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Senior Director, Digital Finance

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Ms. Carolyn Rogers
Secretary General
Basel Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Dear Ms. Rogers,

Re: Report on open banking and application programming interfaces

The Institute of International Finance (IIF) welcomes the Basel Committee on Banking Supervision (BCBS) report on open banking and application programming interfaces (APIs), published on November 19, 2019. This report is a valuable addition to current policy discussions on this important emerging topic, providing a solid introductory overview on the concept of open banking, and an illuminating snapshot of the state of play across jurisdictions.

We commend the report for its especially informative analysis of the security and liability issues, aspects that are central to the development and deployment of safe innovation, and subjects that we highlighted in our 2018 papers on *Safeguarding Customer Data in the Financial Sector* and *Liability and Consumer Protection in Open Banking*.¹ We share the report's view on the superiority of secure APIs and the inherent dangers of screen-scraping, and we endorse the emphasis placed on this aspect.

To this end, we believe that as greater standardization of APIs emerges over time, in combination with high security requirements, this will help to create more opportunities in the open banking sphere, with more innovative services, high protection of consumers and their privacy, and a clearer set of responsibilities and liabilities. Future work could help to identify emerging best practices in the area of security and liability requirements for open banking activities, as well as delve deeper into policy design questions, such differences in approaches across jurisdictions to remuneration for use of APIs and customer consent.

The key piece we believe is missing in the report's analysis is on the asymmetrical data flows that open banking can create, and how these could present a distortion in competition. While the near-term issues of security and supervision are well addressed in the report, open banking also poses some significant questions on the long-term structure of the financial system.

¹ See IIF, (i) *Safeguarding Customer Data in the Financial Sector*, July 6, 2019, <https://www.iif.com/publications/id/1717>; (ii) *Liability and Consumer Protection in Open Banking*, September 18, 2019, <https://www.iif.com/Publications/ID/1418/Liability-and-Consumer-Protection-in-Open-Banking>.



As outlined in our July 2018 paper *Reciprocity in Customer Data Sharing Frameworks*, open banking regimes that provide for customers to direct their bank to share their data with third party firms, but not the reverse scenario, could give non-financial firms with large existing pools of customer data an advantage. For example, it may enable only large technology firms to form a consolidated, holistic view of the customer, across their financial and other positions.²

While open banking is generally intended to empower customers and promote competition, it could create information asymmetries that may in fact have the converse impact. This merits a cross-sectoral view on data sharing, and we urge the BCBS and its member authorities to engage further with other agencies (such as data, privacy, and competition commissioners) to help promote design features that will support competition on a more sustained basis.

Related to this competition dynamic, we also suggest that the BCBS should further examine the implications for stable funding and liquidity, as outlined in our December 2018 paper *Asymmetric Disintermediation*, and noted in the paper last December and more recently in the recent Financial Stability Board (FSB) report on *BigTech in finance: Market developments and potential financial stability implications*.³

We look forward to further opportunities to engage on this important topic. As two such instances, this issue will feature in the IIF Digital Finance Symposium in Toronto on March 19, and we are also planning to arrange a specific roundtable on this topic in Europe in June. We will welcome the participation of BCBS members and secretariat on both occasions.

To reiterate, the IIF commends the BCBS on the initiative in producing this report, and we share many of the views and concerns identified. This represents a very useful starting point, and a basis to continue with further in-depth analysis on the issues of API standardization, competition and market structure.

As always, the IIF stands ready to assist further on this important subject, either via myself (bcarr@iif.com) or my colleague Daniel Pujazon (dupujazon@iif.com).

Yours sincerely,



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² See IIF, *Reciprocity in Customer Data Sharing Frameworks*, July 30, 2018, https://www.iif.com/portals/0/Files/private/32370132_reciprocity_in_customer_data_sharing_frameworks_20170730.pdf.

³ See (i) IIF, *Asymmetric Disintermediation*, December 20, 2018, <https://www.iif.com/Publications/ID/3198/Asymmetric-Disintermediation>; (ii) FSB, *BigTech in finance: Market developments and potential financial stability implications*, December 9, 2019, <https://www.fsb.org/wp-content/uploads/P091219-1.pdf>.