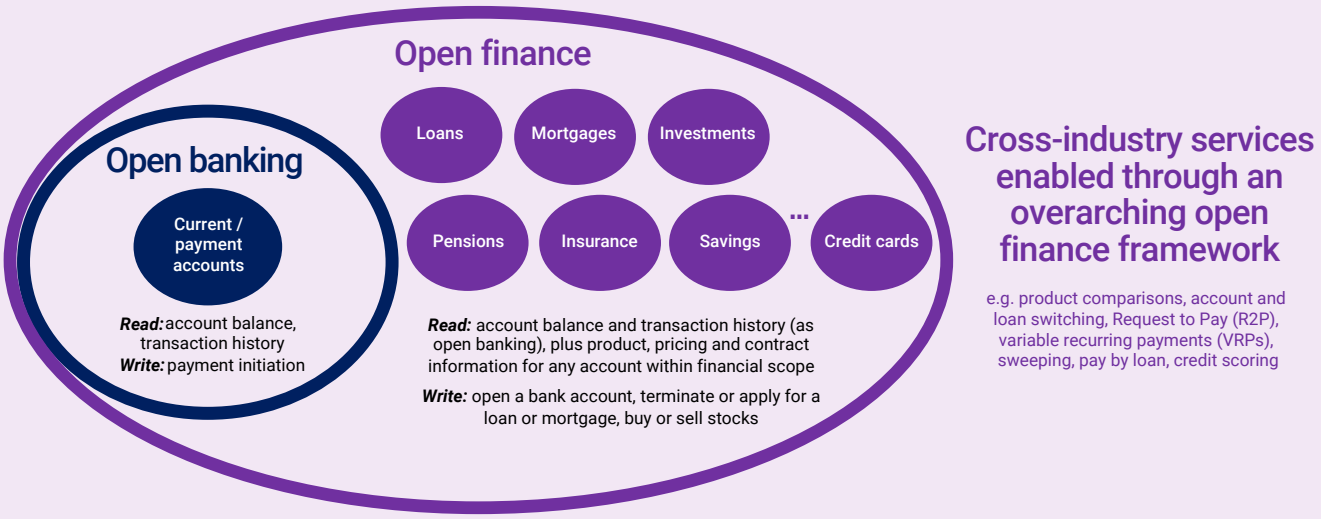

Figure 1: Open banking compared with open finance

Open finance is a step-change because it is not about "atomic" APIs such as payment initiation requests. It creates an umbrella that takes products and services and connects them *across* a shared framework.

[1] "Twist to open: An Australian take on open banking" and "My payment, my data: Open banking in South Korea." Mastercard, 2021.

The basic setup still consists of the sharing of data, with account-holder consent and ideally in real time, via an application programming interface (API). But where open banking focuses on whether APIs can connect across a shared framework to enable the provision of products and services, open finance takes those products and services and connects them across a shared framework as well—all while expanding the scope (figure 2).

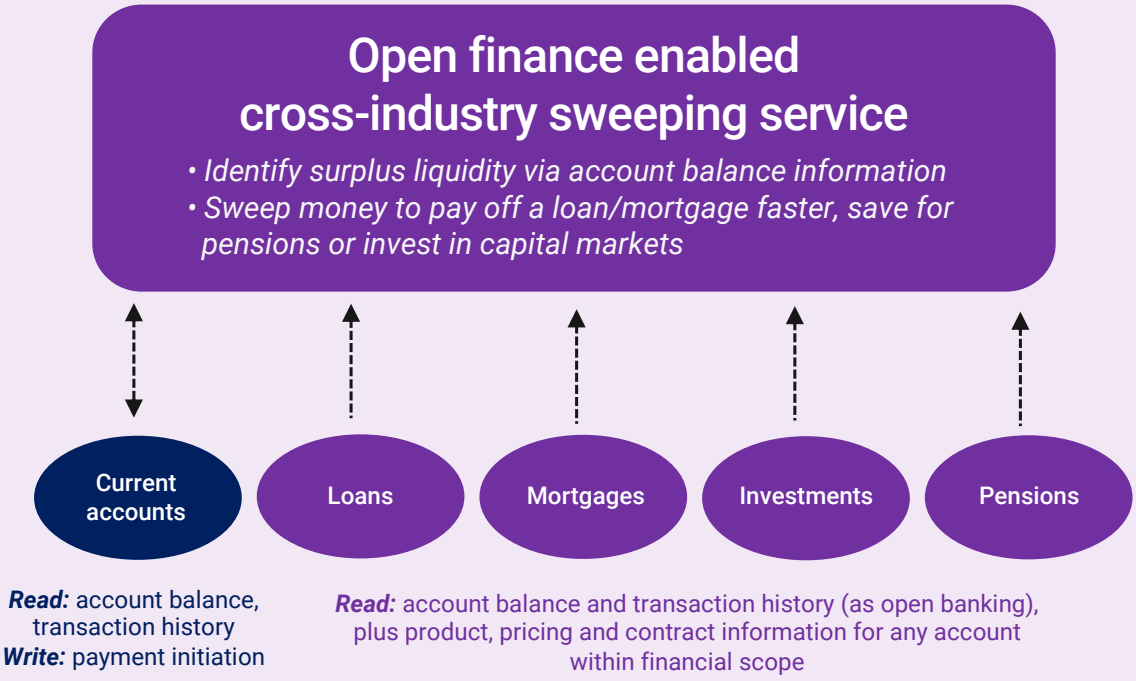

Figure 2: An example of sweeping through an open finance framework

The potential of a unified open finance framework is not lost on the Arab region. Bahrain is planning for an upcoming open finance framework, and the recent regulatory framework of the Abu Dhabi Global Market (ADGM) already extends the scope of open banking into neighbouring areas such as insurance and investments.

The transition from open banking to open finance will begin in areas adjacent to payment accounts, such as savings accounts, and then spread across financial areas further removed from banking, such as investments and insurance. It will provide customers:

- **a *fully* holistic view of finances**
- **control over *all* financial data**
- ***more* insightful, competitive, affordable and effective solutions**

2. Opportunities

2.1 A global context

A fragmented financial footprint across multiple providers is the norm for many people. Confidentiality constraints or competitive concerns limit data sharing; consolidating and analysing the data is arduous because of a lack of standardisation.

Open finance addresses the challenges of data fragmentation by providing a secure and efficient means for customers to allow businesses to share and use customer data across a common framework. A freer exchange of data can let in new competitors and encourage innovation. The businesses become better service providers; the customers benefit from the provided services. Single apps can sync across multiple service providers, and customers can use single identifiers like phone numbers to make use of services.

Request to pay (R2P) in the UK or Request for Payment (RfP) in the US has been teasing the shift from open banking to open finance for a couple of years. It 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. Payers decide whether to pay in full or split payments and are not stuck in fixed direct-debit agreements; payees appreciate the reduced possibility for error and the greater reach. It's easy, efficient and functions best—sometimes exclusively—on real-time payment networks. Its shared framework combines the same functionality across all participants in what is essentially open finance.

Another emerging functionality in the UK is the use of sweep accounts through variable recurring payments (VRPs).[2] Sweeping moves money between customer accounts to improve liquidity by making smart financial adjustments when agreed triggers occur, such as meeting a balance threshold. An open finance framework can allow easy account switching as needed or, if preferred, simply sweep funds into other accounts without customers ever having to formally switch accounts. Add in VRPs, and providers can sweep funds between accounts without requiring repeated strong customer authentication (SCA) every time a transaction is made. Outside of sweeping, VRPs can also automate R2P/RfP processes such that the request need only be made once, while the power to revoke at any time through a simple click still resides with the customer.

Elsewhere in Europe, 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.[3] Over 75% of European banks follow the NextGenPSD2 standards specified by the Berlin Group.[4] Its forthcoming open finance API framework is expected to become the de facto API standard in Europe and in countries outside that seek compatibility with European markets. The EU's drive towards an open finance ecosystem is an integral part of its overall data strategy.[5]

Outside of select initiatives around common open finance frameworks, scope remains for now the basic distinguishing factor between open banking and open finance initiatives worldwide (figure 3a). An admittedly somewhat forced categorization of regions as either regulation led or industry led persists for open banking and open finance, but the tendency is towards some degree of regulation (figure 3b).

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[2] "Variable recurring payments required for sweeping." Open Banking Implementation Entity, 26 July 2021.

[3] "PSD2 access to bank accounts", The Berlin Group, October 2020

[4] "Berlin Group starts new openFinance API framework." The Berlin Group, 26 October 2020.

[5] "The ambitious path to open data and open finance … How Europe is leading the way." Finextra, 6 March 2020.

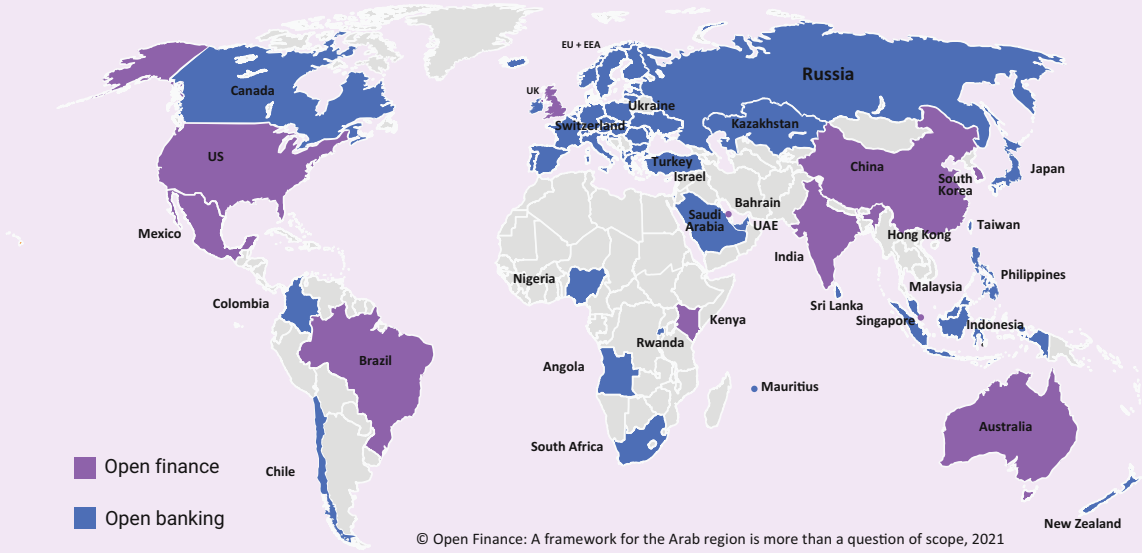


Figure 3a: A scope-based classification of open banking and open finance initiatives around the world

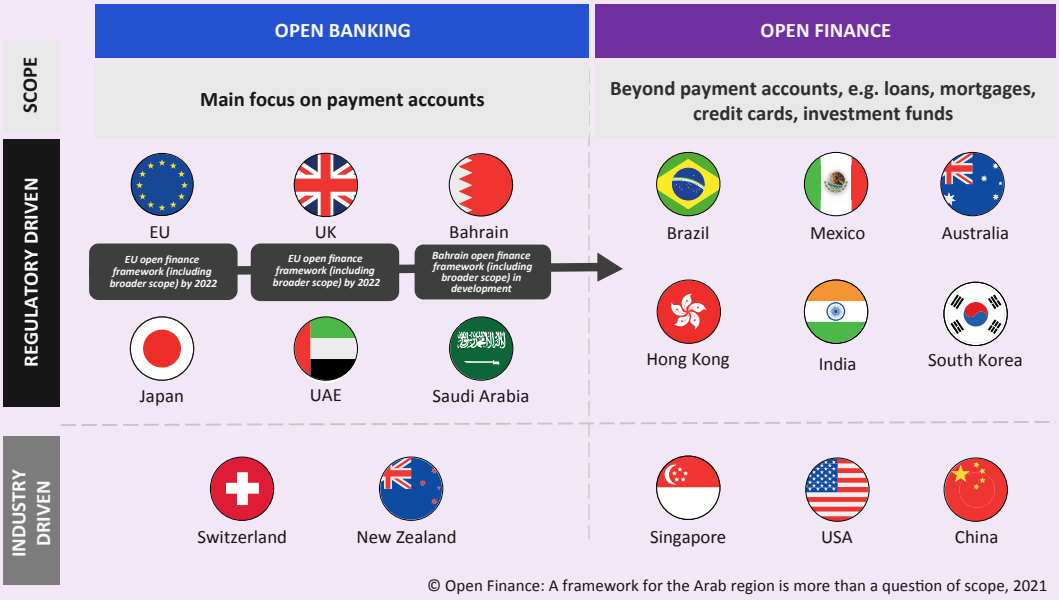


Figure 3b: Select examples of regulatory-driven and industry-driven open banking and open finance initiatives around the world

2.2 An Arab perspective

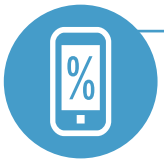
The combination of a variety of financial data with cross-compatible functionality layered on top, such as sweeping, allows for many use cases in open finance. Three are of particular relevance to the Arab region, according to a survey last year by the Arab Monetary Fund (AMF) of 18 central banks and monetary authorities.[6]

1 Financial management and pension planning

Whether a personal finance manager (PFM) for personal use or a business finance manager (BFM) for business use, most financial management apps rely on limited payments data. That matters in the Arab region where a PFM with account aggregation ranks as the most important use case for open banking in the AMF survey.

Organizing and tracking all kinds of finances can be challenging for an individual, let alone a small business trying to manage everything from bookkeeping to invoicing and payrolls. Very few use a single financial institution for all their financial needs. A customer may have a payment account with a local bank, trade equities through a broker, protect their assets through an insurer, and have multiple pensions. Open finance can 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.

6 "Open banking: A vision from the Arab world." Arab Monetary Fund & MENA FinTech Association, November 2020.



2 Credit Provisioning

Almost half of the 18 central banks and monetary authorities in the AMF survey rate financial inclusion as their top priority for open banking. That prioritisation reflects a shift toward seeing financially marginalised groups as an attractive proposition for financial services.

Better access to credit in the Arab region matters as much for businesses as for individuals. It's cited as a major constraint by 32% of small and medium-sized enterprises across the Arab region as well as Afghanistan and Pakistan.[7] SME contributions to formal sector employment in Arab countries represent 33% of GDP on average, which is lower than the 60% average across developing countries. SMEs also contribute an average of 45% to the GDP of Arab countries, ranging between 22% and 80%.[8]

Traditional credit scoring often struggles to fully represent the financial situation of underbanked or unbanked groups. Even for banked groups, a focus on liabilities rather than assets can create misleading views. Open finance accords lenders a broader picture of customers' financial situations and increasingly involves the sharing of data by telecommunication companies (telcos).[9] Data from smartphones and the Internet of Things is also being used by non-banks, such as agritech companies, to create economic identities for unbanked people.

The proprietary nature of lending means credit provisioning relies more on the scope of data than any unified framework, but standardised marketplaces offering competing loan products will benefit from consistency.

3 Know-your-customer (KYC) verification

The AMF survey ranks APIs for KYC alongside APIs for account data as the most important APIs for open banking innovation in the Arab region. Bahrain's eKYC platform, which extends beyond the banking sector to fintech companies, and the UAE Pass, which is a smartphone-based national digital identity system and covers government-related transactions including utility bills, are testimony to that sentiment. An acceleration in eKYC solutions is also occurring in cash-dependent countries, such as Jordan and Morocco, where remote onboarding on to e-wallets has been important during Covid-19 so people can receive government support.

The association of eKYC with government-sponsored electronic identification initiatives reflects the inclusion via open finance of a broad swath of sectors outside of banking. That matters in the Arab region, where 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.

TWO GLOBAL USE CASES

A major Filipino financial institution wanted to extend its loan products to small businesses, which tended to lack credit history and audited accounts. The institution introduced a multi-lender platform with an ecosystem of partners that included credit bureaus, e-commerce players and payment providers. The innovative risk management and anti-fraud technologies of the partners, coupled with the use of validated alternative data, kept risk of fraud and defaults low, and reduced approval times while providing more accurate risk assessment. The partnerships also extended the financial institution's reach and reduced acquisition costs as sellers on the ecommerce platform used their trading data to borrow with increasing success.

In Guangdong, China, where applications for financing require in-person meetings and extensive documentation, small businesses often struggle to obtain financing. A regulator-supported multi-lender financing platform—which plugs into reservoirs of data from the government, FIs and other private data partners—now provides a digital means for small businesses to obtain unsecured loans. High usage coupled with rich product data lets regulators and financial institutions collaborate to provide value-added products and services on the platform to help small businesses grow.

[7] "Financial inclusion of small and medium-sized enterprises in the Middle East and Central Asia." International Monetary Fund, 2019.

[8] "خيارات السياسات الضريبية لدعم المؤسسات متناهية الصغر والصغيرة والمتوسطة". Arab Monetary Fund, 2021.

[9] "Purposeful & profitable: Financial inclusion via open banking in the Middle East & Africa." Mastercard, 2021.

3. Regulatory intervention

3.1 The degree

From Bahrain's release of open banking rules in 2018 to Saudi Arabia's plans to go live with open banking in the first half of 2022 after an implementation phase starting at the end of 2021,[10] countries in the region differ in the extent of their rollouts of open banking. They also differ in their approaches, and open finance will be no different.

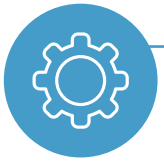
Regulators will likely want to find an appropriate level of market intervention that promotes innovation. High levels could stifle growth as participants devote resources to risk mitigation; limited intervention could result in anti-competitive behaviour that inhibits participation by smaller players or in risky behaviours that negatively affect consumers. What differs with open finance is the baseline for intervention. Unlike open banking, where aggregators can circumvent the need for standardised core APIs, open finance requires some degree of central organising force for consistent provision of products and services in a shared framework.

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

1 Market structure

The number of banks per capita in several countries in the Arab region is high by global standards. For example, Bahrain has 30-odd retail bank brands serving a population of 1.7 million people, while Britain saw 32 of its banks and building societies consolidate into 6 incumbents between 1960 and 2010 to serve a population over 40-times larger.[11] Saudi Arabia and the UAE have many bank brands too, but they also house larger fintech ecosystems; the UAE has close to 400 active fintech companies.

The issuance of an open banking licence to a Bahraini telco,[12] and the telco origins of one of the two digital banks recently licensed in Saudi Arabia,[13] demonstrate a perspective beyond open banking as other sectors become involved. 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.



2 Technological maturity and industry cooperation

Technological capabilities are second only to cybersecurity in the AMF survey as the biggest concern for open banking. But the breadth of participants in open finance—many without the standard protections employed by banks—heightens the concern considerably. The risk isn't just of an incorrect transaction by a single party; other systems can be compromised when interfacing via open finance. As a result, providers with a low level of technological maturity may be more reluctant to open up their systems and may face higher implementation costs.

So, the need is 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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[10] "Open banking policy." Saudi Central Bank (SAMA), January 2021.

[11] "A global microcosm: Open banking in the Gulf states & Egypt." Mastercard, 2020.

[12] "Batelco establishes presence in the fintech world." Batelco, 18 July 2021.

[13] "Saudi central bank submits licensing applications for two local digital banks to conduct banking business in the region." Saudi Central Bank (SAMA), 10 June 2021.

3.2 The models

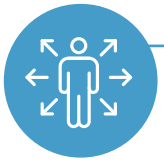
Open banking is often described as either regulation led or market led. However, in practice it's more of a spectrum than a division, and different countries or regions just skew more in one direction than the other.

Only three of the eighteen regulators surveyed by the AMF favoured an entirely market-led approach, while two favoured a moderator role, and thirteen preferred prescriptive regulation. The three models may be portrayed accordingly:

1 Mandated

The regulator sets out prescriptive legislation that mandates common technical standards across providers. An initial spurt of acceptance and rapid growth may slow once minimum requirements are met and regulation hinders innovation.

A single integrated regulator may be responsible for the entire financial sector, or responsibilities may be divided along regulatory lines, such as market conduct or prudential risk. Open finance may split responsibility along financial sectors, such as insurance or investment.



2 Facilitated

The regulator sets 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.

Guidance may sometimes come from dedicated government agencies based on specific needs. For example, a region looking to open finance as a means for economic digitisation may follow the lead of a digital authority, while a region with a high degree of concentration among financial service providers may turn to a competition authority.

CASE STUDIES FROM THE ARAB REGION

Abu Dhabi General Market (ADGM)

The Financial Services Regulatory Authority (FSRA) of ADGM issued a regulatory framework on third-party financial technology services in April 2021. The framework serves as the basis for open finance by allowing for the expansion of specified information types as demand for new third-party services increases. Existing and new third-party providers should be able to adapt to demand for open finance services.

Like other UAE regulators, the FSRA maintains a facilitated approach on the grounds that prescriptive regulation can improve adoption but stifle innovation. The FSRA works with industry players to develop appropriate technology standards while establishing strict regulatory requirements to ensure that third-party providers are robust and able to protect their customers' data and interests.

Dubai International Financial Centre (DIFC)

The Dubai Financial Services Authority (DFSA) of DIFC issued a regulatory framework on money services in April 2020. The framework's definitions of account information service provider (AISP) and payment initiation service provider (PISP) go beyond the payment accounts of open banking to enable open finance use cases.

The DFSA is working closely with other UAE financial regulators, including the central bank, to jointly issue guidance on technologies including APIs, cloud computing and cybersecurity. Publication is slated for late 2021 with further material specifically addressing standards for open finance following in 2022.

The DIFC emphasises the education of all key stakeholders in the open finance ecosystem. The DIFC Academy partnered with the MFTA to host two masterclasses on open finance in its new DIFC Innovation Hub in 2021 for over 500 participants.

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3 Market led

The regulator intervenes 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.

Industry players and self-regulatory organisations may be nimbler than government bodies in their ability to push compliance and a better level of innovation through voluntary codes of conduct without being bound by fixed legal processes. This approach may be better suited in fast-evolving areas, such as technology standards.

The emerging worldwide preference for mandated or facilitated open banking augurs well for a shift to open finance, where an entirely market-led approach is not really feasible. Regardless of the continued support of self-regulatory organisations, a collaborative framework requires at least some degree of centralised oversight.

4. Technological standards

4.1 A standard need

Open banking practices go back at least 15 years. But the widespread adoption of the *open banking* moniker and the application of a specific regulatory context goes back only to January 2018 when it went into force in the UK. Bahrain followed soon after with its first announcement of open banking rules in December 2018 and a requirement for all banks—not just major players—to comply within just half a year.

Real-time networks for data sharing and secure cloud-based APIs for connectivity are now staples of open banking. Open finance relies on that same infrastructure, but the broader participation across multiple sectors heightens its importance. Yet if open banking technological standards haven't always evolved naturally without legislative intervention, any such expectation of open finance seems somewhat forlorn. When the Australian Competition & Consumer Commission (ACCC) was establishing its Consumer Data Right (CDR), a data protection regulation that couches open banking among broader open finance and open data considerations, the UK's Open Banking Implementation Entity advised that it had faced challenges in the UK because of "an absence of detail in the overarching regulatory framework."[14]

CASE STUDIES FROM THE ARAB REGION

Bahrain

Bahrain's central bank issued comprehensive rules on open banking in December 2018 and then followed with the first phase of its open banking framework in May 2020. Participants must implement its second phase by the end of June 2022. Phase one covered general licensing and supervision of account information and payment initiation service providers along with technological and operational standards. Phase two adds guidelines around sharing publicly available data such as ATM and branch locations, domestic and international standing orders, international future-dated payments, batch payments, and further technological and operational standards.

Bahrain is the first country in the region to mandate all retail banks to comply with open banking regulations. The idea is that participation should benefit individual institutions as well as the larger ecosystem. Bahrain is now planning for an upcoming open finance framework.

A degree of hindsight relative to regions like Europe has seen aggregators preemptively meet the need for compatibility in countries like Saudi Arabia and Bahrain. The inclusion in open finance of sectors outside banking will make the aggregators' roles all the more relevant in reducing complexity in the ecosystem. Software-defined networking, which applies the benefits of cloud computing to networks, and edge computing, which reduces bandwidth needs and latency by allowing data to be processed closer to its source, can only go so far.

From the Global Open Finance Centre of Excellence in the UK to the Financial Data Exchange in the US, industry bodies are stepping up to meet the challenge. Their objective is to create open and standard API designs to level the playing field by addressing security, trust, performance and customer experience across all participants and sectors. One of the main technical requirements for an open finance ecosystem is remote and secure user identification. Part of the Americas division of the Bank for International Settlements recently explored an open finance solution involving the use of a central validator to allow for secure relationships to be created between participants without them needing to directly interface with each other.[15] What's important in all such initiatives is that the power of consent remains with the consumer.

[14] "°Consumer Data Right rules framework." Australian Competition & Consumer Commission, September 2018.

[15] "Enabling open finance through APIs." Consultative Group on Innovation and the Digital Economy, BIS Representative Office for the Americas, December 2020.

Ultimately, any such centralised open finance standards will need to be upheld and mandated by regulators in countries to ensure real functionality. However, it is unlikely that regulators will be able to develop these standards without the support of external entities with the necessary industry expertise. These entities will also be able to help balance the amount of red tape, which could inundate the open finance ecosystem and hinder innovation. Deeper regulatory involvement might be warranted in local contexts where certain sectors are less technologically mature or are starkly divided across different types of technology. The risk is that such standards could end up too resilient to change without a more neutral technology base.

4.2 Types of need

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

1 Licensing

The proliferation of participants in open finance intensifies the need for proper licensing. Countries such as Oman, which are still preparing their open banking strategies,[16] can benefit from looking at how open finance takes licensing beyond payments services to an array of financial transactions across multiple sectors. The role of out-sourced service providers in Australia's CDR,[17] and the ACCC's recent announcement that from February 2022 data recipients will be able to sponsor the accreditation of other entities to reduce barriers to entry,[18] is instructive here.

Regulators now face decisions around standardised products and services that go beyond the standardisation of open banking APIs. Licenses may be categorised based on the degrees of removal of outsourced service providers from the original data-sharing source, on activity types within different business sectors, and on the kinds of customer data or assets held by service providers. Some open banking licenses may be readily transferrable into an open finance framework, others less so. One commonality across all providers is that they will have to demonstrate an ability to mitigate their own inherent risks as well as any potential contagion risk they pose to other providers.

2 Consent & privacy

Data protection regulations tend to precede or at least coincide with open banking regulations. Saudi Arabia recently passed its Personal Data Protection Law in 2021 and plans to go live with open banking in 2022. Kuwait's central bank announced forthcoming open banking regulations in 2019, but the country's data protection law came first in 2021. Data protection regulations may then be updated as needed. In the UAE, the Dubai International Financial Centre (DIFC) issued a new version of its data protection law in July 2020 following the launch of its money services regulation in April 2020, and the Abu Dhabi Global Market (ADGM) updated its data protection regulations in February 2021.

As with open finance, the scope of data protection extends beyond banking into multiple sectors, albeit also extending into non-financial areas like healthcare. This congruence means data protection laws will shape how open finance develops. In Australia, for example, regulators made clear that open banking was just the first application of CDR and that other sectors would follow.

[16] "The Arab region fintech guide (2nd edition)." Arab Monetary Fund, July 2021.

[17] "Twist to open: An Australian take on open banking." Mastercard 2021.

[18] "Accreditation guidelines. Version 3: draft." Australian Competition & Consumer Commission, 29 October 2021.

3 User experience

Consistency in a sprawling open finance framework doesn't just matter for providers. 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. Some centralised branding will be important for digital natives, who may have certain expectations, and digital immigrants, who may be wary of the shift to digital.

That consistent consumer experience also extends to trust. Multiple parties across multiple sectors means multiple opportunities for new services and revenue streams, but that doesn't make it a free for all. Customer data can only start to be used once customers have consented to the services, and customers need to be authenticated. That places a burden on providers. Although biometrics can make repeated multi-factor authentication easier, they're not a panacea. Consumers want services that make managing their finances easier, not constant requests for authentication.

It's open finance services like VRPs that will drive customer uptake by allowing customer consent and secure customer authentication to be automatically transferred for a fixed period. The same principle of manageability goes for providers, who risk being overburdened with responsibilities to securely maintain records of customer consent, including length and type of use.

4 Operational

An always-on culture creates certain expectations among open finance participants. Those include minimum operational standards covering system responsiveness, such as API and interface response times, and availability, such as uptimes of user interfaces and disaster recovery systems. Basic standards should include implementation of global security standards, such as those established by the International Organization for Standardization (ISO).

5. 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. That assumption will only become a reality through certain cultural shifts in how open finance is perceived relative to open banking.

1 Level playing field

One concern with open banking was whether a lack of technological infrastructure, investment capital and industry partnerships could end up restricting smaller providers from innovating or even from complying with regulations. Open finance incorporates a host of participants—in all sizes—from non-banking sectors, all with their own particularities.

Public cloud and as-a-service technologies are lowering barriers to entry, but the biggest influence on market openness may be competitive necessity. Open banking is often described in terms of a hierarchical relationship between banks and third-party providers. But that has often been flipped around so that banking-as-a service, and even platform banking-as-a-service, ends up with the banks becoming the third-party providers themselves. Sometimes it's simply a question of relationships, but size is increasingly playing a role. In places like South Korea and Brazil, the digital newcomer may pack more clout in certain areas than an incumbent bank.[19] Add open finance, and banking becomes but one sector out of many.

2 All-party data sharing

The choice of whether to approach open banking through an as-a-service model or operate as a third-party recipient depends on corporate strategies. To an extent, that's as true for finance-as-a-service as it is for banking-as-a-service. But, as the concept of third parties becomes outmoded, the true emergence of a level playing field for all open finance providers will require reciprocal arrangements.

As some banks in Europe push for the regulatory inclusion of providers outside of the traditional banking sector, other countries with newer regulations are already widening the fold. It makes sense in countries like Mexico and Brazil, which are Latin America's two fintech hubs, and in South Korea—where about one-third of the population has an account with the country's largest digital-only bank and even more use the country's largest fintech app, which was recently granted a banking licence.[20] Of note in the Arab region are **Bahrain's FinHub 973** and **Bahrain Fintech Bay**, **Abu Dhabi's Hub 71** and **ADGM Digital Lab,** Dubai's **DIFC Fintech Hive** and **DIFC Innovation Hub, Fintech Saudi,** the **Qatar FinTech Hub,** and **FinTech Egypt.**

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 unbridling and legitimising innovation across multiple sectors in a consistent manner. That will be particularly important as concepts like central bank digital currencies and virtual assets come to the fore.

[19] "My payment, my data: Open banking in South Korea." Mastercard, 2021.

[20] "My payment, my data: Open banking in South Korea." Mastercard, 2021.

3 Ecosystem mentality

There's an analogy between the evolution of open banking into open finance and the evolution of third-party risk management into ecosystem approaches to cybersecurity.[21] In a digital economy, the potential for contagion makes a security breach a threat to the whole network, not just the immediately affected party. That demands a move from a "me and them" mentality to a collective "us". In epidemiology, it's called "herd immunity".

In short, a business can't protect itself without working in conjunction with those around it on an equal footing. Similarly, open banking can't develop into a functioning open finance ecosystem with a mentality couched in third-party relationships. Collective responsibility is essential—whether in terms of financial liability, data protection or dispute resolution.

Open finance requires more centralised oversight than open banking, but it still needs to flex in a continuously evolving landscape. That malleability requires a collaborative cross-sector approach so that providers understand their responsibilities and know what is expected of them and others. Collaboration has another major benefit: it also allows for greater efficiency by eliminating any unnecessary duplication of actions.

[21] "A Business is known by the companies it keeps: An ecosystem approach to cyber resilience." Mastercard, forthcoming.

6. Conclusion

From banks to insurance companies, many businesses and their customers will benefit from open finance. Although business models in the Arab region will vary based on industry type and economic objectives, all opportunities will benefit from a shared framework involving cross-sector collaboration.

An open finance framework is a step-change. It maximises the potential value of financial data and then creates an umbrella for the standardised and connected provision of products and services in a non-hierarchical ecosystem. That shift from open banking to open finance increasingly coincides with a consensus among stakeholders that some degree of centralised control is required. While many such regulatory controls are familiar from open banking, the shared cross-sector functionality of open finance calls for additional considerations.

Degrees of regulation will be dictated by market structure and cross-sector technological maturity; types of regulation will be influenced by distinctions between sectors and by the assorted roles of specific government agencies and self-regulatory organisations. Associated requirements for standardisation will affect approaches to licensing, consent & privacy, user experiences, and operational specifications. And while support from regulatory sandboxes and broad-based cloud computing will continue to spur business participation, success will ultimately hinge on the emergence of a level playing field, all-party data sharing and an ecosystem mentality.

Arab countries will increasingly depend on open finance for financial inclusion and innovative financing for the small businesses that employ much of the population. The Arab region won't be unique in this regard, but the age structure of its population does provide it with an uncommon opportunity. Roughly two-thirds of its population is under 34 years of age at a time when many regions around the world are concerned about their aging workforces.[22] Sufficient provision of jobs will be critical in harnessing the economic potential of this youthful majority. Open finance looks set to do just that.

[22] "Poverty and shared prosperity 2020: Reversals of fortune." World Bank Group, 2020.

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