

# *The Future for Open Banking in the Middle East is Now*



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# Introduction

Undoubtedly, the financial services industry has witnessed major changes since the turn of the last century, with banks' transactional models falling short of their previous success. As time passes, ATMS and bank branches have fewer and fewer customer-interactive touchpoints to offer. As the new digital banking era unfolds, driven by the need to make strategic decisions in a fast-moving technological environment, 'choice' and 'technology' are now the two basic pillars (or cornerstones) in the customer journey. Traditional financial institutions, where customer loyalty was short-lived used and cost too much money, no longer have a role to play in this newly evolving market. <sup>1</sup>

In this context, the global expansion of open banking is driven by a constant opportunity: innovation. Unique regional conditions allow for multiple ways to ensure this consistency. For example, tech-savvy banks in the Gulf region aim to serve 'underbanked' people, or a commodity-dependent country seeks to diversify its economy by becoming a fintech hub.

Open banking has expanded beyond basic payment services to all forms of assets. Simple account information and payment initiation services can meet unique needs as part of a broader concept of 'open finance', that includes regional requirements, such as fast transfers or know-your-customer (KYC) verifications, and cross-industry collaborations.

1. Arthur D. Little (2018). Open banking: The beginning of a new era.

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Banking as a service, banking as a platform, and banks acting as third-party providers are all examples of profitable models open banking. Although early pioneers of Open Banking from other regions can be observed in the Middle East, this does not mean that the same best practices will be adopted. Nevertheless, some Arab countries are leading the way to 5G implementation. Therefore, delivering a robust open banking system built on this powerful infrastructure will depend on both the flexibility of the open banking framework and the flexibility of the banks.<sup>2</sup>

At this point, it is worth noting that Bahrain has played a key role in this effort, adopting the open banking system at the national level.

It is also pushing other Middle Eastern countries to take this initiative, so that banks can leverage fintech digitization technology to grow their business. Saudi Arabia's Central Bank (SAMA) has declared that it will implement its own open banking policy, with guidelines set to take effect from mid-2022. Likewise, the United Arab Emirates is definitely on its way. Finastra, a financial software supplier, found that nearly nine out of ten financial institutions in the UAE plan to implement open banking by October 2022. The UAE's Central Bank and state authorities agree with this vision, and the federation's government has expressed an interest in promoting digital banking initiatives. In 2020, the Dubai Financial Authority (DFSA) started issuing open banking licenses.<sup>3</sup>

2. Arab Monetary Fund. (2020). Open Banking: A vision from the Arab World 2020. MENA Fintech Association.

3. Madan, D. (2021, October). Open Banking in the Middle East. HID Global Corporation.

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## **SECTION 1**

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# An Overview of Open Banking trends in the MENA region

## **The Evolution of Open Banking as a concept**

Since the inauguration of Open Banking in the United Kingdom in 2018 and the implementation of the updated Payment Services Directive (PSD2) in Europe, global regulators have acknowledged innovations that ultimately benefit the end-consumer. Unquestionably, the spirit of Open Banking has sparked many more initiatives in different regions. However, this new market has just begun to have an impact in the Middle East, with the Central Bank of Bahrain (CBB) launching the Open Banking Framework for the country in October 2020. Similarly, Saudi Arabia recently released a draft law that will come into effect in mid 2022.

Other nations in the Middle East, like the United Arab Emirates (UAE), Kuwait, Oman, and Egypt, are likely to respond accordingly. <sup>4</sup>

The goal of open banking is to provide consumers with more banking options. It is about establishing a common application programming interface (API) to promote the fast and secure exchange of information between applications in a region or territory from a technical perspective.

4. Bahuguna, A. K. (2021, March). Open Banking in the Middle East: Driving Adoption. LinkedIn.

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The 'Openness Categories' (Os) of Open Banking are explained below:

- **Open APIs** : This terminology refers to interfaces that adhere to established and accepted technical and functional standards to provide interoperability benefits to participants.
- **Open Payments enable consumers and third parties to disburse and/or collect payments.** In addition, digital payments are included to eliminate the need for intermediaries such as checks, cards, and other forms of payment while maintaining security and permission.
- **Open Accounts Information grant customers access to an aggregated view of their account information, including debits made over time.** This comprehensive solution reveals behavioral patterns empowering users to make more effective financial decisions. Banks can use these insights into consumer trends to improve customer engagement and product development strategies. <sup>5</sup>

5. WhiteSight Fintech Research Private Limited. (2021, May). Open Banking: The Dawn of Collaborative Innovation.

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