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SECTOR UPDATE

Industry

BFSI

Account aggregator ecosystem offers multifarious opportunities

After attaining an optimally large size, the account aggregator (AA) - an open architecture framework, would enable the seamless flow of customers' consented financial information across regulated financial institutions. It would help customers to reach out to multiple financiers while also enable financial institutions to make more informed credit underwriting decisions. The information reservoir will expand significantly, and how financial institutions leverage the vast resources efficiently will be a key monitorable. This ecosystem will bring a level playing field for financial information users at a very minimal cost. Customers' consented financial information will not remain restricted to a particular bank/banks' database and will be available to all other financial institution users. Qualitative financial product offerings and customers' service quality would now become more critical.

Stepping stones sealed - the AA system goes Live

In the second half of FY2016, the Reserve Bank of India (RBI) had established a legal framework for data fiduciary entities (account aggregators, AA). After alterations over the years, RBI has disseminated a set of final guidelines on AA. As per the guidelines, account aggregators are mandated to act as intermediaries between customers, financial information providers (FIPs) and financial information users (FIUs) through standardized application interfaces (APIs).

The customer for these directions means a person who has entered into a contractual arrangement with the AA to avail services provided by the AA. FIP means banks, banking companies, non-banking financial companies, asset management companies, depositories, depository participants, insurance companies, insurance repositories, pension funds and such other entities as may be identified by the bank for these directions from time to time. FIU means an entity registered with and regulated by any financial sector regulator (RBI, SEBI, IRDA and PFRDA).

AA ecosystem to gain customers' acceptance gradually

It would take time to educate customers and make them aware of its likely benefits. The AA ecosystem would strengthen only with customers' consented financial information - how much and what kind of financial information a customer agrees to share remains to be seen. Customers may only agree to share information that makes their financial background strong and helps them access incremental credit from the lenders.

AA ecosystem to give access to a plethora of financial information...

Unlike credit information companies (already operating), the AA would provide financial information about customers' deposits, mutual fund holdings, insurance plans and pension plans.

...Enriching financial institutions and making underwriting decisions more efficient

The AA would be required to set up an interoperable, consent-driven architecture along with standardized APIs to facilitate the flow of financial information. AA would not store or view any of the customers' data passing through it; therefore, the probability of misuse of the financial data/information is low. With the 'Personal Data Protection Bill' likely to become law soon, the AA framework will become essential for regulatory compliance and access to consented data flows. With an ample amount of potential customers' financial information, underwriting would become a lot easier.

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Large banks part of the ecosystem; customers can get credit with greater ease

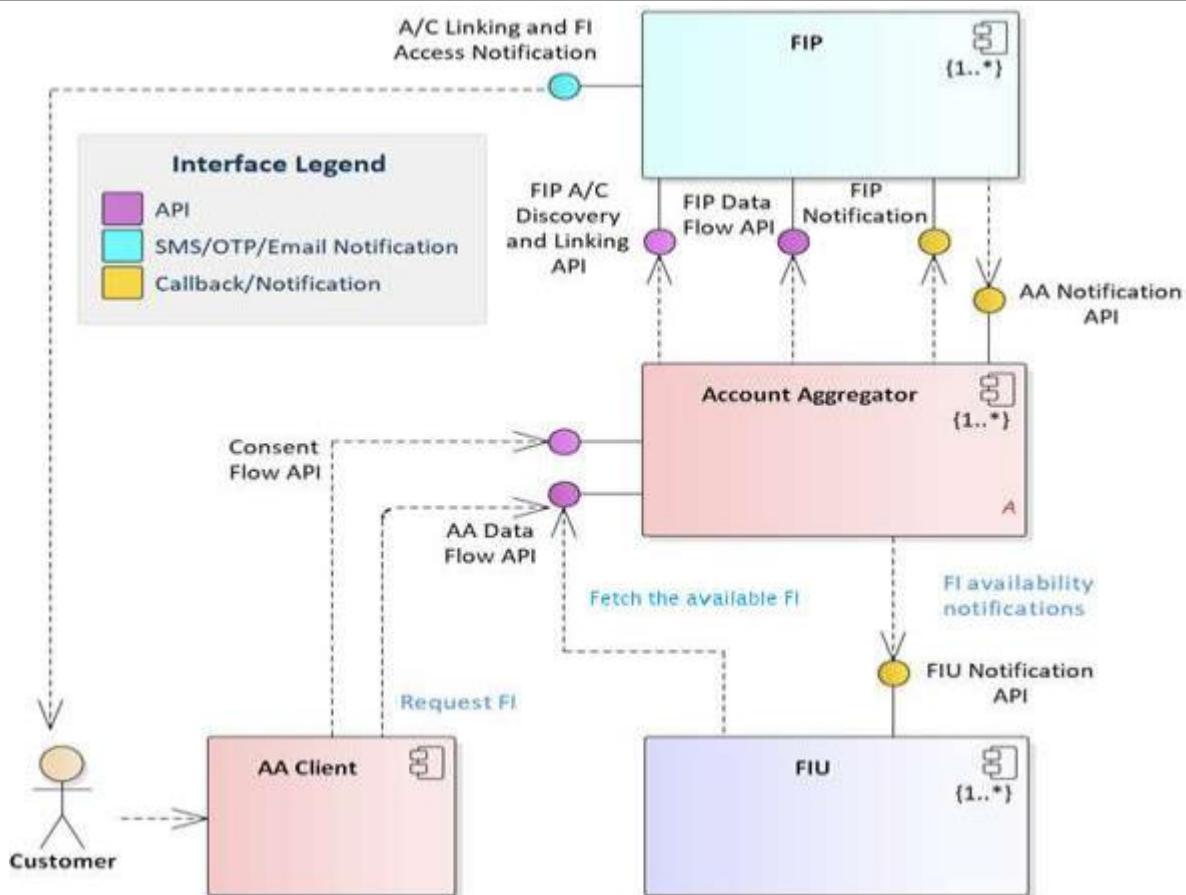
As per the technology think tank “ispirt”, eight major banks (AXSB, FB, HDFCB, ICICIBC, IDFCBK, IIB, KMB and SBIN) have joined the AA network. AXSB and HDFCB have been using AA for auto loans, LendingKart has been using AA for MSME loans, while IndusInd Bank has been using it for personal finance management. **Secure access to financial data via open banking infrastructure was estimated by a McKinsey report to create up to 5% of GDP in value for India by 2030.** Four banks are already live with data accessible for consumers via AA, and the rest will go live soon. Many more banks are expected to join the AA ecosystem in the coming months.

Customers using the AA financial utility will benefit not only from the ease of access to data but also from a greater choice of products, better pricing and increased financial inclusion. They will also be able to find financial assistance sooner.

Robust IT systems & processes - key ingredient in segregating wheat from the chaff

With the open banking infrastructure now available, the FIU with the most sophisticated IT systems to funnel the right kind of information to select/acquire potentially good customers from the large set of financial information would be the winner eventually. Large PVBs and SBIN have been pioneers in this arena, and the AA ecosystem would be a true litmus test for lenders. The selection of the right set of customers would eventually reflect into business traction and cost of credit in the long run.

Exhibit 1: AA ecosystem architecture



Source: Systematix Institutional Research

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