

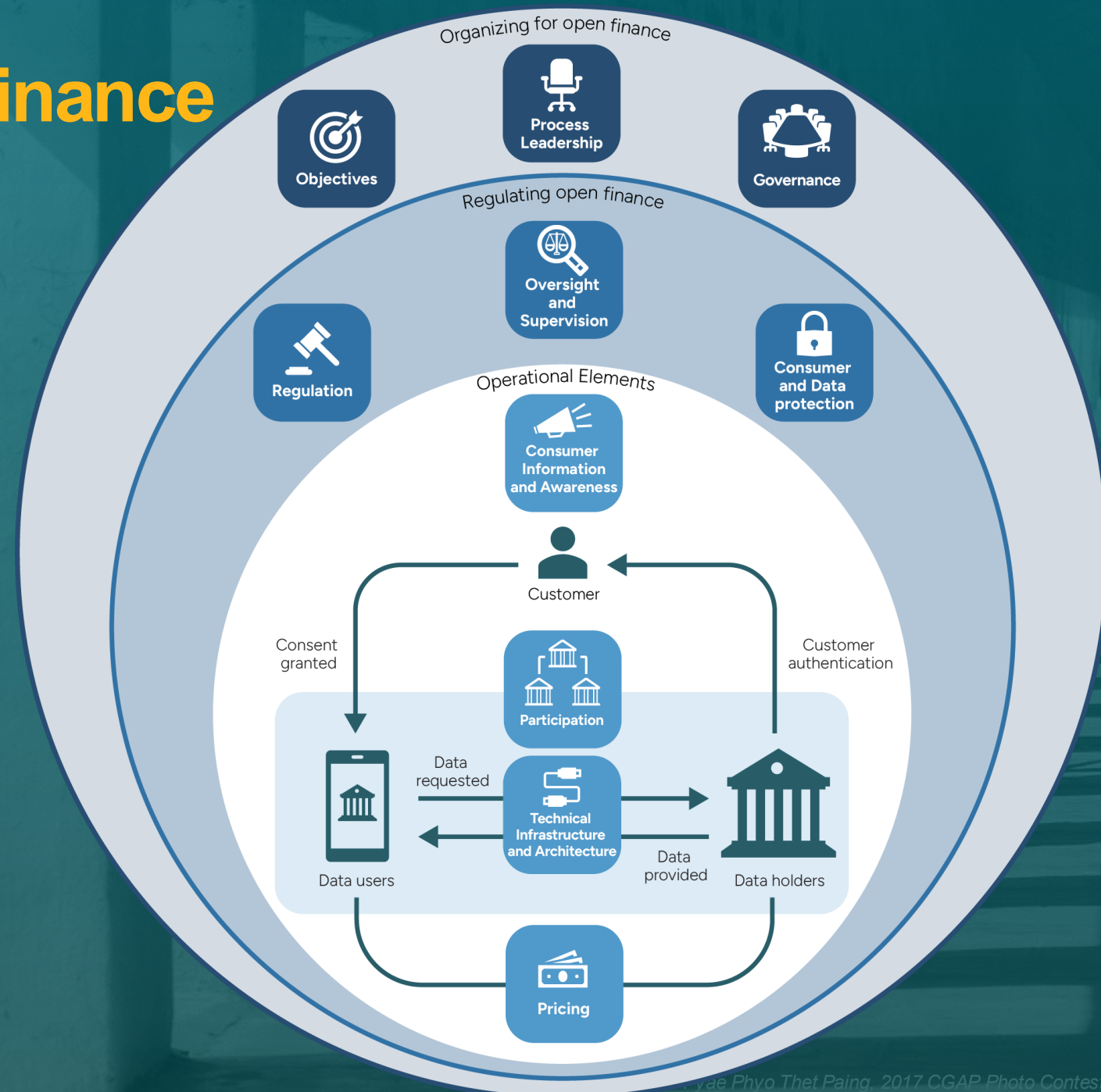


Governance Considerations in Open Finance Implementation

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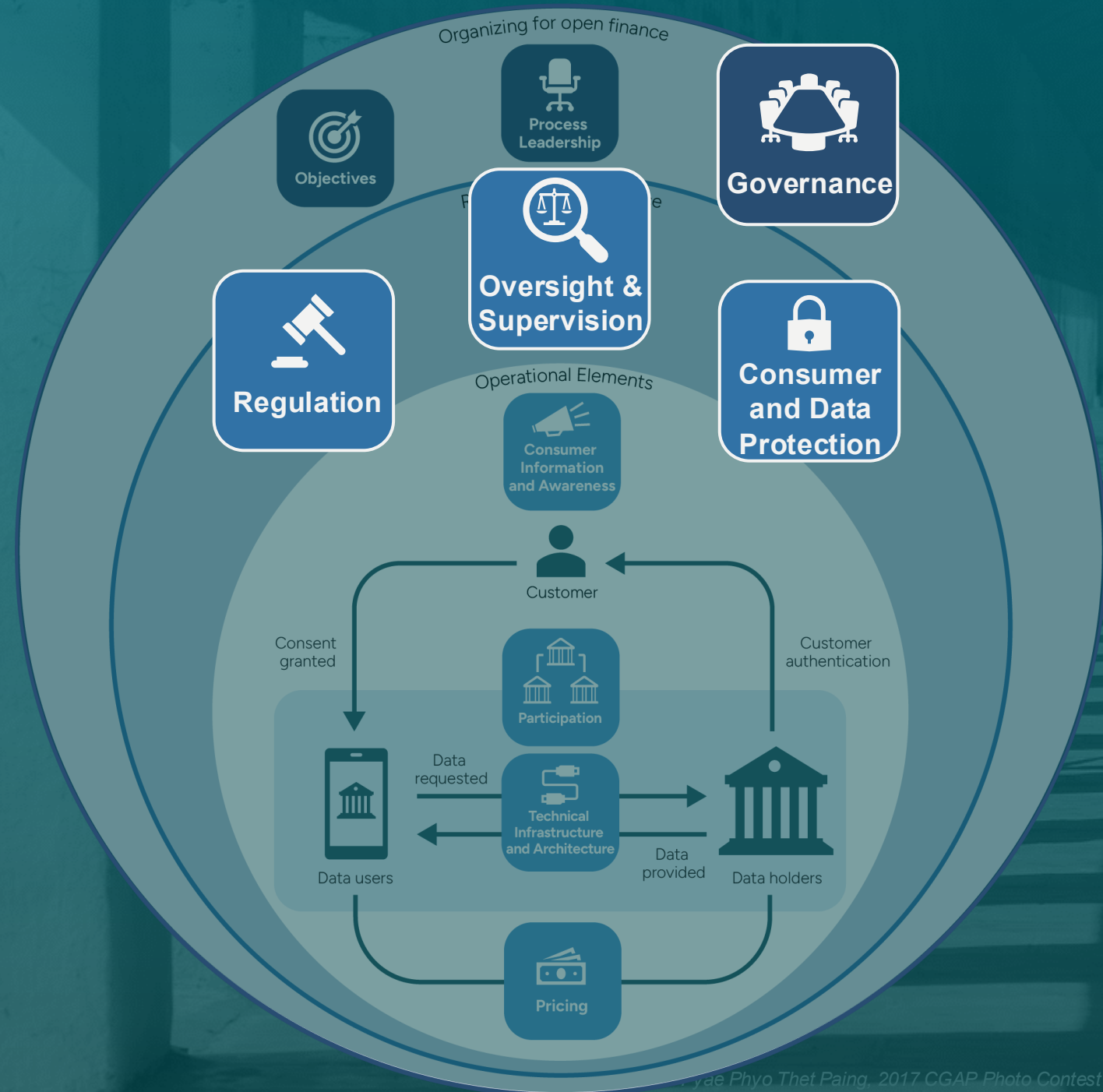
Key elements of Open Finance

- CGAP led a collaboration with the BIS, IMF, UNSGSA and World Bank to produce joint recommendations for open finance
- The considerations are structured around **10 key elements** of an open finance framework



Today's focus

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Governance arrangements

- Governance in open finance refers to the **arrangements that guide decision-making related to operational, functional, and fiduciary rules and standards** for open finance
- Governance arrangements and mechanisms are **necessary to address sector-wide decisions that involve multiple actors and stakeholders** who may have conflicting interests, to define how decisions are made and to ensure the accountability of all participants
- Governance arrangements help make **operational decisions** efficiently, **set common sector-wide functional rules** and standards and support **compliance** with them
- Open finance governance arrangements can be **created ad hoc** or by leveraging **existing bodies**
- The governance structure can include **distinct levels of decision-making**, working groups, and dedicated support resources.
- Governance arrangements should support the policy objectives sought with open finance, ensure **adequate representation of all relevant stakeholders**



Typical components of governance arrangements in open finance

Lead authority (typically an FSA)

- Process and design leadership
- Convenes the decision-making body
- Overall endorsement, prescription and/or veto powers

Decision-making group

- Key decision-making
- Include key stakeholders' voices
- Shaped by governance framework/charter

Secretariat

- Typical administrative and supportive roles to the decision-making group

Implementation entity

- Execution and delivery
- Technical operator

Working groups

- Technical, multi-stakeholder
- Industry and independent participation essential
- Advisory role



Governance arrangements evolve over time

Governance arrangements need to be in place early in the implementation of open finance. However, governance structure should adapt over time to better fulfill the needs of the evolving framework

Phase 1: Design and Early Implementation

- Define structures
- Define resourcing
- Define institutional placement

Phase 2: Operationalisation & Scale

- Stakeholders representation
- Centralize certain operations
- Establish supervision and risk monitoring

Phase 3: Maturation & Evolution

- Review and adapt



Funding the governance arrangement

Most countries use a combination of funding options, which can also change over time as the ecosystem matures



Donor-funded

Can cover startup costs to remove barriers to participation

In **India**, the Sahamati framework relied on grants for 95–97% of its early-year costs.



Public-funded

Can cover core central infrastructure and set-up costs

In **Australia** and the **UAE**, public funding was used initially to build their national frameworks.



Industry-funded

Can cover all costs, should fund any governance or centralized activities at maturity.

In **Brazil** and the **UK**, larger banks initially covered the majority of the costs.

Public or donor funding can be **valuable to drive momentum and mitigate some industry pushback** in the initial implementation phase. However, in most cases, industry funding in some form will be necessary for long-term sustainability.



Open finance regulation

Implement risk-based and proportionate regulation that clearly determines the rules for customer-permissioned data access

- The regulatory framework should determine the **rules and conditions for (permissioned) access** to customer data, covering **all participants**
- Open finance **also rests on other regulations and standards that govern personal data and digital financial services**, including: data protection and privacy, consumer protection, customer authentication, operational risk, information security and cybersecurity
- Guidance may be needed to **clarify how existing regulations apply** to open finance.
- The regulatory framework also needs to address new or exacerbated risks by setting clear rules for operating within the open finance ecosystem and for the relevant enforcement mechanisms
- Third-party licensing for new business models is likely to be needed, specifically for payment initiation service providers (PISPs) and account information service providers (AISPs)



Open finance regulation should cover multiple elements

Regulation covering some of these topics may already be in place but open finance may require clarifying rules and/or it may expose gaps in existing frameworks

Consumer consent	Participants	New types of providers (TPPs)	Technical standards and quality	Consistency and quality of data
<ul style="list-style-type: none">• Explicit, informed, timely, granular.• Easily revocable.• UX standards that ensure user-friendly consent journey.	<ul style="list-style-type: none">• Define roles and obligations for data holders, data users, and intermediaries.• Mandate reciprocity• Ensure the participation for large data holders.• Ensure liability allocation is clear.	<ul style="list-style-type: none">• Create new licenses as needed, in particular for Account Information Service providers (AISP) and Payment Initiation Service providers (PISP).	<ul style="list-style-type: none">• Mandate standardized APIs to ensure interoperability and lower integration costs.• Establish minimum performance benchmarks.	<ul style="list-style-type: none">• Specify data fields to ensure consistency within the ecosystem.• Mandate a minimum data quality benchmark.• Consider a phased approach for the types of data included.



Oversight and supervision

Oversight focuses on the performance and integrity of the open finance ecosystem as a whole.

Supervision is centered on individual providers, ensuring they comply with open finance requirements.

Together, they promote responsible product offerings, reinforce consumer confidence, and support the sustainable growth of open finance ecosystems.

- Authorities should have the necessary **enforcement powers, mandate, capacity, and resources** to implement an oversight policy and ensure **proportionate and risk-based supervision**.
- Open finance supervisory responsibilities may be **distributed across different authorities**, overseeing different regulatory dimensions.
- Open finance operates at the intersection of financial regulation, payments oversight, competition policy, and data protection, and therefore requires **multi-agency involvement**
- Participant-level supervision in open finance should be **embedded within existing risk-based supervisory frameworks**



Best practices for effective oversight and supervision in open finance

1

Embed oversight and supervision early in the regulatory design of open finance

2

Clarify roles and coordination between the potential multiple authorities involved

3

Focus on key priorities and embed policy goals

4

Ensure close collaboration between oversight and supervision teams

5

Leverage established risk-based oversight and supervision tools

6

Adopt a risk-based approach with robust oversight

7

Focus on prompt corrective measures while using enforcement powers as credible deterrents

8

Use comprehensive, high-frequency data and leverage technology

9

Support regulatory improvement, and impact measurement

10

Leverage implementation bodies and subject them to oversight and supervision



Consumer and data protection

- A robust **consumer protection, data protection, and privacy framework needs to be in place** or set up as part of the implementation to create trust, positive outcomes, and adoption, while minimizing potential harm.
- A strong consumer protection framework is essential to **building consumer trust** and generating positive customer experiences and outcomes that foster adoption, while minimizing potential harm.
- Consumer protection rules should **cover all participants**, including TPPs, that access and use customer data through open finance.
- Open finance consumer protection enhancement should cover: consent mechanisms, information duties and rights, liability rules, complaints & recourse mechanisms
- Obtaining **explicit, purpose-specific consent** at the point data is requested and shared is a core feature of any open finance framework. This consent **cannot be replaced** by a general consent provided at account opening or through terms and conditions



Adequate provisions support responsible, secure, and resilient financial ecosystems



Providing and managing active customer consent

Active consent in open finance empowers consumers to control access to data and make changes over time.



Recourse, dispute resolution and liability provisions

Clear, well-communicated complaints and recourse mechanisms will increase trust in the financial sector as a whole.

Clear and well-defined accountability and liability rules improve conflict resolution and trust in the market.



High standards in authentication, data protection and security

Secure customer authentication, preferably based on multi-factor authentication is central to the integrity of an open finance ecosystem.

Data security measures should prevent unauthorized access to or use of data.

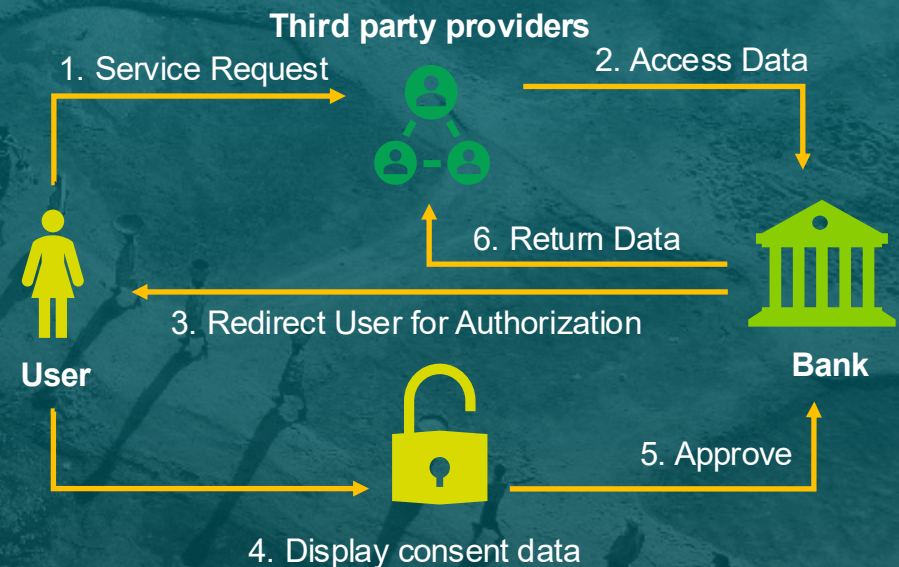


Providing and managing customer consent

Basic principles of customer consent in open finance

- Clients must be able to see **who** is accessing their data, **what** data is shared, for what **purpose**, and for **how long**.
- They should be able to **review and revoke** consent at any time, and with the same ease as providing consent.
- Consent must be **verifiable** by retaining evidence and accessible to customers.
- **Consent journeys** should be clear, simple, and consistent across providers.
- **Consent duration** should reflect the use case.

The consent management journey





Liabilities, disputes, and recourse provisions

Open finance needs clear and comprehensive liability frameworks, dispute and recourse mechanisms, that hold participants accountable to consumers

Principles for liability

Clear accountability and liability should exist at each step of the data movement

Require each provider to be directly liable for the services they provide

Require participants to hold sufficient resources as operational risk capital and/or insurance

Establish obligations for record-keeping to track potential issues

Principles for consumer recourse

Consumers must be compensated swiftly, potentially independently of the providers' disputes

A centralized system to monitor complaints, identify fraud and data misuse could be useful

Consumers should be able to complain to any provider involved or FSA and receive prompt redress

Clear processes for addressing issues across the actors should exist

Provide ongoing consumer awareness and education



Thank You

To learn more, visit CGAP.org

Additional information:

Open finance



AI & Data

