Role and Relevance of Account Aggregators in the Digital ecosystem

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Introduction

The genesis of the Account Aggregator framework can be traced back to Master Direction- Non-Banking Financial Company - Account Aggregator (Reserve Bank) Directions, 2016 that enabled the creation of a new type of Non-Banking Financial Company (NBFC) known as Account Aggregator (AA). The envisaged purpose of this new class of NBFCs is to act as digital platform, where the customers can provide explicit consent to sharing their financial information from Financial Information Providers (FIPs) to Financial Information Users (FIUs).

The RBI defines Account Aggregator as, "A non-banking financial company with business of providing the service of retrieving or collecting financial information pertaining to its customer and consolidating, organizing and presenting such information to the customer or any other financial information user. Further, Account Aggregators shall not use consolidated statement/report in other means and will be only for use of the customer."

The idea of Account Aggregator framework is not only limited to the data available with RBI regulated entities but also the financial information of the customers as defined by RBI's Master Direction that are scattered across different intermediaries under the purview of various financial regulators.

Status of Implementation of AA Framework

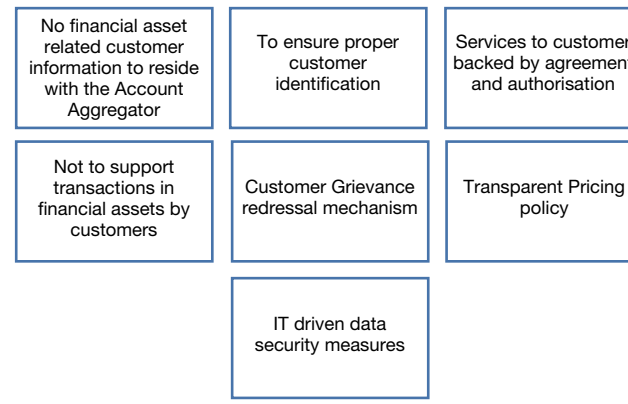
Since the release of RBI circular in 2016, the AA ecosystem is growing rapidly ever after. As of Feb 2023:

- Nine entities own operational license issued by RBI and eight other entities obtained in principle-approval.
- 31 FIPs and 143 FIUs are onboarded.
- More than 4.55 million customers have used AAs to give consent and successfully shared data from their existing FIPs to potential FIUs.

Responsibilities of an Account Aggregator

As per RBI guidelines, the responsibilities of AA are charted below:

Chart 1: Responsibilities of an Account Aggregator



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Global Experience of AA

The idea of Account Aggregators is a relatively new concept and there are only limited international precedence. Some of the Global experiences are listed below:

a) ***Europe:*** The European Union has implemented the Payment Services Directive 2, which requires banks to open up their customer data to third-party providers, including account aggregators.

b) ***United States:*** There are several companies that offer account aggregator services, allowing users to view their financial accounts at one place and track their spending and savings.

c) ***Australia:*** The Government has launched the Consumer Data Right, which enables customers to access and share their banking data with third-party providers, including account aggregators.

d) ***Singapore:*** In Singapore, the Government has launched the Financial Data Exchange (FDX), which is a standard for secure data sharing between financial institutions and third-party providers, including account aggregators.

What is AA Framework

The generic process flow of AA framework includes three stages, a) Public to AA b) FIP to AA and c) AA to FIU. It is to be noted that these stages can operate in two ways. To illustrate, user can either provide the consent on own or AA can prompt the user to decide on the consent request.

Chart 2: What is AA Framework

The minimalist pictorial representation of the AA framework is provided below:

Stage 1 *Public to AA*

- Securing electronic consent from the customers on what type of data to be shared and for what period.

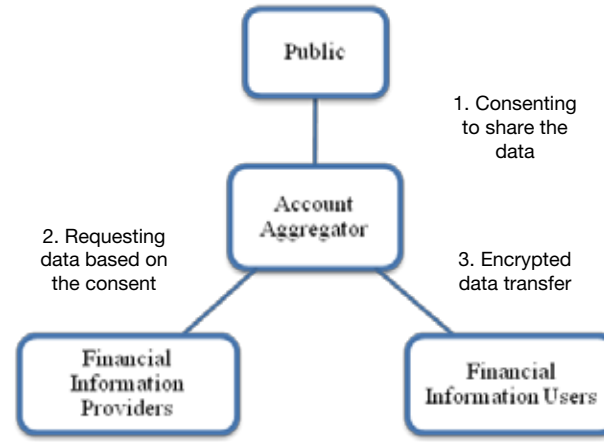
Stage 2 *FIP to AA*

- AAs act as consent managers and request data to the respective FIPs where the relevant customers' data are stored. Based on the request, FIPs transfer the necessary data in a secured manner. FIPs can be any financial institutions or the Government databases.

Stage 3 *AA to FIU*

- AAs transfer the data received from FIPs to FIUs that are typically regulated by one of the four financial sector regulators (RBI, SEBI, IRDAI and PFRDA) and which offer services and products to the customers based on the available data.

Chart 3: Pictorial representation of AA



Role and Relevance of Account Aggregators

Open Banking-Data as a public good

India Stack is a set of digital technologies, platforms and tools to unlock the economic primitives of identity, data and payments at population scale. Some of the famous digital goods under the fold of India Stack include Aadhar, Unified Payments Interface (UPI), e-KYC (electronic Know Your Customer) etc. The latest addition to India Stack is a centralised consumer consent framework for data-sharing through the AA model.

Account Aggregators empower the customers to

provide the FIUs to access their savings accounts' history in order to avail their services. However, it is not necessary that the customers must maintain account with the respective FIUs. Data access can be granted to any of the regulated entities. Platform with such traits satisfy one of the core principles behind open banking i.e. interoperability across institutions.

Integrating the customers' accounts to one AA user account, insists the need for the FIUs to connect with all AAs rather than forcing the customers to open separate bank accounts for each FIU/lender. AA ecosystem in India uses standard open Application Programming Interface (API) and protocols to access and share data with any AA or regulated financial entities ensuring interoperability between the market players. Thus, AAs bring interoperability into the digital ecosystem and ensure the democratisation of customers' data maintained with the banks by providing the control with customers and not with the participating entities.

Fraud Prevention

Many of shady digital lending applications typically use customers' personal information without their consent and thus, created a negative sentiment into the digital lending ecosystem. The advent of Account Aggregators plays a crucial role in tackling these fake lending applications as AA platform. These illegal lending companies lure the public with convenience, quick processing of loans and easy disbursal of credit. AA ecosystem has access to the bank data of the customers and operate with the consent of the customers.

The common frauds such as tampering of bank statements submitted by the borrowers result in enhanced credit cost (increase in NPA) and operational cost (investigating the fraud). With AA framework, such types of frauds are eliminated as the lenders will receive authentic data from the borrowers' bank account in a secured and untampered format.

Financial Inclusion

The business model of Account Aggregators contributes to financial inclusion efforts by bridging the supply side concerns of Financial Service Providers (FSPs) by making the relevant data available for them to take an informed decision. Enhancing the quality of credit while reaching out to under-served customer groups will make the financial inclusion schemes effective and sustainable.

Lenders can extend the credit to the borrowers based on verified data such as GST invoices, bank statements, securities information and cash flow statements. AA framework opens the world of credit to MSMEs.

Some of the public sector banks launched a pilot program to implement AA in phygital mode. Phygital mode is the combination of physical and digital means to reach the customers. Phygital mode employs bank's employees to create a trust quotient with the customers, especially who are not tech-savvy and digital channel to deliver the services so that customers experience the advantages of digital disruptions.

Transition to Formal Economy

FSPs are wary of new customers who are availing the credit for the first time in the formal system. The major reason is that FSPs can't perform the 'credit checks' on the new customers due to data unavailability. Thus, vicious cycle of informal economy acts as a resistance in allowing a new customer to avail formal credit. With the advent of AA framework, an alternate mechanism of credit appraisal based on the varied data available of the customers has become feasible. With the growth of AA architecture, the formalization of the economy enlarges.

Based on customer's financial asset information and

GST returns, FIUs can assess the repaying capacity of the borrowers. The quantum of the loan can be decided on the additional inputs such as statement of fixed deposits, demat accounts and mutual funds holdings.

Credit Pricing

When the financial institutions offer loans to under-served customers, the new customers, who are availing credit for first time, are treated as high-risk profiles and high interest rates are charged as a common practice. AA network helps in assessing the creditworthiness of the borrowers in non-traditional ways which will enable the customers to avail loans at lesser interest rates. It serves the FSPs to make better lending decisions and process the loan applications faster.

The cost of processing the loan application reduces owing to decreased manual intervention resulting in benefits to the customer in terms of lower processing fee.

Innovative Products

The data management and handling of AA ecosystem is currently, restricted to only entities regulated by four financial sector regulators as these entities are governed by respective regulators guidelines. Going forward, AA ecosystem boosts innovation in the products offered to the untapped customer segments. With the growth in the customers, growth in the business is an inevitable causal effect.

Portfolio Monitoring

Lenders can gather data on the movements in customers' accounts on regular basis after obtaining consent through recurring bank statement pulls. It will also act as early warning signals to predict ensuing difficulties of the customers in repayment. Such systems lower the default rates, improve the collection efficiency and boost the profitability of the lending institution.

Wealth Management

AA platform can facilitate viewing of consolidated financial holdings of a person to provide customised wealth management solutions. Recurring pull-on bank's statements and financial assets may open opportunities to personalise the margin call for the customers.

Insurance and Pension

Estimation of customer's income based on declaration can be replaced by more robust data collection and authentication through AA platform. Policy premium computation based on the risk assessment of the customers will become more scientific and data driven. The retirement planning can be based on consumption data to arrive at the optimal pension amount for an individual. The requirement of the health insurance can be suggested to the customers based on existing policies and other banking transactions pertaining to medical expenses.

From the lenders' perspective, reliable information about customers' existing insurance policies such as adequacy of coverage can be assessed to understand the risk profile of the customers.

MSME Financing

As per standing committee on "Strengthening Credit Flows to the MSME Sector", MSME sector contributes around 30% to India's GDP, 45% to its manufacturing output and 48% to exports. The sector employs around 11 crore people. However,

the credit gap in the MSME sector is estimated to be around ₹20-25 lakh crore. While the MSME loans are usually backed by property collateral, AA framework builds up information collateral based on robust data sharing mechanism. GST Sahay for MSMEs has been enabled to share bank statements with AAs. Along with it, when GST data are made available, it will bridge the credit gap in the MSME sector.

Of the loans distributed through AA, more than 50% of the lending have been to MSMEs in form of unsecured and small ticket size loans. Though at nascent stage, the leverage of the data is proving to be sufficient to satisfy the lenders in extending the loans to the MSMEs without demanding collateral.

Challenges and Way Forward

a) The persisting data inequity affect customers in the financial sector. Particularly, for the vulnerable group of the societies, in form of limited user choices.

b) Technical glitches at AA's end can result in breach of privacy of the individuals' financial and non-financial information at mass scale, if prescribed cyber security requirements are not properly implemented. The responsibilities of the AAs, FIUs and FIPs, during the time of breach, need to be clearly demarcated for the purpose of reporting and timely intervention.

c) With such large sensitive customer information available with the FIUs, it may be used for unintended business purposes such as profiling the customer, targeted advertising etc. The issue of data ethics arising out of the interconnected systems may become more glaring. The potential use of the customers' data by FIUs needs to be monitored for adherence to the extant guidelines. Strong technical solutions to address this risk must be developed to ensure privacy is protected after entities receive information from AAs.

d) Advanced analytics such as machine learning, artificial intelligence etc. by the FIUs carry the risk of perpetuating biases and prejudices in the system, discriminating specific category of population. Thus, the oversight of these institutions must assess the model risk and ethical risk.

e) While the entire ecosystem is customer-data centric, additional layers of protection along with electronic consent may strengthen the respect to the user privacy.

f) The AA is required to prescribe a time limit within which the FIU must obtain the information from the transient store of the aggregator. However, the guidelines need to include a method to enforce the transience of the storage.

g) The entire architecture of AA is based on consent through internet. In India, internet penetration in rural areas is at 37.74%. Thus, it is essential to come up with a consent mechanism for feature phone users.

h) The responsibilities of regulated entities have enhanced considering the inherent cyber risk that comes along with Technology Service Providers (TSPs) while providing technical assistance to participants of AA ecosystem.

Conclusion

The potential transfers of bank account statements through AA for varied use cases across the four financial sectors are estimated to reach an annual transaction volume of 1 billion by 2025 and 5 billion by

2027. It is projected that 58% of the total transactions are used for underwriting purposes by 2027. As the system grows rapidly with emerging business models and customers support gain currency, it is important to mitigate the externalities associated with the innovation, especially in cyber space. In the long run, the key for the success of the model depends on how the balance is maintained optimally throughout, between the wheels of innovation and conformity to regulatory guidelines in spirit.

References

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- AA Ecosystem dashboard at https://sahamati.org.in
- The Standing Committee on Finance - Strengthening Credit Flows to the MSME Sector
- https://en.wikipedia.org/wiki/Internet_in_India

BANK QUEST THEMES

The themes for "Bank Quest" are identified as:

1. January – March, 2024: Leveraging technology for effective credit appraisal
2. April – June, 2024: Risk Management in Banks – Beyond Regulations
3. July – September, 2024: Emerging trends in International Trade and Banking
4. October – December, 2024: Emerging opportunities for savings and investments
5. January – March, 2025: Cyber Risk Management