

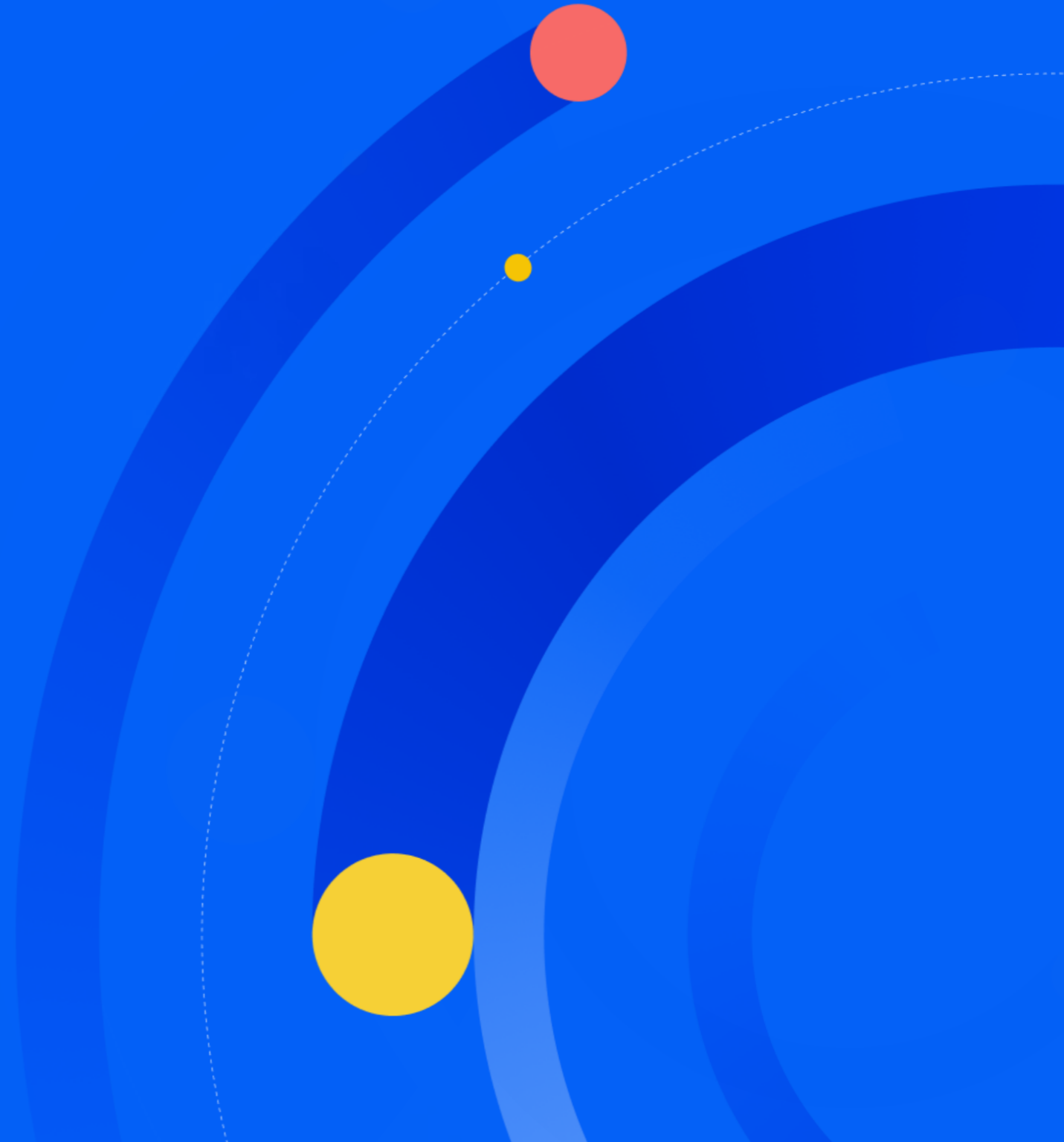
WHITE PAPER

Open Finance use cases guide for financial institutions

Opportunities and challenges to extract value from new data exchange models in Latin America

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Executive introduction

The financial market in Latin America is undergoing an unprecedented transformation. Over the last few years, institutions have focused on concepts such as 'mobile first' in order to adapt to new user habits. But if there is a trend with sufficient incentive to change the paradigms of the banking sector and which brings together all the elements of digitalization, it is Open Banking: opening up information to democratize financial products.

Financial institutions are now placing their bets on becoming 'APIs first'. Following the roadmaps set by other markets such as Europe - or designing their own paths - they are in the process of **exploring how these new models bring benefits both to users and to those who can anticipate the opportunities.**

The challenges and opportunities in Latin America are equally enormous on both parts. Open Banking (and Open Finance) enables financial institutions to connect their customer information with other platforms and services in order to offer users new products.

This democratization of data also holds the key to speeding up product sales processes and offering a wider segment of the population solutions tailored to their needs. In particular, **creating new risk models with access to new data sources** enabled by these models is one of the key areas on which banks are setting their sights.

Also, in the hyper-personalization and segmentation of services based on the data obtained through Open Finance. This is, after all, one of the principles of this philosophy: helping financial institutions and companies to better understand consumers.

With the threatening view of 'fintech' having become obsolete, the most disruptive banks in the region are facing this new era of transformation **open to alliances and building better products** for their customers with technological partners. As well as taking advantage of the bi-directional nature of these models and discovering new ways to reach customers they did not previously have access

to through third-party channels. But entering a scenario with multiple opportunities and challenges also means entering a complex ecosystem with questions that will require answers.

To address these issues, we at Belvo have set out to help institutions **navigate this new territory where the rules of the game change and new opportunities arise.** Being brave enough to join and investigate the potential that this current already offers is to take the definitive step to lead and be relevant in the banking of the future.



Pablo Viguera
Co-CEO and Co-founder of Belvo

The voice of the experts



Esteban Domínguez



Head of Digital Business Development at Citibanamex

Bio: With a degree in Economics and Finance from IPADE Business School and a Masters' degree in Business Administration, Esteban Domínguez has a long-standing career in the banking sector. Since 2017 he has been part of the Citibanamex team, where he is responsible for executing open banking compliance and establishing a long-term open banking strategy.



Damián Ramos



VP Decision Analytics at Experian

Bio: With a degree in Statistics and a master's degree in Data Mining & Knowledge Discovery, Damián Ramos is an expert in data and analytics. Currently, as VP Decision Analytics at Experian, he leads the Spanish Latam business unit focused on consolidating Data Analytics, Data Science and Software Services to achieve product development, sales and profitability objectives based on the company's regional and global strategy.



Erick Rincón



President of Colombia Fintech

Bio: With a PhD in Law from the European University of Madrid, Erick Rincón has 23 years of experience in the executive, technological and strategic development of companies. As president of Colombia Fintech since 2019, he is an expert with extensive knowledge of the regulatory challenges that open banking faces in Latin America, as well as the crypto-asset ecosystem.



Gabriel Pereira



Open Banking Specialist at TruePay

Bio: With a degree in Administration from the University of São Paulo, Gabriel Pereira had the opportunity to deepen his knowledge of Open Banking at Itáu Unibanco with the aim of applying its benefits to small and medium-sized companies. Founder of Open Box, since 2021 he is a specialist in Open Banking at TruePay.



Carmela Gómez



Global Head of Open Banking at BBVA

Bio: Carmela Gómez has a strong background in banking, IT strategy and innovation in finance. She is currently global head of Open Banking at BBVA, although she has previously worked in other areas such as trading, corporate treasury solutions or digital business and companies. Named 'Fintech Women Innovation in Finance' in 2017, Gómez is passionate about innovation, digitalization processes and customer experience.

1

**Progress report:
it's time to talk
about Open Finance
in Latin America**



Progress report: it's time to talk about Open Finance in Latin America




Open banking is a relatively young trend. In 2016, the UK Competition and Markets Authority (CMA) released the results of its investigation into retail banking and concluded a lack of competition affecting new players in the financial sector, as well as consumers benefiting from new services.

Since then, institutions all over Europe have adopted Open Banking as a philosophy with which to access a new market full of new possibilities. In the UK, according to the latest OBIE (Open Banking Implementation Entity) report, it is estimated that by August 2021 between 7.5 and 8.5% of digitally literate consumers were active users of at least one open banking service, compared to a penetration rate of between 2 and 3% in January 2020.

This upward trend is no coincidence. For consumers, Open Banking (and its next step: Open Finance) means an **improvement in**

finding financial services that allow them to access previously inaccessible types of financing or to integrate multiple accounts in a single space.

For the financial industry, the use of open APIs makes it possible to expand product offerings, as well as to personalize and localize products. The transformative power of Open Finance is undeniable and its evolution is not foreign to any financial market, including that of Latin America.

Country	State of regulation	Next steps
 Mexico	Following the publication of the 'fintech' Law in 2018, in 2020, the National Banking and Securities Commission opened the first phase on Open Banking where all banks are forced to expose data about the location and services available in their network.	Following these developments, the next phase of regulation, focusing on so-called "transactional data", is awaited. Meanwhile, players in the region are already identifying and pursuing the first use cases.
 Colombia	The Financial Regulation Unit of the Ministry of Finance is working on a draft decree to regulate the matter. It was published for comment on 29 October 2021.	There is already a development of APIs in the country, as well as a strong data protection law that supports use cases based on the secure exchange of information with the user's consent.
 Brazil	In 2019 the Central Bank and the National Monetary Council approved the launch of Open Banking initiatives. Regulation is now in a fourth phase marked by the start of Open Finance, which will include data on investment, insurance, pensions and foreign exchange services.	The country has one of the most advanced Open Finance regulations and already provides for the exchange of data through new API-based models. Regulated and non-regulated models now coexist in the market.

2

**The revolution
is here to stay:
identifying use cases
beyond regulation**



The revolution is here to stay

Identifying use cases beyond the regulation

Open Finance is evolving at different rates in each country, but the consensus among experts is that it **is a model that is here to stay** and that it is necessary to start identifying the use cases that are already viable in the market, even where

regulation has not yet been finalized. Carmela Gómez, Head of Global Open Banking at BBVA, points out that this is a model that is already widespread internationally and points to the need to anticipate in order to meet customers' needs.

“If we look at different markets, both regulated and unregulated markets, they **show similar**

developments in use cases. When we look at the global picture, there are 108 countries with regulation and almost 60 more discussing how to implement it, so we will see a lot of progress in the coming months”, says Carmela Gómez.

108 countries in the world have a regulated model

60 countries are in the process of regulating

“

Regulation can help to take the first steps, but it is the market and the digitalization of customers that drive the offer in Open Banking

”



Carmela Gómez
Head of Global Open Banking, BBVA





A race against the clock

“The arrival of Open Banking regulations kicks off the race for most banks, but from then on, it **becomes a race against the clock**”, she warns. In this regard, relevant players in the Latin American financial market have started to **include Open Banking in their roadmaps**. However, it is a process that is challenging and needs to be carefully constructed. Esteban Domínguez, Head of Digital Business at Citibanamex, believes that “all banks must define what they understand by Open Banking and where they want to make an impact”.

At the same time, the BBVA expert points out that, at the country level, Open Banking regulation must ensure a balanced environment between financial and non-financial entities to stimulate the active participation of banks. “It should be publicized and evangelized with the **first use cases to create a growing interest** in third parties to offer embedded finance and put special emphasis on ensuring the transparency of the benefits for the end customers and the consideration - providing information, consents, etc.”, she explains.

In this line, entities such as Citibanamex are **building the technological infrastructure and the security layer to adopt services and products**. Progress has already been made.

“**Financial institutions are very clear about the possibilities that Open Banking opens up and have teams dedicated to working on this issue**”



Erick Rincón
Colombia Fintech

Citibanamex created an API to expose location and service information for its entire ATM network after the Mexican regulator, the Comisión Nacional Bancaria y de Valores, opened the first phase of Open Banking.

BBVA, which already has a long history of developing Open Banking projects in Europe under the region’s regulatory framework, has also taken important steps in Latin America and is actively working both to internally prepare the bank for the next steps of regulation and to **identify viable use cases in the market and explore strategic alliances to create better user experiences**.

Erick Rincón, from Colombia Fintech points out that these actors see this trend as a “very interesting” model for creating new products. As an example, a financial institution implementing an Open Banking strategy can use the information gathered to offer products that are better adapted to customer needs or to design products that can serve new market spaces.

Main benefits for banks

When talking about Open Banking and Open Finance, we often talk about the benefits that these **new communication channels offer to fintech companies**, thanks to the possibility of processing their users' financial data hosted on other platforms.

However, experience in markets such as Europe and the UK shows that banks are also major beneficiaries of this transformation.

These benefits can be separated into two broad groups:

1

Gaining a holistic view of existing customers

One of the main advantages of Open Banking **through the aggregation of data from multiple sources in one place** is that it will allow banks to better understand the current needs of their customers.

“It will give us a much more holistic view of the financial position of our own customers today. And I believe that it is super powerful because we will understand **what other products and other services they are using** beyond us as a bank”, explains Esteban Domínguez of Citibanamex.

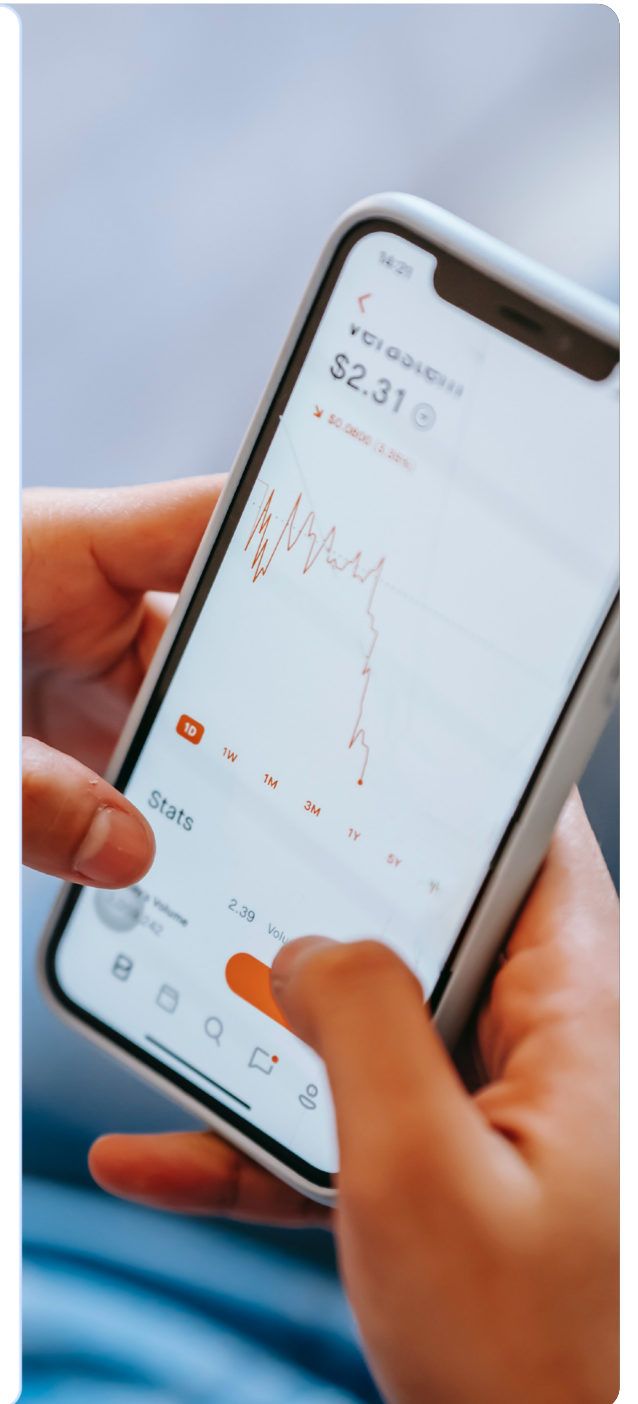
Having customers' financial information “in one place” opens up the possibility of offering a wide range of new services:

PFM (Personal Finance Management):

Personal finance management tools that help customers to better understand their daily expenses and income, create budgets, set automatic savings rules, etc.

Segmentation and personalization of offers:

By knowing the products that a customer has contracted with other entities, it is possible to offer them product campaigns that are more in line with their real needs.



2

Acquire new underserved customers

Another of the main advantages of implementing new secure data exchange mechanisms in banks is the possibility of reaching new customers that the bank did not have access to before, at a **lower acquisition cost**.

One of the main ways to achieve this is through the embedded finance model, which allows financial services to be embedded in third-party channels by connecting via APIs. These models have several advantages:

- **Allowing the bank to take advantage of the low acquisition cost for customers from other industries (such as e-commerce).**
- **Allowing the bank to reach a larger number of customers and to process their interest-related data with offers that are better tailored to their needs.**

“The use cases that may have more capacity for growth in the future are those that target underserved segments because it is easier to attract these segments through journeys they make in their daily lives or through partners they trust”, explains BBVA’s Carmela Gómez.

Some examples of services that can be offered in this format include:

Buy now pay later

Offering credit services at the checkout of digital platforms such as e-commerce, retailers, airlines, and others

Embedded finance

The integration of vertical banking services into third-party digital marketplaces (such as insurance or a credit card)



3

**Data is at the epicentre
of Open Finance**



Data is at the epicentre of Open Finance

For the development of Open Banking, the use of user data and information is a key aspect. This use of information is vital for financial institutions **to better segment customers and even reduce risk**, for example, when assessing whether to grant a loan.

In that sense, the use of data to improve credit decisions deserves a separate analysis.

“

The better the analysis of the information, the more variables can be added and the better you can tackle the problem you as an institution or company want to solve

”



Damián Ramos
VP Decision Analytics, Experian

Enhanced risk assessment capabilities

According to Damián Ramos, VP Decision Analytics at Experian, Open Finance enables the analysis of user activity.

If institutions make it easier for customers to share their data securely with third parties, “both parties stand to gain”, he says. How? On the one hand, credit institutions or providers can **improve**

accuracy in assessing the level of risk involved in each transaction and, on the other hand, customers can demonstrate their creditworthiness or the length of time they take to repay a loan.



The role of positive data and transactionality

But how does the data extracted from Open Banking and Open Finance models differ from that traditionally used in the financial sector? According to Ramos, the traditional process that has been used in the financial sector to assess the customers' ability to pay has focused on the **analysis of the credit history** that the applicant has generated with financial institutions over time.

These histories, which translate into credit ratings, focus on **negative data**. In other words, all the information "that refers to all those behaviors that may be punishable", as Damián Ramos points out. On the other hand, with the data extracted through Open Banking, credit risk assessment models can be strengthened by **taking advantage of transaction history in savings and checking accounts**.

This allows institutions to **also analyze positive customer data**, i.e., all the information that customers provide on a day-to-day basis and that is particularly relevant when, for example, taking out a loan to buy a house or, for those who do not have a credit history.

This approach opens the door to new analytical capabilities:

1

Open Finance-based models can be more inclusive of people who spend with debit cards or who tend to finance their purchases with credit cards, even when their finances are stable.

2

Transactional information is always up to date on the customer's latest transactions and represents their most recent financial status.

3

Transaction-based credit scoring can include elements such as spending habits, which are key to creating risk profiles.

By analyzing the relationship between income and expenses from transactional information, it is possible to **build risk profiles that are more representative of the actual financial behavior** of customers on a day-to-day basis, beyond their credit history.

In fact, negative data amounts to a smaller percentage of all transactional data that can be handled, says Damian Ramos, so it allows institutions to broaden their view of their users.

Categorization: a granular view of the data

Data transactionality can in fact be considered as the driving force behind Open Finance. **And a key element of this is categorization: applying models based on advanced data analytics allows understanding where user transactions are coming from, identifying trends, and grouping customer spending and income to make it easier to provide effective customer analysis.**

Thus, Open Finance makes it possible to predict behaviour. In this way, an institution or entity that, for example, knows the payments that a company makes to its suppliers can help to establish the amount it can lend in a loan.

Similarly, a financial institution able to identify patterns in a user's financial behavior will be able to help them create budgets and offer proactive savings advice.

4

Open Finance in Brazil, an example to follow



Open Finance in Brazil, an example to follow

Brazil has opted for a model focused on Open Finance where the role of alternative financial data beyond banks plays a very relevant role.

The **rapid regulatory implementation** is leading to the proliferation of new solutions, and more are to come in the coming months. Indeed, progress is already being made in this direction:

Mercado Pago was the first company to create an Open Banking payments initiative.

According to a study published by Serasa Experian, Open finance is expected to bring 4.6 million Brazilians into the formal credit market for the first time.



“

The implementation of Open Finance in Brazil is making good progress. The entry of other providers such as Belvo is helping to connect with investment data or create new solutions

”



Gabriel Pereira
Open Banking Specialist, TruePay

How regulated and unregulated models coexist

In Brazil, two approaches are merging to see what the next steps of Open Finance will be. On the one hand, **“large institutions have**

an obligation to participate in official Open Finance with the development of technology and certifications to implement it. And, on the other hand, they are looking at ‘unregulated’ models as an opportunity to anticipate possible benefits for their customers”, Pereira explains.

Use cases gaining traction in Brazil

As regulation moves forward in Brazil, experimentation and exploration of ‘unregulated’ avenues through the use of APIs means gaining a head start in integrating the possibilities that Open Banking opens up.

In fact, there are already some cases that exemplify this in the so-called ‘gig economy’ or in investments:

Plific.

This is a service for the self-employed workers - specifically delivery drivers - to have centralized control of their finances. By integrating Belvo into their strategy, they were able to securely compile data thanks to information gathered by Belvo from different platforms such as financial applications, delivery and mobility apps.

onze

This fintech is focused on private pension management. Through the Belvo connection, Onze can connect with the entities where users have their pension plans, always with their express consent. The information gathered is used to provide the best pension options.

Neobanks and Open Finance

Neobanks play a key role in the adoption of Open Finance. Its daring and young spirit, as well as its agility in the face of change and adoption of new technologies,

mean that its work in Open Banking is also valued.

For Gabriel Pereira, Open Banking specialist at TruePay, neobanks can serve as a great example for financial institutions on how they can harness user information to improve the user experience and work in the right direction.

Digital banks for new audiences

Another emerging trend in Brazil is that of new digital banks that **target their services to niche audiences** that are often not served by traditional services.

This includes young audiences but also small and medium-sized enterprises. One such example is digital bank BS2, which has undertaken a project to enhance its digital

credit offerings for small and medium-sized enterprises (SMEs) using Open Finance APIs.

With the help of advanced analytical models, the company can now categorise historical raw transactional information from businesses and receive uniform, enriched data sets that are ready to use.

The bank then uses this information to **improve and optimise its credit offerings with customised products**, which are key to attracting SME customers.

5

**A necessary
integration: main
use cases on the
market**








A necessary integration: main use cases on the market






In 2022, the implementation of Open Banking and Open Finance models is not an option; it is a must. Not only because it opens up new monetization possibilities for organizations, but also because of its impact.

Open Banking accelerates the inclusion of underserved segments

As Esteban Domínguez, of Citibanamex, argues, banks can understand what other products and services may be of interest to their customers. These can range from loans to savings and financing products.

These are some of the use cases:

B2C	
	Account aggregation View all current accounts in one place to understand the financial situation with value-added services such as PFM.
	Embedded instant payments The ability to easily initiate payments from banking applications or other platforms.
	'Buy now, pay later' on digital Credit offers at checkout on other digital platforms such as e-commerce.
	Embedded finance Vertical financial service offerings, such as insurance or cards, are integrated into the digital journeys of other platforms.
	Solvency studies Open Banking helps to streamline this type of risk analysis for faster decision-making.

B2B	
	Automated accounting Software providers use Open Banking for real-time access to companies' current accounts.
	Self-completing forms Complete applicant information automatically to save time.
	Virtual cards generation Open Banking can streamline the issuance of corporate cards for companies.
	Treasury for companies Integration of balances and movements in treasury systems, notifications of collections and payments.
	Corporate financing Order financing or working capital.

In addition to offering tailored proposals, another avenue of interest is also opening up: attracting new consumers who are not on the radar of the organizations or who are unbanked.

As the Colombian Financial Superintendency points out, thanks to Open Banking:

- **The comparative advantages of each sector are exploited on a larger scale**
- **Operational efficiency is increased**
- **The inclusion of underserved segments – and the adoption of those users who already have financial products but do not actively use them– is accelerated**

According to Esteban Domínguez, these will become more sophisticated and will integrate different players in the financial sector as, on the one hand, the industry identifies these use cases and, on the other hand, regulation facilitates their extension to more players.

Stage	Use cases	Benefits
Open Banking	Account aggregation	Improving customer experience
Open Finance	Third-party channel acquisition	Reduced procurement costs
Open Data and Open Economy	Integration of financial services in other industries	Generating new revenue streams



Designing an action plan for Open Finance

For financial institutions, Open Finance is an opportunity to implement new tailored solutions for users and to **reach new customer niches**.

But what steps must be taken to create an effective action plan?

The first thing the experts recommend is to anticipate the situation, prepare the bank internally and **start identifying as soon as possible the use cases** that will benefit the different business areas.

1

Develop an 'API-first' mentality

Firstly, services need to be digitized and prepared for exposure to third parties. This will facilitate the work of integrating companies that will connect to the entity's APIs in order to operate more efficiently.

“

It is very important to build the whole technological and security layer in order to enable it when the regulatory side demands it. And at the same time, exploring use cases for data consumption

”

Esteban Domínguez
Citibanamex

2

Identify what role to play in the ecosystem

Banks need to be able to clearly define the use cases that will bring more value to their business and define the role they'll play by working closely with partners: whether it will be used for risk improvement, user segmentation to apply hyper-personalized products, design new services...

“

In this step, it is important to be prepared to work in ecosystem mode: to be able to co-create with partners solutions for end customers

”

Carmela Gómez
BBVA

3

Establish a roadmap in data processing

It will be necessary to consider how additional customer data will be integrated into the bank's processes in order to offer products that are better tailored to the end customer's needs, providing them with value, and always ensuring that the data is handled securely.

“

Customers must be assured that such data will only be processed with their consent

”

Carmela Gómez
BBVA

4

Highlighting the benefits and creating the best user experience

Once the Open Banking strategy is defined, it will be key for banks to be able to provide partners and customers with easy and light integration with APIs, supporting both the partner and end customers with the best possible user experience.

“

Once Open Banking is implemented, we must consider how to make it useful to the end consumer

”

Esteban Domínguez
Citibanamex

Different roles a bank can play in Open Finance

One of the keys to designing a roadmap for financial institutions to begin to anticipate the benefits of these new models is to define what role they want to play in the ecosystem.

Experts point to several models:

1

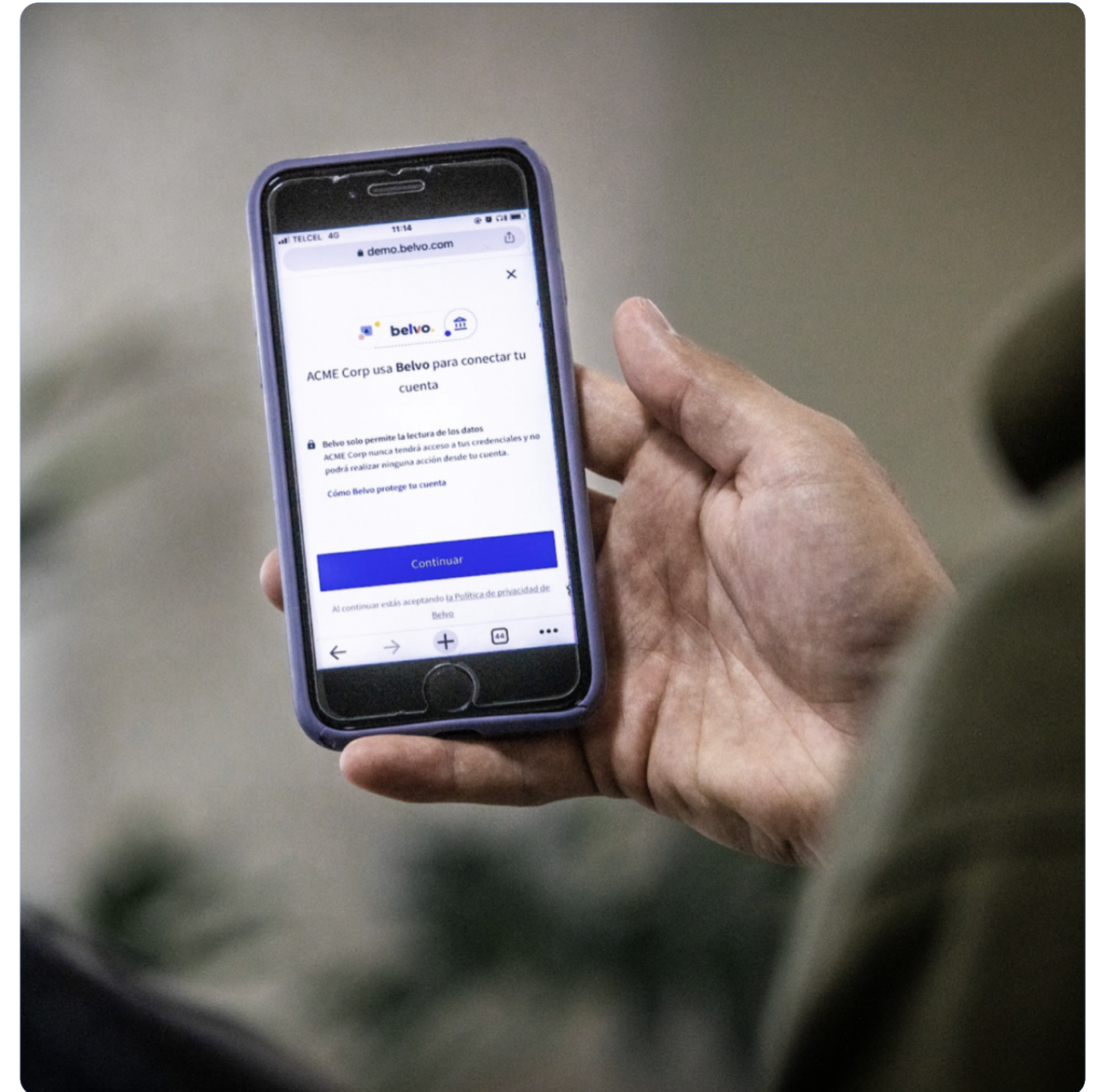
Integrating banking services into third-party platforms or 'embedded finance'

The bank provides financial services that are integrated into a third party's digital experience, such as an 'e-commerce'. For the bank, the cost of customer acquisition will be lower through Open Finance than through direct bank actions, while providing a better service to the end customer.

2

Integrating third-party services into the banking platform through partnerships

a co-creation process to offer customers additional services to those traditionally offered by a bank, with a better 'time to market' than if it were to be developed in-house.



6

The era of partnerships in Open Finance



The era of partnerships in Open Finance

Each of these models will bring with it a number of benefits as well as technological challenges. But there is one common element on which all experts agree: **partnerships are more important than ever** in the era of Open Finance.

“We firmly believe that the possibility of collaborating in alliances is a ‘win-win’ for everyone: the end customer gets a better experience without leaving their usual route, **the bank has an open door to attract more customers** and the partner builds customer loyalty by offering more services, and can also personalize how it offers these services through the use of APIs”, explains Carmela Gómez, from BBVA.

For example: by integrating a credit service into a third-party platform via API, the partner can sell more, while making life easier for the end customer and the bank can place more financing.

In this sense, Esteban Domínguez, from

Citibanamex, also highlights that the arrival of Open Finance in Latin America is also **fostering the emergence of new intermediary players that will be key to the success of the new models.**

These new ecosystem players, as aggregators of financial data, will be “very relevant” according to Domínguez and will be key to providing value in key parts of the Open Finance implementation process such as: “The standardization and operation of information transfer mechanisms, as well as the exploration and generation of insights from data”.

Open Finance ROI: tangible results

According to data gathered by Belvo, in particular in the case of credit offers, the solutions that already exist in the market for aggregating Open Banking data allow companies to obtain tangible benefits:

x2

Doubling the number of loan applications that can be underwritten using Open Finance data

+34%

Increased acceptance of products such as credit cards for previously rejected customers following a new offer based on Open Finance data

+30%

Increased loan approval rates for customers with little or no credit history



About Belvo

Belvo is the leading Open Finance API platform in Latin America, founded in May 2019 by Pablo Viguera and Oriol Tintoré. The company enables fintechs and innovative financial institutions to access and interpret their users' financial data to create more modern, accessible, and inclusive products.

Belvo's API currently provides connections with over 60 financial institutions in Mexico, Brazil, and Colombia and already works with more than

150 clients, including some of the region's fastest-growing leading financial companies including both B2B and B2C players like neobanks, credit providers, and personal finance management tools.

The company is backed by some of the world's leading venture capital funds, including Kaszek, Founders Fund, Future Positive, and Kibo Ventures, and has received a total of \$56 million in investment to date.

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extracting value from
Open Finance?**

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