

Open Finance is a reality in Mexico and all actors within the financial industry must have a collaborative attitude to boost its development, generating benefits for consumers and promoting healthy competition in the markets.



OPEN ***BANKING/FINANCE*** **DEVELOPMENT IN** **MEXICO: INDUSTRY** **PERSPECTIVES**

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The sole purpose of this report is to inform the reader of some of the visions that exist in the financial sector regarding the Open Banking/Open Finance initiative mandated in the Fintech Law.



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CONTEXT

Open Banking (“OB”) is an initiative born in the United Kingdom (“UK”), in 2016, where the Competition and Markets Authority orders the nine largest banks to implement it, in order to increase competition in the banking sector, through the sharing of open data¹ and transactional data² of banks' clients, with third-party developers of technological solutions that offer the ability to improve the financial health and experience of their users.

To achieve the authority's objectives, a central entity (*Open Banking Implementation Entity* or *OBIE*) was established in London to manage all aspects related to OB, such as the development of APIS standards (which are the communication protocols through of which the data exchange is done), the enrollment of third parties, the management of the directory of authorized entities, among other functions.

This initiative has already been adopted in some other countries such as, among others, the European Union, Hong Kong, Australia, Singapore and Brazil, although the implementations, which present differences in their approaches and scope, are still in very early stages, however, there is no doubt of the interest it has generated worldwide given the benefits that are beginning to materialize in the jurisdictions where it is operating.

Mexico has chosen to introduce this initiative in its financial system with the enactment of the Law to Regulate Financial Technology Institutions (“Fintech Law”) in March 2018, with its own focus and scope, since the entities obliged to share data encompass virtually all financial service providers, thus, this initiative is being commonly referred to as *Open Finance* (“OF”).

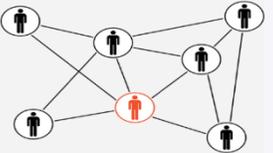
In the international context, although the British Treasury, on a visit by the CNBV in 2018, considered that it would not be possible to measure the success of this initiative until only after five years of its implementation, the truth is that the firms enrolled in the OBIE (around 300) and the number of users of OB solutions (approx. 2 million) this year, reveal a successful trend for the OB. Inclusively, the financial authority FCA (Financial Conduct Authority) is analyzing to extend this initiative to more sectors of the industry, that is, to extend it from being *Open Banking* to being *Open Finance*.

¹ Open data refers to non-confidential information related to a financial product or services, such as the location of its offices and branches, ATMs or other points of access to its products and services, among others.

² Transactional data is that related to the use of a product or service, including deposit accounts, credits and means of disposal contracted on behalf of clients, i.e. personal or business current account transaction history.

DEVELOPMENT PERSPECTIVES IN MEXICO

Open Vector carried out a series of informal interviews with some high-level figures from the financial sector (banks - 5, authorities - 2, industry associations -1, fintechs -2 and consulting companies - 2), to find out their perspectives of the development of OB in Mexico and below are some of the conclusions of the exercise:

- In general, the interviewees have a positive view of the introduction of OF in Mexico, especially due to the wide scope of the Fintech Law. For most banks, this initiative is a priority issue in their technology development strategies, as part of their digital transformation efforts, as they see the OF as an opportunity to offer more value to consumers and integrate it into their functions as a factor to get customers to "fall in love" with the new digital channels. There are other banks that do not have OF as a priority since they consider that they can maintain the status quo in the market due to its characteristics, such as high use of cash, low bank penetration, market concentration in few competitors, etc. and they prefer to give priority to other projects. It was mentioned that the banking sector should already be well prepared for what is coming in terms of OF since they have had enough time to prepare. From a technological point of view, there is not as much complexity to the OF for the implementation, as if it can be at a strategic level, because financial institutions must have a very clear understanding of where they want to go and how they will take advantage of the use of data to maintain their comparative advantages. The coordinated impulse between the public and private sectors will be very important so that the maximum potential of this initiative is reached, in an accelerated manner. For this, a collaborative attitude will be necessary between all parties, within each sector and across the board.
- There was a common opinion that a certain level of ignorance persists on the topic of OF in the market and within the banks themselves. Specifically, it was mentioned more than once that the areas of regulatory compliance and risk do not have the same level of knowledge as the areas of innovation or business development. This suggests that the OB / OF initiative is not permeating through the banks' formal communication channels. To promote knowledge within institutions, it is suggested: i) to create awareness in the layers of high command to permeate downwards; ii) dissemination originating in the areas of innovation and digital transformation and iii) greater training.
- The banking sector has appetite for OB / OF. Especially, the interest is focused in data consumption. It was even mentioned that it is not a matter of having more or less appetite, but all the banks must have some type of OB/OF strategy that allows them to keep or to improve their position in the market as, if they don't have one, they will miss opportunities and will be left behind in the road. Among the main concerns that need to be addressed, there are: i) risk of opening the door to the cybercrime and fraud, therefore it is expected a robust regulatory regime; ii) OF is going to involve efforts for data automation and cleansing and not all entities are prepared for it; iii)

institutions from other sectors can face other challenges such as not having enough resources to implement security requirements; iv) entry of BigTech to offer OB based solutions, etc. On the other hand, among the recommendations, there were mentioned: a) to have a robust third-party authorization regime to create a secure and trusted environment; (b) the regulatory and authorization burden must be based on the type of data to be consumed; (c) a public blacklist of third parties who do not comply with regulatory requirements; etc.

- The success of OF should be measured, not on the basis of the number of users who consent to share data, but in the number of consumers who actually get a benefit from the use of OF-based solutions. Adoption will become relevant to the extent users find value in sharing their data and the OB-solutions provide them with useful information, based on each user's transactional patterns, even though there may be some level of mistrust to share data or fear to compromise their privacy. For consumers to adopt this initiative, it will be key for them to be clearly informed about what they are sharing, the purpose of using their data and the scope of their consent.



- Finally, with respect to the development expectations at 3 & 5 years, it is estimated that this initiative will already be at a stage of maturation or escalation. Some respondents agree that OF is going uphill and that by 2021 the first OB solutions will start to be seen, especially those that take advantage of ATMs information. However, most interviewees believe that as of 2023 the most personalized and attractive products will start emerging. Since there are entities that do not have OF as a priority project, in 3 to 5 years' time it will be noticed the effect of those who prepared for OF vs. those who didn't or came in late.



CONCLUSIONS

It is clear that the evolution of financial services heads to promoting an increase in personalization, representing a better experience for consumers, who will increasingly demand products and services that are better suited to their own needs.

While in the context of the UK there has been an accelerated increase in the number of OB users and most of our interviewees believe that the impact should be measured based on users benefiting from the use of OB solutions, in Open Vector we believe that this indicator is not despicable since those users may have already experienced some kind of benefit by using their applications.

OF has the potential to achieve personalization and has therefore become a global trend that is being adopted by more countries, each with different approaches and scopes, which certainly represents new risks that the industry as a whole will have to mitigate, but financial institutions should not ignore it because, if they do, they



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may lose the opportunity to generate more benefits for their customers and greater capacity to compete in a market where participants are making efforts to transform themselves digitally.

On the other hand, to fully understand the implications of such an initiative, entities must train their staff so that teams can align their strategies and address resistance to establishing OF strategies as a priority.

OB/OF should not be seen as a regulatory compliance issue. There are several entities that are considering using "*apification*" with different functionalities, which will produce, for example, new channels to reach more customers through everyday use applications, such as opening accounts through a transport app (i.e. BBVA - UBER).

This initiative will require the collaboration of at least financial institutions, regulators, expert technology developers and consulting firms to achieve a robust and balanced development framework that allows for the promotion of innovation, consumer protection and greater possibilities for a healthy competition.