



Open banking in the GCC

An overview of regulatory frameworks,
market trends, and outlook

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Introduction

Open banking is a modern approach to banking that focuses on sharing financial information securely and efficiently. It promotes competition, innovation, and personalized services between banks by using digital channels and APIs, giving customers access to a broader range of financial solutions.

Since its inception in 2018, primarily in the UK and Europe, open banking has gained global traction. An increasing number of countries are embracing open banking solutions to enhance customer experiences, unlock data access, and facilitate a seamless, secure, and frictionless payment process.

In the Middle East, this trend is gaining momentum, with countries actively positioning themselves as global fintech hubs. Since 2019, the region has undergone a remarkable financial transformation, driven by the implementation of innovative and dynamic open banking frameworks across various countries in the area.

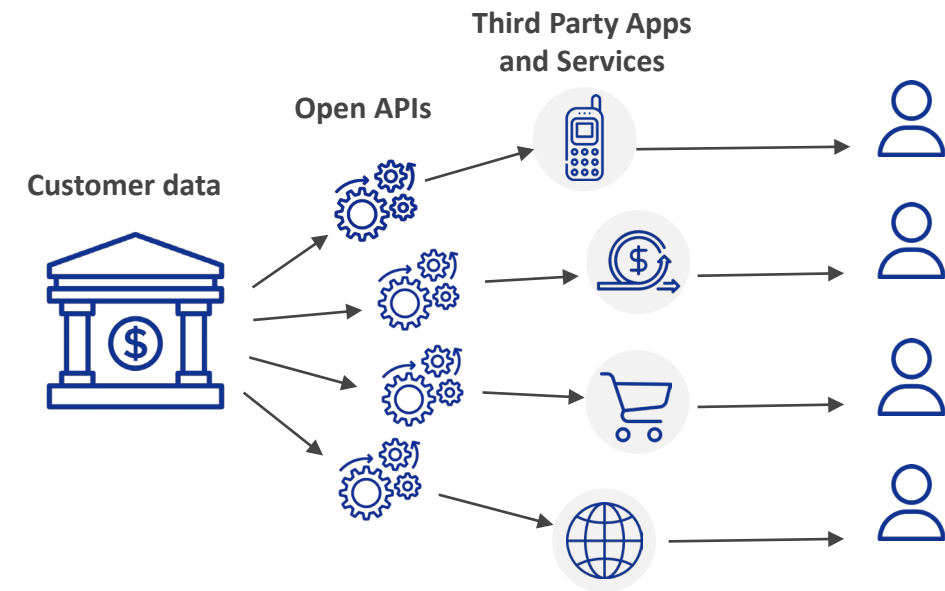
This report evaluates the preparedness of GCC countries to embrace open banking, examining the current state of open banking adoption with a specific focus on Bahrain, Saudi Arabia, and the UAE. Regulators in these nations endorse open banking to encourage collaboration, competition, and innovation among banks and fintechs. Furthermore, the report outlines a prospective role for open banking in advancing instant payments and ushering in open finance.



Open banking readiness

Open banking has emerged as a response to the need for increased transparency and competition in the financial sector

- Open banking is a system that allows the **sharing of financial data**, securely and with customer consent, **among banks, third-party providers (TPPs), and consumers**
- Open banking emerged in the UK in 2018 as a **response to the need for increased transparency and competition in the financial sector**. The concept has since gained global recognition
- **Open banking hinges on APIs**, a set of codes and protocols that govern the way various software elements should engage with each other. They serve as a means for applications to establish communication and have found utility in facilitating connecting developers with payment networks
- Open banking provides benefits such as **improved accessibility** by simplifying financial processes, offering **customized services** to remote or underserved areas, and facilitating **real-time transactions**. Additionally, it fosters **innovation** by promoting collaborations between banks and fintech firms, creating endless opportunities for financial product and service development



Assessing a country's open banking readiness involves evaluating banks' innovation culture, API capabilities and data transformation status.

Assessing readiness is a significant step that provides a comprehensive understanding of a country's capacity to adopt open banking. This evaluation examines critical aspects like banks' innovation culture, API integration capabilities, and their readiness for fintech collaborations. These dimensions can reveal their capability to offer products and services within the open banking ecosystem



Adoption of APIs

Banks must forge strong ties with third-party providers and a growing business ecosystem to facilitate data, application, and function exchanges in both directions. APIs are instrumental in Open Banking for streamlining these interactions



Fintech/Third-party Ecosystem

Open Banking enables banks to expand their reach through fintech collaborations, enhance services, and diversify revenue streams without the need for significant internal investments



State of Data-based Transformation

Banks must connect channels, data, and insights for value in third-party interactions, leveraging their investments in data management, analytics, and infrastructure, including cloud technology



Data Monetization

Many models exist for deriving value from data, leading to data monetization. Banks at advanced adoption stages effectively showcase monetization opportunities in open banking, including banking as a service and banking as a platform



State of Innovation

Banks will compete in their readiness for innovation to introduce new products and services, speed up the adoption of emerging technology, and facilitate parallel innovation with numerous collaborators

The GCC shows high readiness for open banking through notable regulatory progress, digital solutions and collaborative industry initiatives

The GCC region is making significant strides in its readiness for open banking, driven by growing API adoption, robust digital infrastructure, and impactful regional collaborations

Regulatory advancements

- Local policies drive bank innovation to meet changing regulations and promote open banking for electronic transactions
- Saudi Arabia aims for 70% non-cash transactions by 2030
- Positive outcomes are also anticipated in the sector with Basel IV* adoption (SAMA in 2023, Qatar in 2024)
- Future regulatory priorities include AML, financial crime, eKYC, cybersecurity, open banking, and digital currencies

API adoption

- Global rising open banking and APIs are driving traditional GCC banks to join ecosystems for effective API use
- Fintechs in Bahrain, Saudi Arabia, and the UAE are embracing API solutions to tap into open banking, especially in payment solutions
- Moreover, Dubai's DIFC is working with industry partners to create an API sandbox
- Oman, Qatar, and Kuwait are **in the early stages** of API adoption

Boost of digital solutions

The region's strong internet and mobile usage support open banking adoption:

- Digital Readiness:** The GCC boasts high internet penetration (above 95%)¹ and smartphone ownership² (91%)
- Strong digital government services usage:** GCC residents are enthusiastic users of digital government services, surpassing the global average (49%) with a **63% adoption**³. The GCC region leads the way, followed by Asia Pacific, Europe then North America

Collaborative integration and growth

- Industry partnerships drive GCC's open banking growth by pooling expertise, tech, and resources
- An example is Visa and Tarabut Gateway's collaboration, intending to offer data-driven services and expand into cross-border payments and lending solutions
- Moreover, GCC central banks are partnering with industry leaders to create sandboxes, such as **CBB's regulatory sandbox for fintech companies**

* Basel IV is the fourth phase of international banking regulations, building upon Basel III. It raises capital requirements for banks, enhancing financial stability and risk management

Sources: Accenture "Open banking in the Middle east" (2021), EY "MENA H1 2023 Banking Report" (2023), Press search

1 Entrepreneur "Shaping the future of fintech" (2022), 2 GSMA "The mobile economy Middle East & North Africa" (2022), 3 BCG "Personal and proactive digital government, accelerating GCC journey" (2022)

Developments in data monetization and digital banking needed to further strengthen GCC's open banking readiness

The development of data monetization and the evolution of digital banking play a critical role in enhancing the readiness of GCC countries to adopt and successfully implement open banking practices.

Data monetization expansion

- The future of any open banking offering depends on the value it offers, which **depends on the regions' regulations and overall market proposition**
- Some banks in the GCC, particularly in the UAE, are establishing subsidiaries to include data monetization in their business lines
- In 2022, Mashreq Bank launched NEOPAY, offering data monetization and other software solutions. Additionally, FAB's Magnati enables clients to monetize data
- However, in many Gulf countries, **opportunities** for banks to charge customers remain limited for banking services, such as minimum balance fees

Innovative digital banking

Digital banking encourages data sharing, competition, and innovation, making it a natural steppingstone for the adoption of open banking.

- **Region growth³**: 25 digital banks serving 25 million users, with an annual growth of 43% since 2012 in ME
- **Digital payment systems⁴**: Expected **14.1% CAGR from 2022-2027** due to regulatory changes and improved payment systems

Fintech innovation and engagement

Fintech firms in the region are actively pursuing open banking for innovative financial solutions, recognizing its support and value

- **Growing ecosystem**: In 2022, funding for fintech in the ME region saw a substantial 58%⁵ increase compared to the previous year. Also, there are over **2,000 fintech² companies**, with more than 50% operating in the UAE
- **Revenue projection¹**: Fintech revenues are expected to increase from USD 1.5 billion in 2022 to USD 3.5–4.5 billion by 2025 in the MENAP region



Open banking adoption

Global open banking trends are shifting toward regulatory-driven approaches, with the GCC following suit

- Open banking is emerging globally, with countries opting for different approaches:
 - **Regulatory-Led:** prioritizes regulation and requires financial service providers to adhere to specific mandates and standards
 - **Market-Led:** is driven by market players. While it fosters innovation, it may lack consistent standards and APIs
 - **Hybrid:** A few countries take a hybrid approach, combining innovation with standardization without mandatory participation from financial institutions
- An increasing number of countries, such as the UK and Europe, are **favoring regulatory-driven open banking systems**, marking a **shift from the previous balance** between different approaches
- While the GCC is considered a **progressive region** in open banking, most countries have adopted a **regulatory-driven approach**, with the UAE being an exception
- **Further changes are expected**, as the CFPB plans to propose a Rule on Personal Financial Data Rights in October 2023, **hinting at a combined approach in the US**. Additionally, the UAE aims to **establish clear regulations and standards** through its FIT program **by 2026**

! As open banking matures, the lines between **regulation and market-driven initiatives blur**

GCC open banking adoption approaches by country



Bahrain, Saudi Arabia, and the UAE drew inspiration from more advanced regions and implemented numerous open banking initiatives

Regulators are recognizing the transformative potential of open banking and are proactively embracing and implementing it ...

- Regulators in the GCC have been quick to recognize **the potential of open banking to transform traditional banking services** within the region
- They have meticulously examined the legislative frameworks for open banking in advanced regions like the UK, Europe, Australia, and other global models

» **3 countries in the GCC are leading the way:** 

Bahrain, the United Arab Emirates, and the Kingdom of Saudi Arabia have all embraced open banking at a faster pace than Europe. Each jurisdiction has taken its own unique approach, but the Gulf states have successfully shared their knowledge and experiences



... through several comprehensive initiatives:

- The region's financial regulators have embarked on **several initiatives to catalyze open banking adoption** within the region
- These initiatives include **developing and publishing guidelines** for the development and use of APIs, **issuing licenses to non-banking entities** to participate in the Open Banking ecosystem, and **launching open banking data aggregation and payment initiation licenses**
- Regulators are also actively involved in **drafting and implementing regulatory frameworks** specifically designed to facilitate open banking

The state of open banking adoption in the GCC varies, with some frontrunners having established open banking platforms

- Bahrain stands out as a **regional leader**, having adopted open banking rules in 2018 and launched the Bahrain Open Banking Framework in 2020, now in its second phase
- Inspired by the UK, Saudi Arabia makes **significant regulatory strides**, with plans for PIS¹ and AIS² services and the establishment of a regulatory sandbox in 2018
- In the UAE, while awaiting formal regulations from the central bank, several leading banks have **proactively adapted to enable open banking**, indicating the country's eagerness to embrace it
- Qatar is in **the early stages of open banking**, with the Qatar Central Bank preparing a framework for release by 2026. Financial institutions, including Qatar National Bank, are introducing their open banking platforms
- Meanwhile, Kuwait has not yet set a clear timeline for launching its Open Banking frameworks, despite the country's efforts

Some of the open banking frontrunners in the GCC have already licensed third party providers...

| | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  Bahrain 4 licensed TPPs, including one AIS and three offering both AIS and PIS |  Saudi Arabia 11 TPPs permitted for testing in the SAMA Regulatory box |
|  UAE 2 licensed TPPs, one AIS licensed by FSRA, and one PIS licensed by DFSA | |

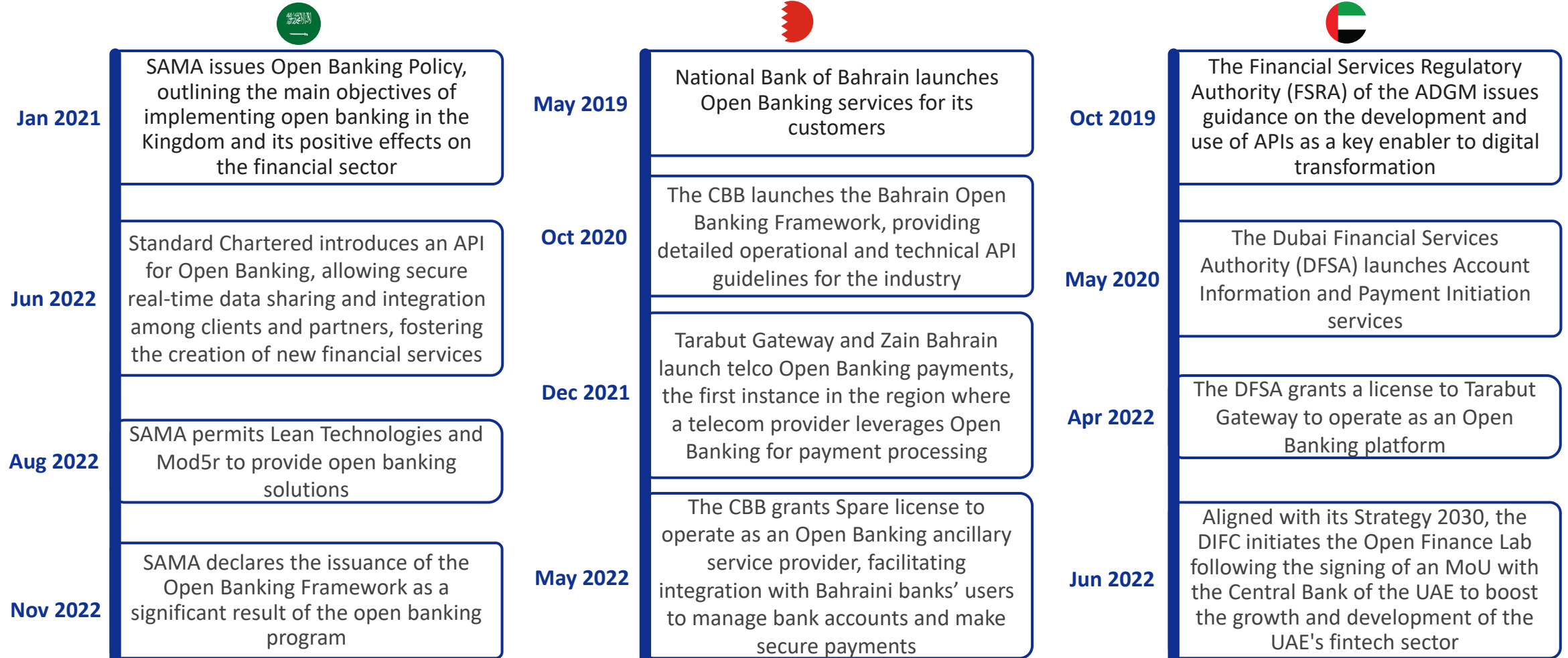
... And have established open banking platforms as well



¹ Payment Initiation Service is an online feature that, with user consent and authentication, initiates fund transfers from the user's payment account

² Account Initiation Service is an online service providing consolidated information on a user's payment accounts with service providers

The central banks of Saudi Arabia, Bahrain and the UAE are actively issuing frameworks and licenses for platforms to launch innovative open banking services.



Open banking is transforming financial use cases, offering greater control over personal finances and improved access to financial information (1/2)

Personal finance management

Open banking enables PFM tools to access data from various financial sources, driving innovation in the UK. Notable examples include **HSBC's Connected Money app**, which allows customers to access accounts across multiple banks

In the GCC context:

- Khaleeji Commercial Bank in Bahrain introduced **Khaleeji 360**, enabling users to connect multiple bank accounts and monitor their financial operations
- In Saudi Arabia, fintech companies like **Mod5r** are testing their solutions in the SAMA regulatory sandbox to streamline bank account management and user expenses

Payment initiation

Payment initiation simplifies transactions through TPPs with user consent, boosting efficiency, as seen with Banco do Brasil's **Pix Payments feature** through WhatsApp chat. Users can receive payments and scan QR codes to make payments through chat

In the GCC context:

- **Bahrain takes the lead** with an established open banking framework and active retail payment systems such as **Fawri+**, **Fataweer**, and **BenefitPay**
- The UAE is also **one of the most favorable countries** for digital payment adoption, with USD 18.5 billion in digital payments in 2020

Alternative credit scoring

Open banking can enhance credit scores and credit risk scoring with additional data points that can increase a consumer's odds of approval for loans, apartments, and more.

CreditLadder in the UK utilizes open banking to verify users' bank accounts and transaction histories

In the GCC context:

- Open banking in the GCC is **broadening credit scoring by including rent payments and recurring bills to enhance credit accessibility**
- The low household debt-to-GDP ratios in the GCC countries **emphasize the need for improved credit products and services**

Open banking is transforming financial use cases, offering greater control over personal finances and improved access to financial information (2/2)

Buy Now, Pay Later

Open banking can improve BNPL services by offering real-time creditworthiness assessments to enhance the accuracy of evaluating a customer's ability to make purchases

Butter, a UK BNPL and travel app, uses open banking for income verification, emphasizing transparency and responsible lending to enable larger purchases from any online store

In the GCC context:

- GCC countries have favorable scores on the UNCTAD B2C e-Commerce Index, which assesses a nation's readiness to facilitate online shopping. This favorable rating suggests that **the region is well-positioned for the growth of BNPL services**

Wealth management

Open banking supports various financial activities, including investment portfolio management and real estate.

Lysa, a prominent robo-advisor in the Nordics, leverages Open Banking to enhance their smart savings accounts. They automatically invest users' money with high diversification and low fees

In the GCC context:

- Bahrain and the UAE have some of the highest savings-to-GDP ratios, which presents **a sizeable opportunity for wealth management solutions**
- Saudi fintech Lean has partnered with StashAway, a wealth management firm based in Singapore, to offer the UAE's **first-ever open banking-powered solution for recurring deposits**

The background features a light gray gradient with several overlapping, semi-transparent credit cards. A prominent blue gradient bar spans the width of the slide, containing the main title. The overall aesthetic is clean and modern, suggesting a focus on digital banking and financial technology.

Open banking future outlook

Open banking drives economic diversification and financial inclusion, offering opportunities through Sharia-compliant digital banking and data collaboration



Economic Diversification

- **Reduced oil dependency:** Open banking in the GCC allows for economic diversification and reduced oil dependency
- **Compliance and strategy:** Regulatory-dependent nations need vigilant compliance, while market-driven environments embrace aggressive strategies. Despite these challenges, the near-term outlook for open banking is **optimistic due to growing competition and coordination**



Regional Growth and Coordination

- **Innovation:** MENA and GCC states are rapidly catching up with international peers in terms of regulations and widespread open banking adoption
- **Traditional financial institutions:** Traditional financial institutions, particularly in Islamic finance, are teaming up with experts to tackle tech challenges and offer innovative products, harnessing cutting-edge technology



Financial Inclusion and Islamic Finance

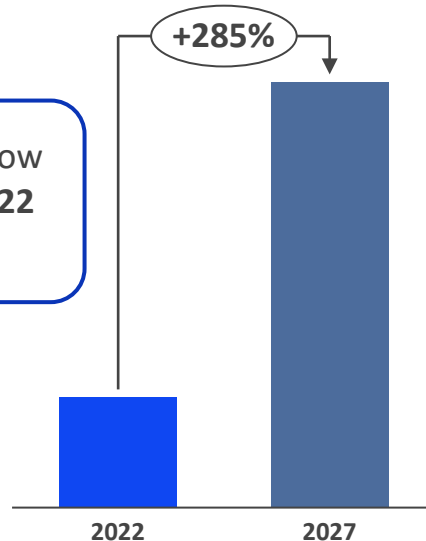
- **Sharia-compliant digital banking:** Sharia-compliant digital banks are transforming markets and spurring competition among traditional Islamic institutions and fintechs to offer innovative, halal-compliant solutions to the unbanked
- **Collaborative data sources:** Collaboration with trusted entities via Open Banking expands reach, enabling fintechs and institutions to offer enhanced value and promote financial inclusion

Open banking is a key driver of the rapid growth of real-time payments across the GCC

Open banking is considered the key to instant payment adoption...

- Open banking, empowered by financial APIs, plays a **pivotal role in driving instant payments forward** and facilitating real-time transaction capabilities
- The GCC has embraced instant payment systems as part of its strategy to **promote digital adoption** and enhance existing payment infrastructures
- It is at the forefront of the global real-time payments revolution and is the fastest-growing market

Transaction volumes are projected to grow significantly from **USD 675 million in 2022 to USD 2.6 billion by 2027¹**



¹ According to ACI's Prime Time for Real-Time report
Sources: ACI "It's Prime Time for Real-Time" (2023), Press Search

... with Bahrain, Saudi Arabia, and the UAE expected to see the highest uptake

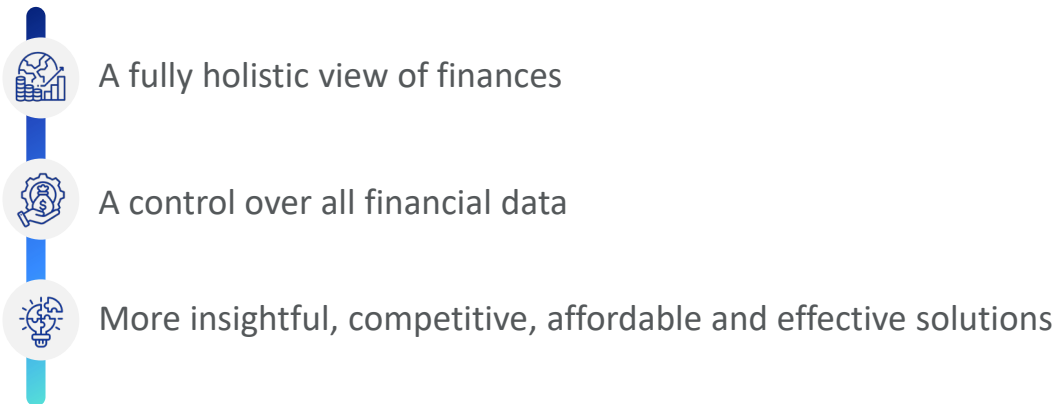
- Expected to have the highest consumer adoption globally
- By 2027, every Bahraini citizen will make an average of **83.3 real-time transactions** per month¹
- Considered as **the largest market in terms of transaction volumes**
- Government initiatives like Vision 2030 promote digital payments and financial inclusion
- Significant **real-time transaction growth is expected**, driven by the launch of a national **Instant Payment Platform (IPP)**
- The IPP is expected to revolutionize transactions in the region, providing faster, more efficient, and secure real-time payments

The transition from open banking to open finance in the GCC marks an expansion of opportunities

The shift to open finance expands the financial footprint, including product pricing and contract details for various financial products...

- Open finance builds upon **the foundation of open banking** by extending data sharing to transactions involving the exchange of money, including utilities, telecom providers, insurance, and retail
- The shift from open banking to open finance** will initiate in sectors closely related to payment accounts, like savings accounts, and subsequently expand into more distant **financial domains beyond traditional banking**, including investment and insurance

The benefits of this progression include:



... and holds a particular significance in the context of the GCC

Some Gulf countries are **progressing from open banking to open finance**, aiming to make consumer data accessible for a broader range of financial products and services

Key opportunities:

In the Arab region, open finance offers significant possibilities in:



Financial management and pension planning:

Offering comprehensive financial oversight and cash flow management



Credit provisioning :

Enhancing access to credit for individuals and businesses, particularly SMEs



Know-your-customer verification:

KYC verification APIs, along with account data APIs, are driving open banking innovation in the Arab region

Open finance implementation involves planning, infrastructure development, and operational phases



Phase 1: Plan

Regulatory Alignment: Regulators align Open Finance with regional initiatives, establishing additional licensing requirements

Open Finance Engagement Forum: A forum fosters collaboration and consensus-building among market participants

Incentives: Regulators create incentives that encourage industry players to embrace Open Finance, focusing on innovation and mutual benefits



Phase 2: Build

Standardized and Secure Central Market Infrastructure: Regulators establish a transparent and reliable central market infrastructure that enables interactions among market players

Establishing standards: Regulatory guidelines covering API standards, security, user experience, and more are put in place

Emergent Technologies: Adoption of emergent technologies like machine learning, cloud infrastructure, and distributed ledger technology is encouraged to enhance Open Finance's capabilities



Phase 3: Operate

Complaint Handling: Infrastructure and processes for addressing Open Finance-related complaints are established

Monitoring and Control: Regulators monitor and control TPPs, API availability, and legal compliance. Enforceable control mechanisms address breaches promptly

Communication: Proactive communication and education efforts inform individuals and businesses about Open Finance, address concerns, and promote adoption

Conclusion

With the GCC's increasing readiness and open banking adoption, the region is emerging as a leader in the Arab world, taking significant steps toward embracing this transformative financial model. Globally, the prominence of open banking and APIs is mounting, as traditional Gulf banks also engage in ecosystems that facilitate effective API utilization.

When comparing GCC countries' open banking strategies with the UK and EU ecosystems, the region stands out as more ambitious from a regulatory perspective. Notably, the region thoroughly examined the open banking forerunners to learn from their mistakes and even improve in certain aspects.

The GCC's commitment to open banking is evident not just in its readiness but also in the robust adoption of this transformative financial model. As the region continues to advance, open banking is poised to redefine its financial landscape, representing a pivotal moment in the financial sector's evolution.

Some GCC countries have already begun to adopt open finance and are setting strategies beyond regulatory compliance. They have expanded their frameworks beyond payment accounts, with the goal of making consumer data more accessible for a wider range of financial products and services.

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