

# API and Open Banking

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1

## Payment Ecosystem in Bangladesh

- Automated Cheque Processing
- Electronic Fund Transfer
- Real-Time Gross Settlement
- Interoperable ATM, POS and QR Transactions
- Instant Internet Banking Fund Transfer
- Mobile Financial Services
- Bilateral Arrangements with Banks for different payment products of MFS Wallets
- Billers and Merchants Integrations with Banks and MFS
- E-Commerce, Online Merchant Payments and Bill Payments
- MFS Interoperability

2

## Payment Ecosystem in Bangladesh

- Payment ecosystem is fairly equipped to serve the nation effectively and efficiently.
- COVID-19 pandemic was an automatic stress testing for our payment platforms amongst all clutches.
- Digital exchange of financial data can become the building block for emerging service models, removing inefficiencies in the system and opening new product possibilities.
- So, it brings in front the new horizon of **Open Banking** landscape to transform the financial systems and may lead to product innovation and better facilitation of financial services.

3

## API and Open Banking

- Open banking is a banking practice that provides third-party financial service providers open access to consumer banking, transaction, and other financial data from banks and non-bank financial institutions through the use of application programming interfaces (APIs).
- It provides the technological infrastructure and the legal frameworks to make such consent-driven sharing happen.
- In the new ecosystem of Open Banking, APIs are a channel for doing business. Adopting and deploying APIs, banks can extend and enhance their native services and offerings.

4

## Open Banking Myth

- **It is erroneously believed that open banking makes the customer's data openly available to anyone.**

Actually, it puts effort on controlling both the circle of eligible third parties and letting the customers control sharing of their financial data, by requiring their explicit consent.

- **What is "open" in open banking?**

With open banking, the digital value chain of banking gets opened up, allowing third parties to participate in the previously closed value chain.

5

## What Data does Open Banking open up?

- Account Data – Personal information of the account holder and transactions on the account
- Product Data – Products and services a financial institution offers
- Payment Initiation – Authorization of payments

Participants in the regime convention can extend the scope to other types of data and services. Prior customer consent is required for all data sharing except public product data.

6

## Challenges of Banks

Traditional banks already observe customers switching completely or move a part of their banking activities to a Digital Bank or Neo Bank, which offer better digital services.

- Changing customer needs on more digital solutions
- Lead to increased competition and increased pressure to innovate
- Banking-as-a-Service (BaaS) in the form of APIs to third-party product companies

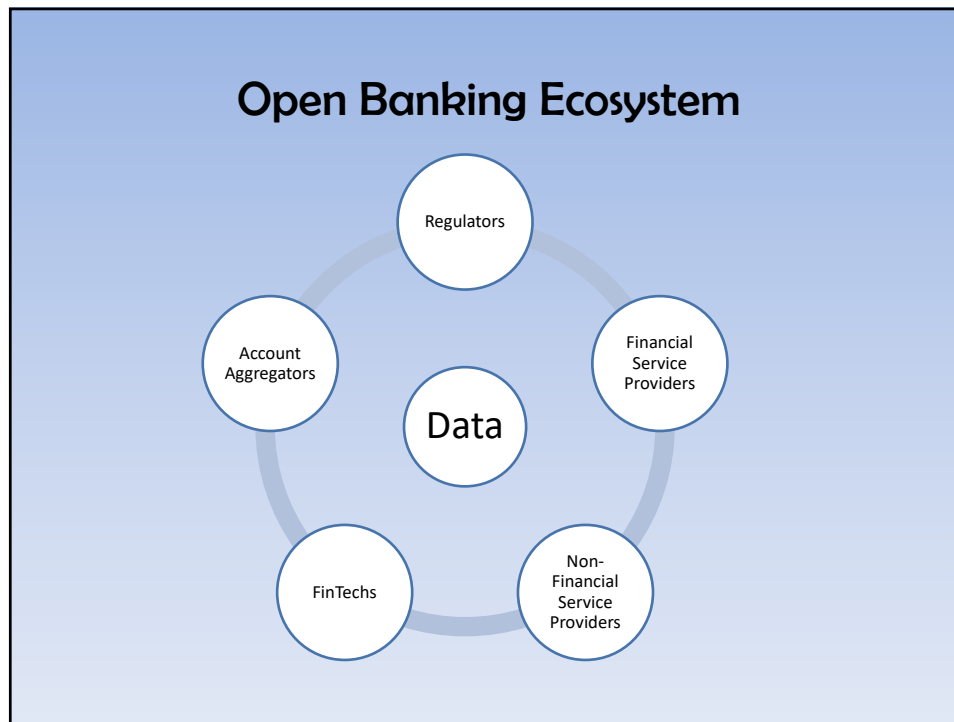
7

## Leveraging Open Banking APIs to face the Challenges of Banks

Open banking can make life easier for a bank's customers. But why is open banking strategically interesting for banks? Won't banks need to give up a lot of their control? To face the challenges, banks use APIs for:

- System modernization to become more agile
- Regulatory compliance (world-wide trend but laws are regional)
- Ecosystem play to create innovative opportunities

8



9

## Technologies that Power Open Banking

Financial services are built on trust, and it is vital for banks that their clients trust them. By using APIs and surrounding technologies correctly, you can establish yourself as a trustworthy ecosystem participant with partners and clients.

- **Security** - all ecosystem players need to be properly authenticated & authorized, and the FinTech receiving the data need to be trustworthy.
- **Consent** - customers must stay in charge of their financial data, with final say over when their data is shared and with whom.

10

## Technologies that Power Open Banking

- **API specifications and standards** – easy to adopt in the form of implementation-ready OpenAPI Specifications (e.g. Open Banking Specifications in the UK).
- **Documentation and Onboarding** - Banks need to provide documentation of their APIs, and a straightforward onboarding process

11

## Risks Associated with Open Banking

Open banking also potentially poses significant risks and concerns around:

- Transfer of Trust
- FinTech Vulnerability
- Financial privacy and data security
- Customer liability
- Cybersecurity and Operational Risks
- Compliance and Reputational Risks
- Grievance Redressal

12

## What can be achieved?

- An efficient payment system which can absorb shocks in extreme situation like Covid-19;
- Simplified KYC Process;
- Overcoming lack of documentation;
- Customer-centric product;
- P2P Lending, Crowd funding;
- Encouraging healthy financial behaviors;
- Responsibly expanding access to credit;
- Supporting debt rehabilitation;
- Increase competition on the financial services market

13

## Key Questions to Address...

These questions should be addressed to create an enabling Open API platform:

- Who is required to share data and who can access the data?
- What types of data are shared?
- Which industries are covered (banking only or utilities and telecoms)?
- Whether payment initiation is enabled in the regime?
- Who bears the cost of the regime (including data exchange and set-up of the relevant infrastructure)?

14

## Needs to Work...

- Types of services
- Participants
- Types of data
- Payment initiation
- Mandatory vs. voluntary
- Technical specifications of API standard
- Staged implementation
- Lead regulator/policy mandate
- Governance
- Cost distribution
- Data privacy and portability
- Liability and consumer protection

15

**Thank you**

16