REPORT

The state of open banking in Latin America

The main trends and regulation steps to expect in 2022

belvo.

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Executive introduction

Opening up finance in Latin America

First, it was 'software is eating the world', then came 'data is the new oil', and later, 'every company will become a fintech company'. Behind these famous statements is the story of how the combination of **technology, data, and money** has been one of the biggest sources of innovation over the last decade.

> Now, **a new chapter in the financial technology revolution is being written** in Latin America, and one of its main drivers –you guessed it– is the open banking movement.

The basis of this new data-sharing model relies on the use of APIs (Application Programming Interfaces) to make it **easier, safer, and faster** for consumers to share their financial data with third parties –always with their consent– in order to get access to more products and financial services that are tailored to their needs.

Financial institutions and fintech companies across the world are already leveraging this newly opened access to data to build **modern, more inclusive, and efficient banking solutions**.

In Latin America, the perfect stage is being set for the adoption of these new models thanks to a combination of several structural changes: the digitalization spreading across all sectors of the economy, **infrastructure providers building new common rails** to interchange data and money, fintech services gaining traction and funding, and new regulation frames being developed.

We're **witnessing the emergence of a whole new financial ecosystem** that's tackling some of the historical inefficiencies of the region. These include 'buy now to pay later' services embedded in e-commerce applications, more affordable lending platforms built on top of alternative sources of data, and tailored financial solutions that target niche segments.

Open banking in Latin America is also enabling the creation of **more inclusive financial solutions** that can bring millions of people for the first time under the umbrella of financial services and, at the same time, help fintech companies and traditional financial institutions unlock new audiences that were previously out of their reach.

At Belvo we are on a mission to **democratize access to financial services in Latin America** by opening up finance and powering more inclusive, efficient, and empowering products through tech and data. We want to help any financial innovator that wants to leverage these new tools to build next-generation financial services and support them on their open banking journey.

For that reason, in this report, we'll look at what's the **current state of the open banking ecosystem** and regulation across the region, what are the main drivers and challenges for its adoption, and how APIs and open finance infrastructure can financially improve the lives of over 600 million people.

Pablo Viguera

Belvo co-founder & co-CEO

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Open banking: enabling fintech hypergrowth in Latin America

“The time for fintech is now”

There are several factors that explain the accelerated growth and interest that the fintech sector is experiencing in Latin America – and that will also impact open banking adoption in 2022.

The region is home to more than 2301 fintech companies, targeting a market of more than **650 million people across 33 countries**. In some of them, like Mexico, still, over 50% of the population doesn’t have a bank account.

> “E-commerce has seen double-digit growth over the last few months [and] COVID has accelerated the demand for digital financial products by many years. The time for fintech is now,”

a16z

New infrastructures enabling real innovation

Until recently, being able to offer many of the fintech services and products that are now attracting funding took too long and required a large investment of resources and technological development, which prevented companies from achieving their goals.

This has changed dramatically with **the recent emergence of new financial infrastructure providers**, such as open banking APIs, payment gateways, or service aggregators in the region, that are acting as underlying building blocks for these new fintech products and services and really enabling their growth and accelerating their time-to-market.

COVID 19 accelerating digital adoption

Another factor is how the COVID-19 pandemic has pushed more and more companies to start moving towards the digitization of products and the **reduction of human contact**. As a result, we see that Latin American users are more comfortable and willing to consume alternative financial services and look for friendlier, simpler, and faster experiences than those provided by traditional companies.

> “The COVID crisis has been a particular driver for fintech in Latin America, spurring innovation out of necessity [...]. Many consumers tried out new financial products and apps, in lieu of visiting physical bank branches”
>
> **a16z**

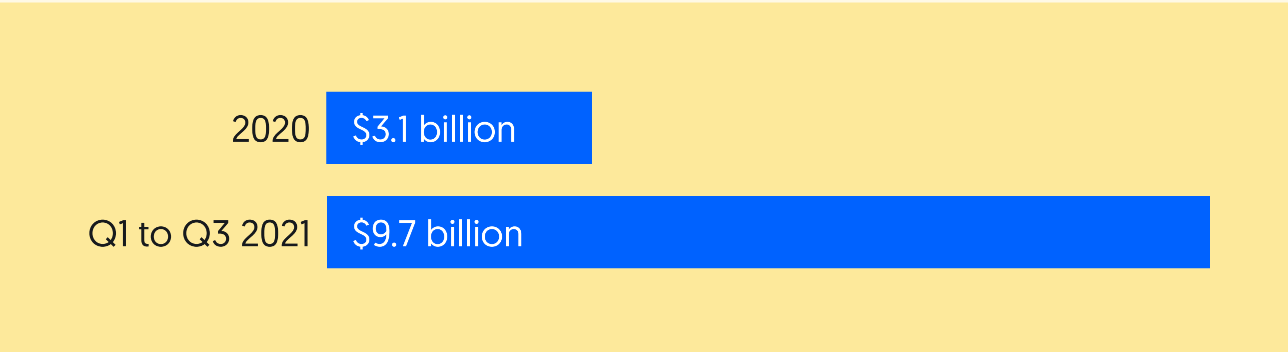
> “Regulatory tailwinds in select markets are helping build momentum for fintech products. Also, several startups [...] are working to build infrastructure that should help bring more financial services to market”
>
> **TechCrunch**

> “Open banking tech is here to stay, as evidenced by a slew of major banking institutions directly partnering with data aggregators [...], as well as old-guard financial institutions self-organizing to create their own data utilities”
>
> **CB Insights**

Accelerated funding, regulation, and interest from traditional institutions

According to CB Insights, the investment received by the fintech sector in Latin America jumped **to more than $9.7 billion in the first three quarters of 2021**, up from $3.1 billion in the whole of 2020. This influx of cash goes hand-in-hand with innovations and new regulations in many Latin American countries, according to TechCrunch.

Fintech sector investement in Latin America



“While [this growth] may appear overheated, several reasons explain why the flood makes sense”

TechCrunch

In October 2021, the Brazilian central bank postponed its deadline for financial institutions participating in open banking to define their governance structure **until June 2022**. The delay followed the changes to the rollout of the initial phases of open banking initiatives and an increase in its scope to include investment and insurance products.

What we are seeing is the tip of the iceberg

Latin America’s established banks are increasingly partnering with fintech firms and launching API platforms to remain competitive. **As fintechs reach consumers that the traditional banking sector does not, they open up the ecosystem and create opportunities for collaboration**. APIs enable banks to reduce costs, increase efficiency, improve communication, and reach new customer segments. According to CB Insights, open banking aggregators “have experienced significant growth driven by the demand for digital financial services during the covid-19 pandemic”.

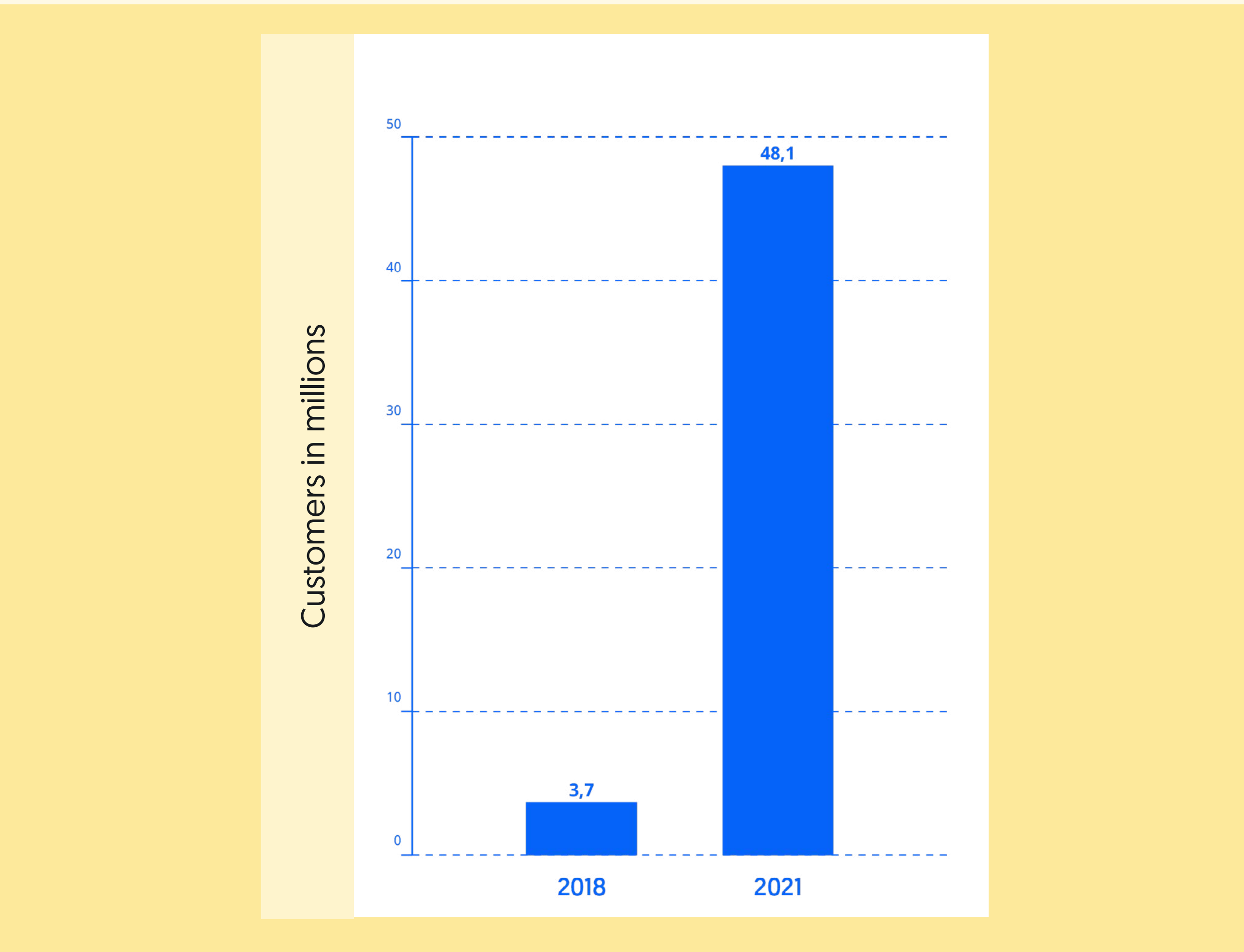
“**Major financial institutions** — including multinational banks and processors, payment networks, credit reporting bureaus, and technology providers — have been **monitoring developments in open banking** and have even self-organized to solve the challenges of API interoperability”.

The potential for growth in Latin America is also attracting European fintechs, which have recently announced their expansion into the region.

In October 2021, UK-based fintech Revolut announced plans to launch in Mexico as the first step to enter the Latin American market, following its US-Mexico remittance corridor in July 2021. And German digital bank N26 acquired a digital banking license for Brazil in 2021, after the pandemic delayed its plans to enter the market previously.

The region's fast-growing fintechs are also showing signs of maturity. In November 2021, Brazil-based **Nubank — Latin America's largest fintech —** filed to register an initial public offering on the New York Stock Exchange and the Brazilian B3 stock exchange. **The company aims to raise more than $6.7 billion, which would value the company between $46 billion and $50.6 billion — ahead of Brazil's largest lender Itaú Unibanco**. Nubank has expanded beyond Brazil into Mexico and Colombia. As of the third quarter of 2021, Nubank had 48.1 million customers, up from 3.7 million in the first quarter of 2018.

Nubank's customer growth



Several key trends are driving a shift towards open banking models in Latin America:

Technological innovation coming from financial institutions

Maturity in the fintech ecosystem

Favorable regulatory environment

New railways to move money and data across the region

The launch of real-time payment services like PIX, Yape, and PLIN is driving growth in electronic payment volumes. And as fintechs launch low-cost, accessible trading platforms and financial education increases, while interest rates remain low, more consumers are shifting from low-yield savings accounts to investment products.

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From open banking to open finance

The real paradigm shift for Latin America: open finance

Open banking means the definitive adaptation of the banking institutions to the new digital era and the **empowerment of the users in the control of their data**.

Although, one of the more revolutionary characteristics of this new type of information exchange is that **it can work in many directions**: whether that is users sharing the information they store in their banking accounts with new digital platforms or the other way around. And that it is not necessarily limited to banking data. This is known as **open finance.**

What is open finance?

(n.) / ˈəʊpən ˈfaɪnæns/

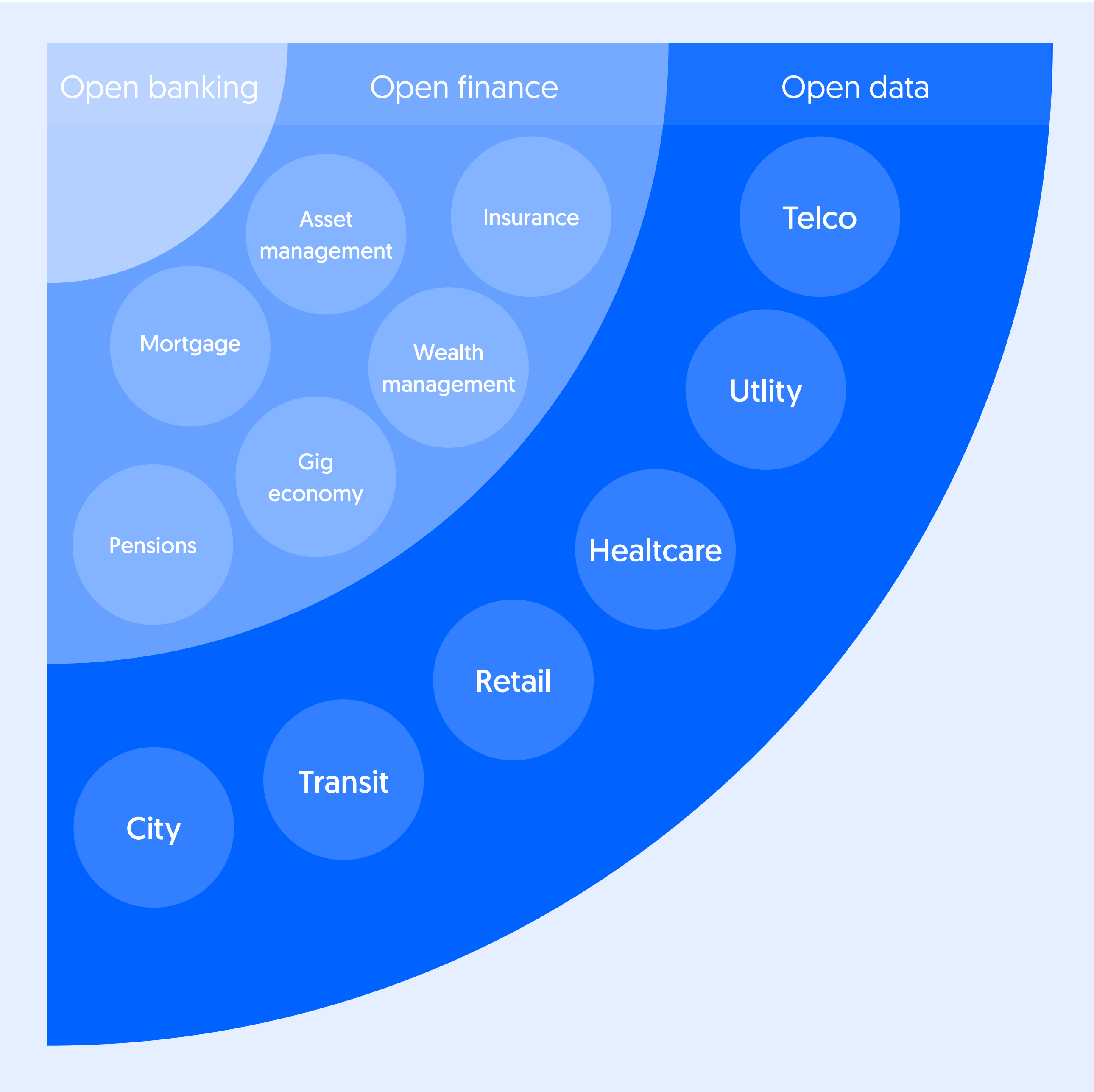
1. A step beyond open banking where financial data –no matter where it comes from–, can be shared with multiple parties through APIs to foster the development of new products and services.

This includes financial data from digital players like big tech companies, fintechs, or **gig economy platforms**, as well as traditional entities like fiscal authorities, payroll service providers, insurance issuers

Examples of open finance sources of data:

- **Fiscal authorities**
- **Gig economy platforms**
- **Insurance companies**
- **Investment and pension funds**

By allowing financial information from a **wider range of sources to easily and securely flow** between different apps and digital solutions that people use in their daily lives to manage their finances, it is possible to create a more inclusive financial system.



"As open banking progresses beyond the scope of retail banking data toward open finance broadly, more and more areas of consumer and enterprise financial services — from credit scoring and lending to tax and payroll — will undergo the same transformation being seen in retail banking and payments today"

CB Insights

The next step will be to include new alternative sources of data from different industries into financial services, under a model that's already called "open data". For instance, using data from utility companies, transport, or retailers, to create better financial solutions.

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Open banking regulation in Latin America

Structural changes impacting open banking adoption

The open banking movement started in Europe and the United Kingdom but then **spread around different parts of the world** through regulation changes, technological shifts, new business models, and emerging consumer trends.

The unprecedented technological changes that are happening in the region are pushing regulators to move faster: digitalization is spreading across all sectors of the economy, **infrastructure providers are building new common rails** to enable the safe access and interpretation of data, and fintech services are gaining adoption.

Regulation is moving fast
Brazil, Mexico, and Colombia are already working on their open banking regulation and results are expected throughout 2022.

Users are ready for fintech services
Around half of the population in Latin America don't have a bank account, yet around 72% of the population are internet users and smartphone penetration is around 80%.

Investment in Latin American fintechs is soaring
$9.7 billion were invested in financial technology firms in the first three quarters of 2021 only.

Banks are taking important steps to adopt new models
Traditional institutions are increasingly looking at open banking to reach new consumers.

Number of fintech by country in 2020

Mexico

In March 2018, Mexico published the Law to Regulate Financial Technology Institutions (known as the Fintech Law or Ley Fintech). This was one of the first global steps to regulate the Fintech sector and the open banking model.

> In this law, Article 76 applies to open banking, establishing that all financial institutions are obliged to share information using Application Programming Interfaces (APIs) in a standardized manner, enabling the exchange of data between banks and authorized third parties.

On March 10th, 2020, Banco de México published the first open banking rules that mainly focused on public data like ATM location data and information on the products offered by each financial institution.

One Mexican bank is taking advantage of the regulations surrounding APIs. **Citibanamex launched its API Hub in July 2021, which gives users and developers access to its public APIs for testing and implementation**. The company plans to use open banking to improve its customer experience and develop new services.

Several dozen companies — including software and application developers, financial companies, and open banking fintechs — expressed interest in using the APIs,
reflecting pent-up demand.

The next phase of regulations is expected to address the sharing of customers' transactional data. This second set of rules is slated to be announced by the National Banking and Securities Commission.

Brazil

Brazil is a pioneer in digital adoption, and its open banking regulations put the country at the forefront of adoption worldwide.

The Central Bank and the National Monetary Council approved the rollout of open banking initiatives in early 2019 as part of a broader financial system modernization. **The process was scheduled to start in November 2020, divided into four phases. But the COVID-19 pandemic delayed the project. Implementation got underway in February 2021**.

The four phases are:

1. Product and service information
Refers to access to products and services offered by banks such as deposits, savings accounts, or lines of credit.

2. Customer information
Access to customer transaction data derived from the products and services mentioned in the previous stage.

3. Transactional information
Data related to deposit accounts, credit operations, other products, and services contracted by the clients, among others.

4. Payment and credit transaction information
Refers to the products offered by the banks and the data of the users' transactions. Such as investments, insurance policies, pension plans, or currency exchange, among others.

The second phase went live in August 2021, delayed from May. The initial implementation of the third phase was delayed from August 2021 to October 2021. The third phase has also been split into four parts to allow financial services providers time to prepare their systems for the changes. **The remaining three parts are scheduled for 2022**:

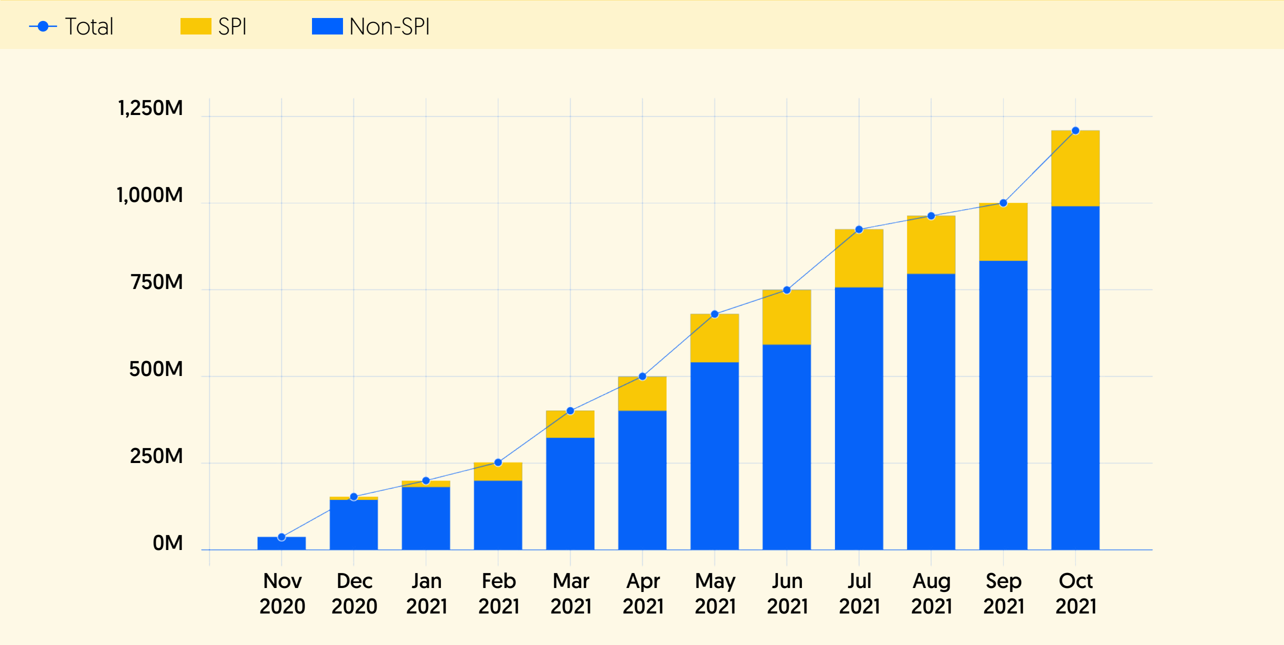
Fund transfers between accounts
15 February 2022

Bank slip payments
30 June 2022

Debit payments
30 September 2022

Phase 4 of Open Banking began on December 2021 and is expected to run until 2022. The latest stage is marked by the begining open finance, and will include data from investment, insurance, pension, and foreign exchange services.

Pix | Amount of transactions



Source: Brazil Central Bank.

Colombia

In Colombia, the regulation of open finance is still at a very early stage, although a proposed decree has already been issued to protect the development of these models under current data protection laws.

> Colombia is opting for an open finance model that, in addition to facilitating the sharing of banking data through APIs (as proposed by open banking), also contemplates the i nclusion of data from other financial institutions.

At the end of 2021 a series of documents were published that already lay the preliminary foundations for the operation of this model in Colombia.

- On the one hand, the **Financial Regulation Unit (URF) published in October 2021 a technical document that describes the general rules to implement open finance in the country** and suggests a regulatory intervention. Specifically, this document proposes, “based on the current regulatory framework and market developments”, a “regulatory intervention based on general principles and rules that promote open finance in Colombia”.

- At the same time, this document served as technical support for the preparation by the **Ministry of Finance and Public Credit** of **a draft decree on open finance**, which stressed the need to “specify the rules applicable to the transfer of consumer data between financial institutions”.

There are several noteworthy aspects of these documents that open the door to models based on open finance infrastructures that **are already viable in Colombia**:

- The document emphasizes that entities supervised by the **Superintendencia Financiera de Colombia (SFC)** may commercialize the use, storage and circulation of personal data, provided they have the express authorization of the data owner.

- It also states that supervised entities may offer products and services of third parties in their virtual and face-to-face channels, provided that this offering is authorized in their connection operations.

> **The next step would come in 2022 when the final version of this decree is expected to be published after the open consultation period.**

Peru

Financial institutions **send customer information to the Peruvian central bank** each month to create a profile. By adding an element of customer consent, the government could enable consumers to decide how this information is shared with third parties to access their data across applications.

However, the banking landscape is changing without state regulation.

Banco de Crédito del Perú (BCP), Peru's largest bank, launched the real-time payments system, Yape, in 2016 to enable peer-to-peer payments. In May 2020, financial services provider YellowPepper partnered with banks BBVA, Interbank, and Scotiabank to launch a competing system, PLIN. And BCP extended Yape to all Peruvians, rather than just its customers. Yape has since **grown to reach approximately 62% of the country's banking population**, equivalent to 6.2m million users.

Peruvian fintech Maximo officially launched in January 2021 and closed a pre-seed funding round of $250,000 in February. The open banking compliant startup focuses on providing financial services and education to young people, and around 54% of its users are aged 18-25.

Yape Launching
2016

PLIN creation
2020

Yape reaches 6.2 M
2021

Although Peru has not set out any specific regulations for open finance, the country's financial institutions have already been sharing customer data for some time.

Argentina

So far, Argentina has no official open banking regulations. The Central Bank of Argentina (BCRA) has promoted some dialogue around open banking initiatives. The BCRA and the Financial Information Unit (UIF) have incorporated some provisions into their regulations to support open banking. This includes allowing banks to share client information at their request for digital on-boarding processes and drafting legislation on the right for consumers to transfer their data.

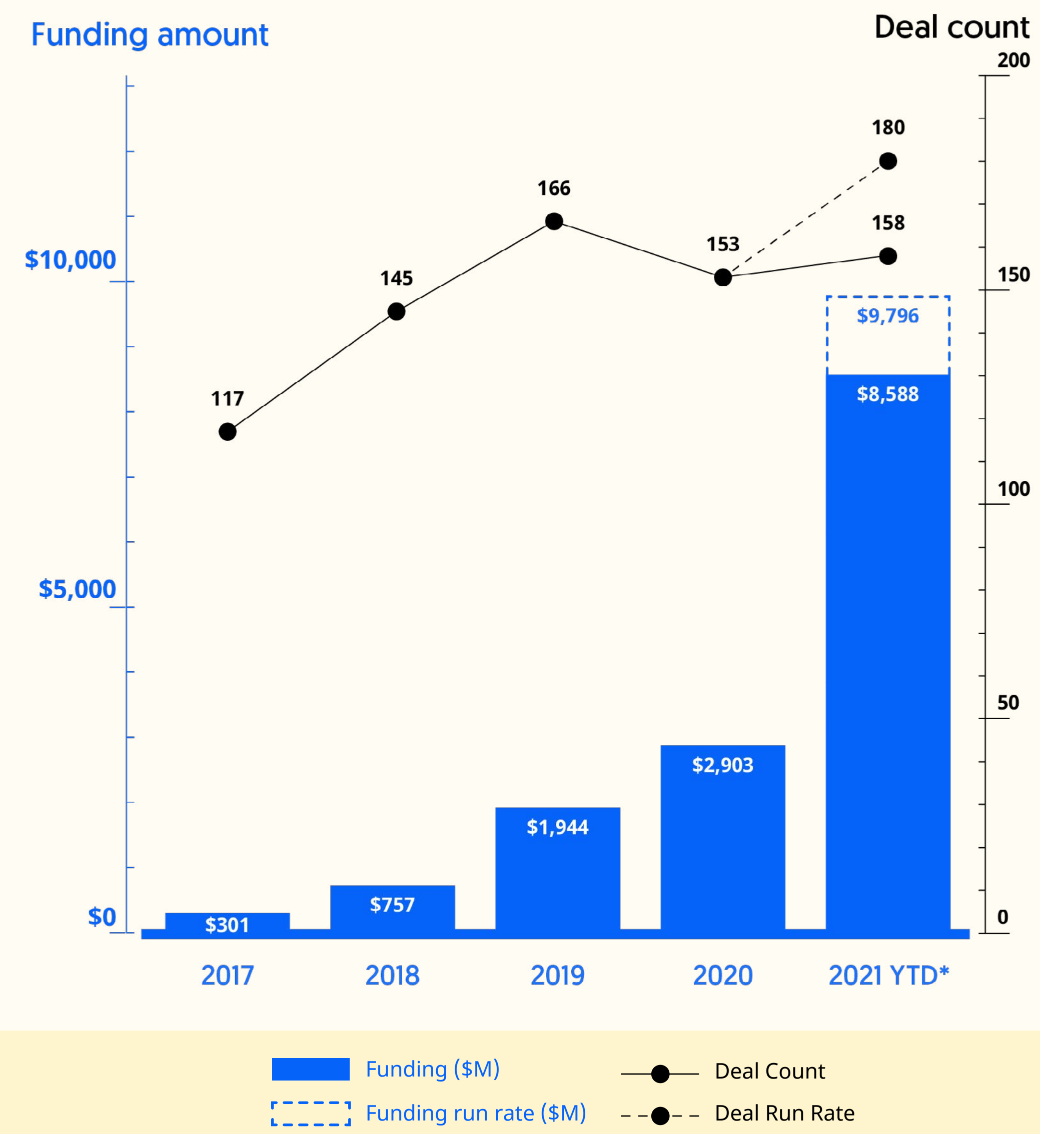
But these provisions have yet to be fully adopted in practice. While there is no official framework, **Banco Industrial (BIND) launched its API Bank** platform with Poincenot Technology Studio in 2018, becoming the first bank in Argentina to offer open APIs to the market.

Chile

Chile is the country with the highest banking penetration in Latin America (74.3%). In the country, the Financial Market Commission (CMF), in coordination with the Ministry of Finance and the Central Bank, is **already working on a roadmap to provide a regulatory framework** for certain fintech models, such as crowdfunding platforms. Although there are still several obstacles to overcome for a clear framework for collaboration between banks and fintech companies under open finance models is defined.

The government also implemented the Financial Portability Law, a regulation that allows individuals and companies to freely change financial product providers. A previous step before open banking. The CMF is expected to develop a general framework to specify rules for the open banking ecosystem in the country in the next two years.

Latin America fintech raised record funding in 2021
Disclosed deals and equity funding ($M)



Source: CB Insights | *2021 full year data is based on a run rate as of 10/22/2021

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Open banking regulation progress in other markets

The United Kingdom

According to **The Open Banking Impact Report** released in October 2021, the availability of open banking services continues to expand in the UK. Around 7.5-8.5% of digital banking consumers are now estimated to actively use at least one open banking service. The research found that 91% of customers find services easy to use, and 76% intend to continue using them. Around 55% of UK credit providers are expected to implement it in the next year.

The United States

The National Automated Clearing House Association (NACHA), the electronic payments association, and its cooperation with the industry have been working to develop standards and best practices.

In 2017, the association formed an industry working group with more than one hundred banks and associations whose main objective was to define the standards for building APIs to share data. The API Standardization Industry Group was created, which identified sixteen specific APIs divided into three categories: fraud and risk reduction, data sharing, and payment access.

> In August 2019, the Treasury Department published a report that encouraged banking innovation and established the first recommendations for open banking.

But there was a lack of a regulatory framework to support these initiatives until July 2021, when President Biden signed an **executive order** encouraging competition in the financial industry. The order urges the Consumer Financial Protection Bureau (CFPB) to set out rules under section 1033 of the Dodd-Frank Act to make it easier for consumers to "switch financial institutions and use new, innovative financial products."

The industry has already been developing consistently in the free market with the help from open banking API players like Plaid or Yoodle, but implementing section 1033 will provide structure to the market in a similar way to the UK and Europe.

The CFPB is expected to take steps to establish regulations in the first quarter of 2022.

Australia

In July 2021, new CDR legislation came into effect to extend the number of banks required to share basic consumer data. The CDR system allows consumers to consent to transfer their data from banks, or data holders, to data recipients, which must be approved by the Australian Competition and Consumer Commission (ACCC) to provide a product or service based on the data.

In October 2021, the government amended the CDR to support increased participation from businesses to foster competition and innovation and give consumers more options to share their data securely with professional advisers. The public consultation that preceded the new rules attracted a high level of interest and engagement.

Australia is implementing open banking in three phases, scheduled for completion in February 2022. Phase 1 saw the opening up of consumer data, including debit and credit card accounts and savings, from July 1, 2021. Phase 2, scheduled for November 1, 2021, adds data on personal loans and residential and investment property loans. Phase 3, planned for February 2022, includes data on investment loans, asset finance, and retirement savings. The major Australian banks have been sharing consumer data for all three phases since February 2020.

6

Open banking in non-regulated markets

How to benefit from the open banking momentum in non-regulated markets

In the world, there are two great examples of how open banking is being developed:

1. The UK model where there OBIE supervises and creates standards for the flow of information.
2. The US model, opting for a regulatory path according to the market.

Although Mexico and Colombia are going at different paces, **they are currently in a similar situation** where open banking is implemented under a hybrid model or unregulated spectrum.

In order to take advantage of open banking in these countries, although clear regulation is desirable, **it is not entirely necessary**. Take the US, for example, where there is still no regulatory definition forcing participants in the financial ecosystem to share information with each other under defined standards. However, companies such as Plaid or Yodlee **facilitate the secure connection of accounts** (Plaid has connections to 11,000 banks and around 200 million accounts). Although related regulation is expected in the near future, several banks and more financial innovators are taking advantage of the benefits of open banking today.

> “With LatAm businesses and startups continuously integrating with new-age platforms and services, adopting an API-driven transformation strategy has become essential — as a result, the entire financial system is being APIfied”

TechCrunch

The same applies to Latin America and will likely **become even more tangible in 2022** as more knowledge and awareness is developed around the three key areas:

Legal and compliance: The open banking model is already viable due to the different legislation surrounding the protection of personal data. For example, in countries like Mexico and Colombia, it is established that end-users are the legitimate owners of personal, sensitive, and other data.

Technology: Driven by the unprecedented growth of the fintech sector, open banking API providers are growing in Latin America and the maturity of their technology infrastructure and services is increasing at a rapid pace.

Security: Open banking providers in the region are also increasingly adhering to international standards –such as ISO 27001, one of the most rigorous global security standards for information security management systems– which give potential customer companies and end-users more confidence about data protection, increasing adoption.

In conclusion, innovators and financial institutions in unregulated or under-regulated markets can take advantage of the momentum of open banking, while the regulations that will govern open banking are being finalized. First, the **players in the ecosystem that facilitate this adoption are maturing**. And second, current and ongoing personal data regulations empower individuals with control over their personal data.

7

What to expect from open banking in 2022?

The next steps for open banking in Latin America

As we have seen, regulators across Latin America, and the world, are promoting initiatives to support the development of the open banking sector to encourage innovation, competition, and efficiency while increasing the accessibility of financial services to more significant swathes of the population. Unfortunately, many of these initiatives have been hampered by delays. But that's likely to change as awareness of open banking grows.

> **Juniper Research predicts** that the open banking industry will grow at a rate of over 2,800% over the next five years.

Looking forward, expect to see more innovation on the fintech and open banking fronts. Brazil will likely be a shining star in Latin America. The instant payment platform **PIX** has already been used at least once by 110 million Brazilians in the year since its rollout began in November 2020. The platform flourished in 2021 and surpassed 40 million transactions in a single day in July 2021. This widespread adoption will help bring more Brazilians into the financial system.

Predictions and key takeaways for 2022

In other Latin American countries progress continues, just not at quite the same break-neck speed we see in Brazil. Be on the lookout for further announcements and updates to regulations from countries like Mexico and Colombia as the world starts to regain some semblance of normalcy following the pandemic.

With so much happening in the world of open banking, 2022 will undoubtedly be a year of growth, improvement, and innovation. For a passionate partner in open banking, look no further than **Belvo**. We power the next generation of financial services in Latin America with the most far-reaching financial API on the market. Join us in accelerating change, and opening up finance to everyone.

"These examples are a sample of what is to come, as with the infrastructure in place and ready to make digital transactions and in real-time a reality, the next frontier will be the initiation of payments through third parties".

Raúl Nava, Fintech Director at DAI and collaborator in the creation of Mexican Fintech Law.

1

Open banking will lead to more credit offering

Looking to industries in general, open banking has the potential to drastically change the lending industry and boost alternative lending practices and providers. This could help small businesses but also larger institutions start providing new credit solutions by including alternative data sources into their current risk models.

2

Compliance and security standardization will facilitate more adoption

The ecosystem of open banking API providers is taking steps towards adopting increasingly homogeneous and stringent measures and standards that offer consumers and companies the same level of assurance as to the traditional financial industry. This will lead to more adoption from a broader spectrum of companies across Latin America in 2022.

3

Payment initiation will be a key driver for open banking in 2022

Payment initiation will be relevant for Latin America in the coming year. We have seen how payment systems have had a great evolution in the last two years; for example in Brazil with PIX, in Argentina with Transferencias 3.0, in Mexico with the increasing adoption of SPEI. And in Colombia with new players entering the payment system thanks to the recently published open banking rules.

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