# OPEN DIGITAL FINANCE FRAMEWORK

**APPROVED BY LKA COUNCIL ON DECEMBER 7**

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Association of Latvian Commercial Banks

# Open Digital Finance Framework

## Targets

- To foster joint actions to develop Open Digital Finance in Latvia and the EU.
- To increase awareness of the principles underpinning Open Digital Finance.
- To promote development of digital ecosystem in Latvia and the EU.
- To drive development of digital public services.

## Structure

- Vision 2022
- Background
- Long-term goals
- Next steps in 2018

# Purpose: Increase the competitiveness of Latvian economy by developing digital financial services.

> **Vision:** Latvia at the forefront of Open Digital Finance in the EU by end of 2022.

# Why Open Digital Finance is important?

> Latvia is a small market, but we have a huge opportunity in EU (2m people vs 750m people)

> Our advantages are well developed banking technologies and ability to be agile due to smaller size

> Open Digital Finance will help our banks and companies to get new customers by expanding into other EU markets

> We have a room for growth also in domestic retail and SMEs market

# What do we want to achieve?

> Active involvement of all participants of the ecosystem: banks, Fintech companies, SMEs, policy makers in Latvia and the EU.
> Provide better service to customers by:

> Enabling them to securely share their data

> Building awareness of benefits and opportunities of Open Digital Finance

> Co-operating with non-banking partners to jointly develop new digital services.

# Priorities in 2018

> Increase awareness about opportunities of open banking, provide PSD2 implementation support.

> Improve information exchange between banks and government institutions.

> Drive policy discussion with Latvian and European Commission authorities.

> Develop cooperation platform amongst all participants of Open Digital Finance, esp. structured and regular interaction with the Fintech community.

> Improve data exchange with state institutions, including defining structure of metadata necessary for banking industry and easing access to centralized information/registers.

> Develop solutions for common digital identification and remote onboarding, including industry wide KYC Utility.

# Long-term goals 2022

> **Increase usage of online banking services**
> At least 95% of individuals who used internet are using it for online banking

> **Increase online shopping intensity by Latvian citizens**
> At least 85% of individuals who used internet, are using it for online shopping

> **Increase number of businesses providing goods or services online**
> At least 25% of SMEs are selling online
> At least 10% of SMEs are selling online cross-border

> **Increase the number of state registers accessible via single gateway (e.g. VISS) or another aggregator**
> At least ½ of state registers are accessible via single gateway in real time

## Largest Latvian banks already announced readiness for open banking, inviting third parties to participate in their open platform initiatives

**78%**

**Ranked 6th in EU for usage of online banking**

**7%**

**Online shopping increased, still only 17th in EU**

**Open Banking platform already covers 70% of customers in Latvia and provide access to more than**

**11+ m**

**customers in EU and Nordic countries**

**98.2%**

**Of authentication in government portal Latvija.lv are made by authentication means provided by banks - De facto credibility of banks**

**8th**

**Rank in EU in government online service completion**

# Things to improve

> Latvia ranks only 19th in EU according with DESI (Digital Economy and Society) index overall

> 50% of Latvia citizens lacks basic digital skills

> Number of ICT specialists is below EU average (ranked 24th)

> Very few (only 8%) SMEs are selling online, ranked 25th in EU

> 3.9% SMEs selling online cross-border, ranked 24th in EU

> Slow progress in Open Data for digital public services, ranked 28th

# Information exchange between banks and government institutions

> Banks are receiving data from 24 various state registers
- 18 of them are under VIS (state information system) regulation
- 10 are using VISS (state information interchange system)
- Only 1 can be directly connected to banks
- Others are requiring direct bank->institution connection

# Information exchange between banks and government institutions

> Banks are required to send data to 14 groups of receivers (1500 individual receivers). 5 of these groups are using VISS

> Result: each bank must create and maintain electronic and/or manual interfaces to huge number of state institutions

# Consequences

> **Direct costs**
> paid by banks to state institutions as
> transaction fees – 1.13 meuro/year
> Could be optimized by sharing the data

> **Indirect costs**
> development, maintenance and human costs of
> exchanging data

## What is the actual cost?

**NB!** In 2016 costs to ensure information exchange between state institutions was 37.34 meuro

*State Audit Office*

**Possible solution**

> Improve access to registers of state institutions

> Attract private partner/aggregator if data exchange is too difficult or expensive

> Promote approach to submit data to state institutions only once

# Strategy of Open Digital Finance

**Create marketplace**

- Actively offer complimentary 3rd party products.
- Co-branded or white labelled.
- Focus: user experience.
- Key: well defined APIs for easy and rich integration.

| | |
|---|---|
| Marketplace | Marketplace and Platform |
| Minimum PSD2 compliance | Platform |
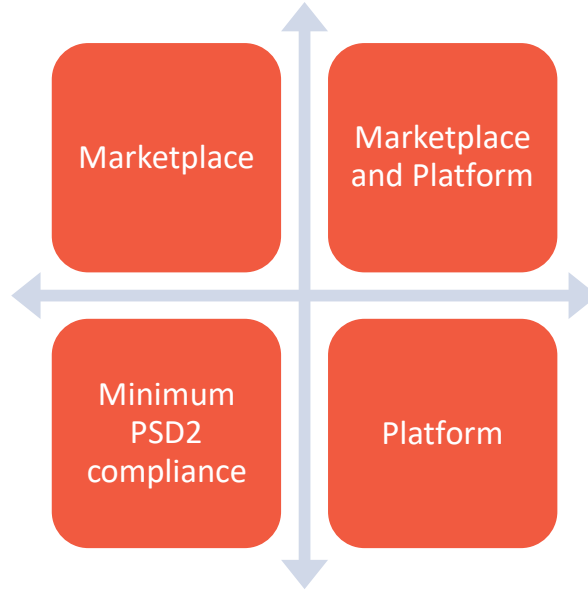
**Create platform**

- Offer open set of APIs for any 3rd party.
- Little control over 3rd party products and services.
- Focus: strong back office.
- Key: scope of APIs, level of participation from fintechs.

# Which areas banks can influence?

| Area | Current rank | Ability to influence |
|------|--------------|----------------------|
| Connectivity | 13 | Low |
| Basic internet skills and usage | 16 | Medium |
| Advanced skills (ICT specialists and STEM graudates) | 26 | Medium |
| **Transactions (banking and online shopping)** | **12** | **High** |
| Business digitization (ERP, RFID, Social media, e-invoicing, cloud) | 25 | Medium |
| **eCommerce** | **23** | **High** |
| eGovernment | 15 | Medium |

# Scenario of payments ecosystem development in EU
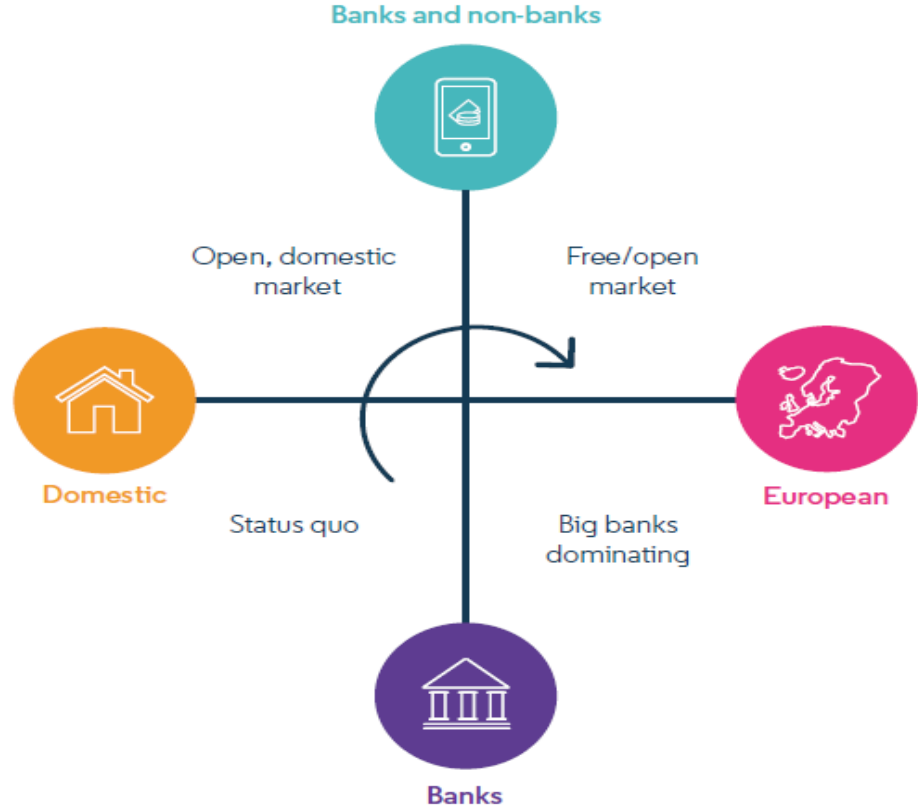
# Thank You!

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**Sanda Liepiņa**

Chairman of the Management Board
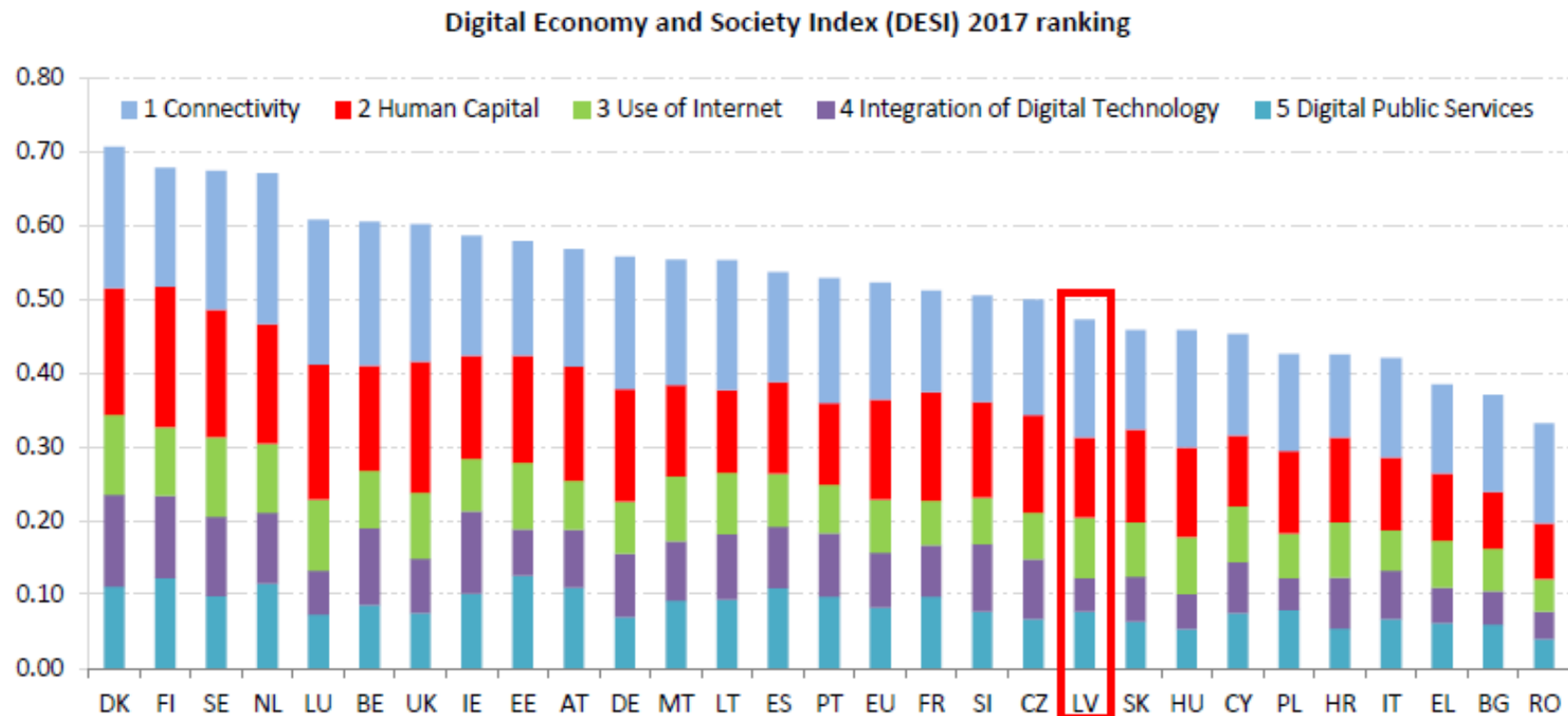
sanda.liepina@lka.org.lv

# Appendix

# DESI ranking 2017



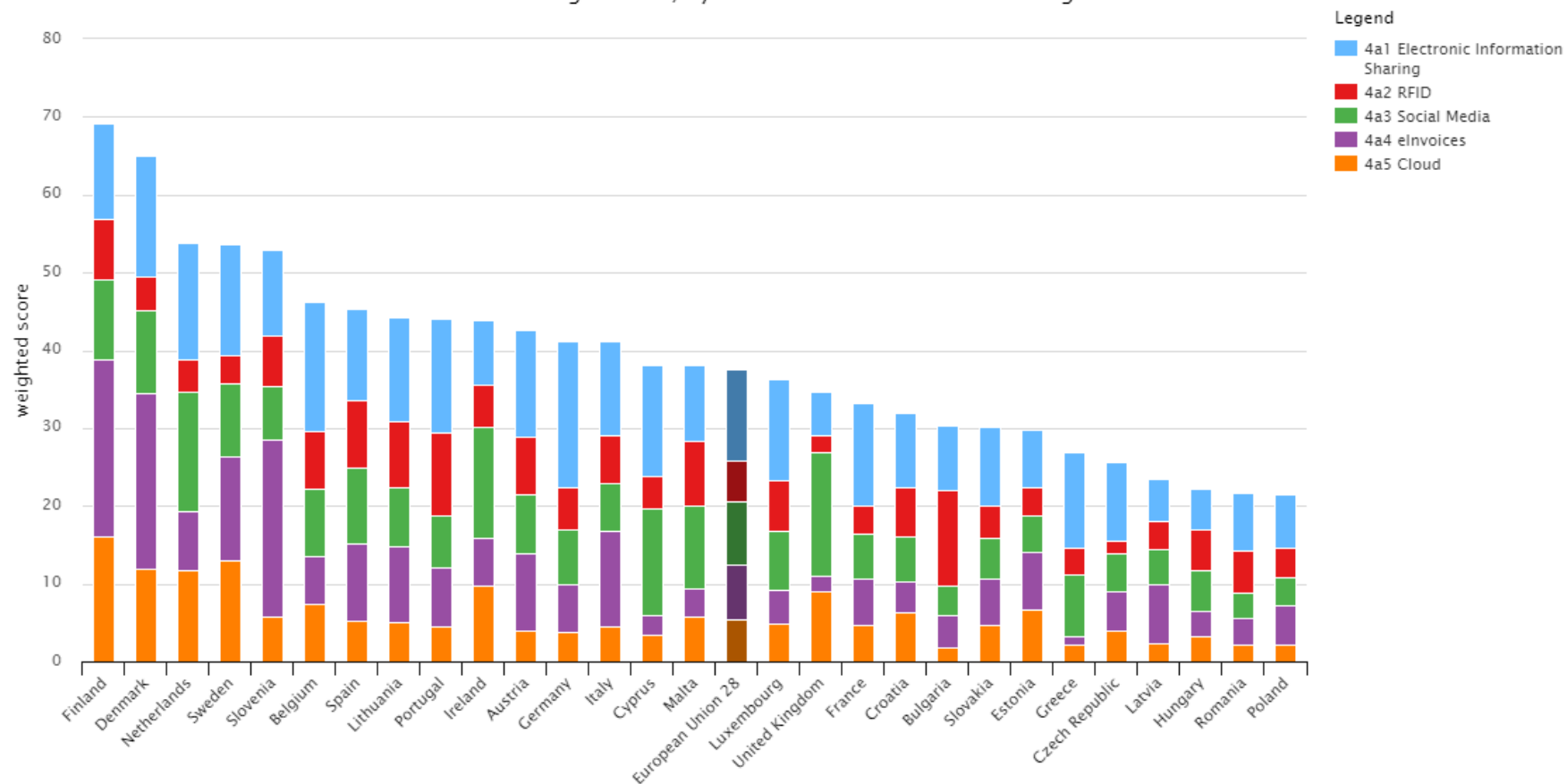Digital Economy and Society Index (DESI) 2017 ranking

4b eCommerce, by Indicators under 4b eCommerce

Legend
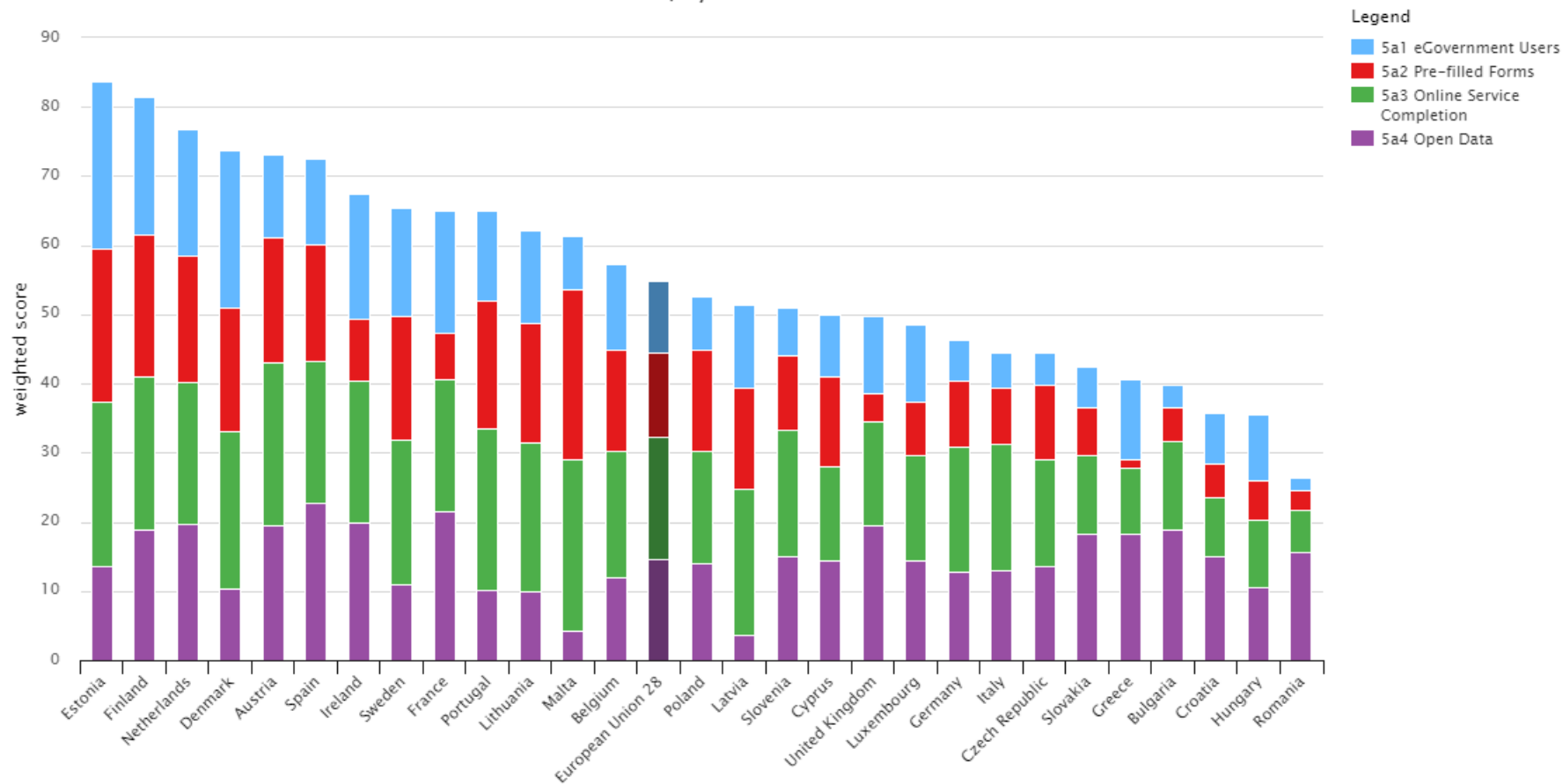- 4b1 SMEs Selling Online
- 4b2 eCommerce Turnover
- 4b3 Selling Online Cross-border
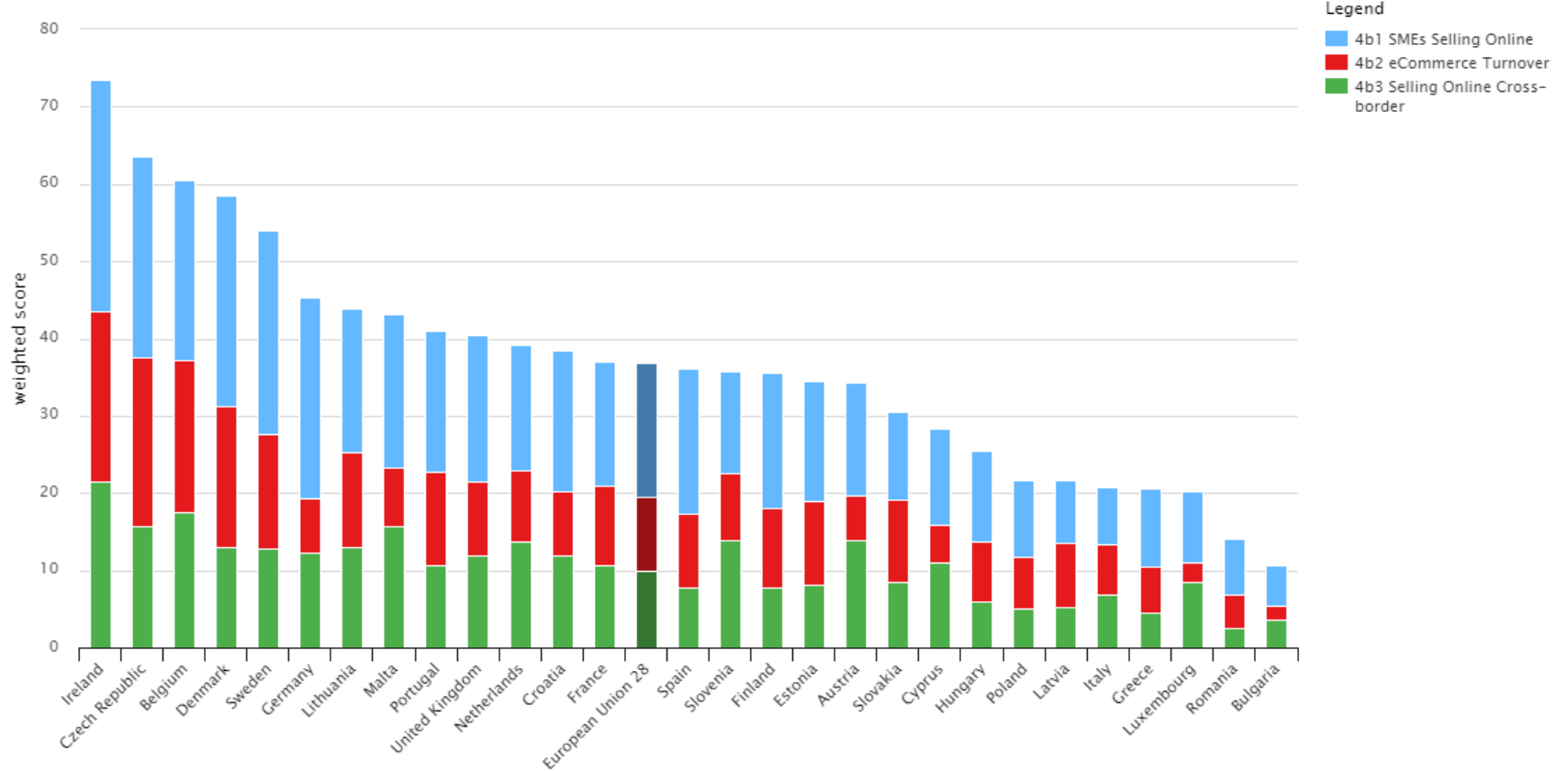
European Commission, Digital Scoreboard

4a Business digitization, by Indicators under 4a Business digitization

Legend
- 4a1 Electronic Information Sharing
- 4a2 RFID
- 4a3 Social Media
- 4a4 eInvoices
- 4a5 Cloud

European Commission, Digital Scoreboard

5a eGovernment, by Indicators under 5a eGovernment

Legend
- 5a1 eGovernment Users
- 5a2 Pre-filled Forms
- 5a3 Online Service Completion
- 5a4 Open Data

3c Transactions, by Indicators under 3c Transactions

Legend
- 3c1 Banking
- 3c2 Shopping
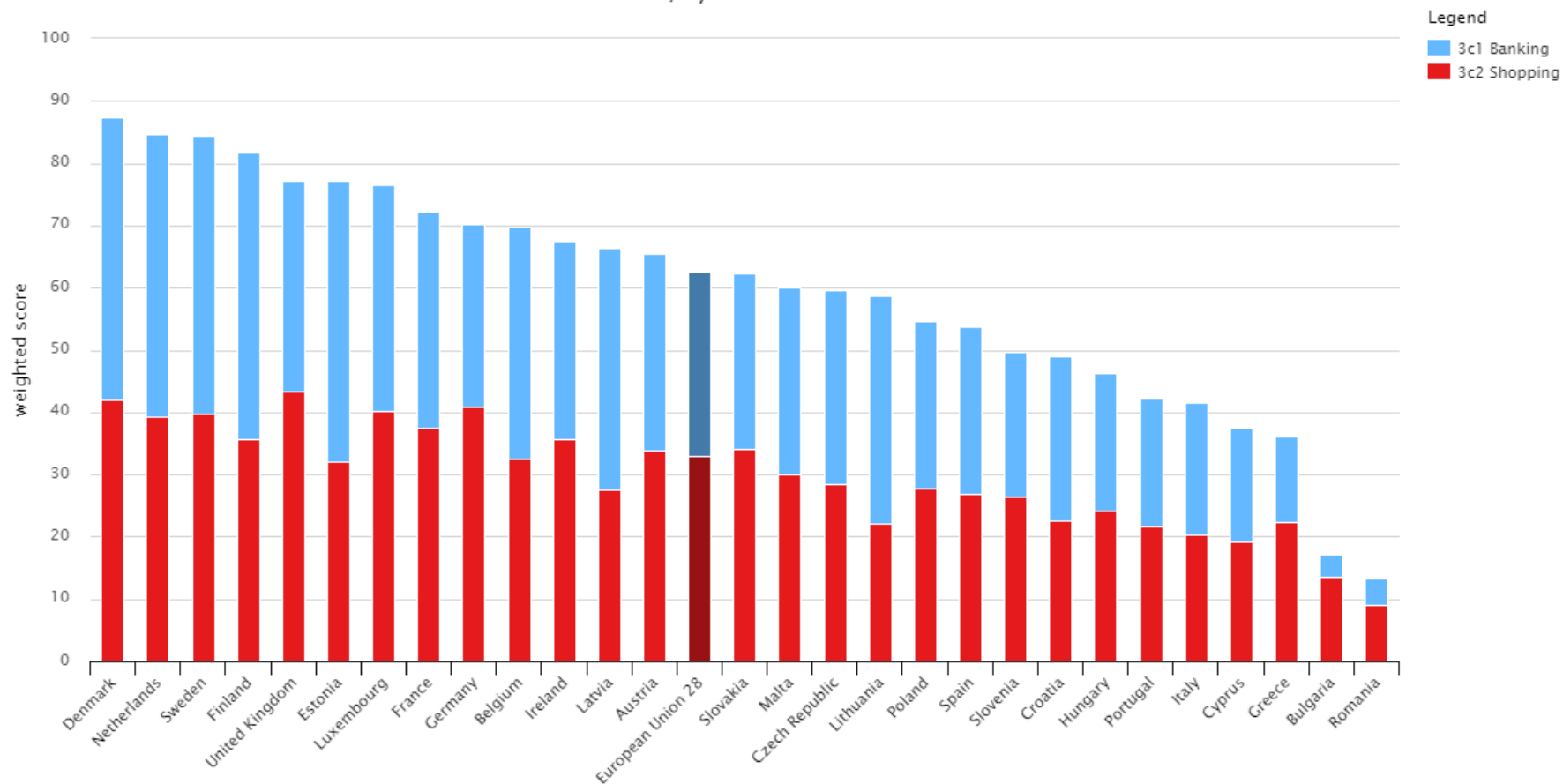
# Potential areas for cooperation

**SEB**

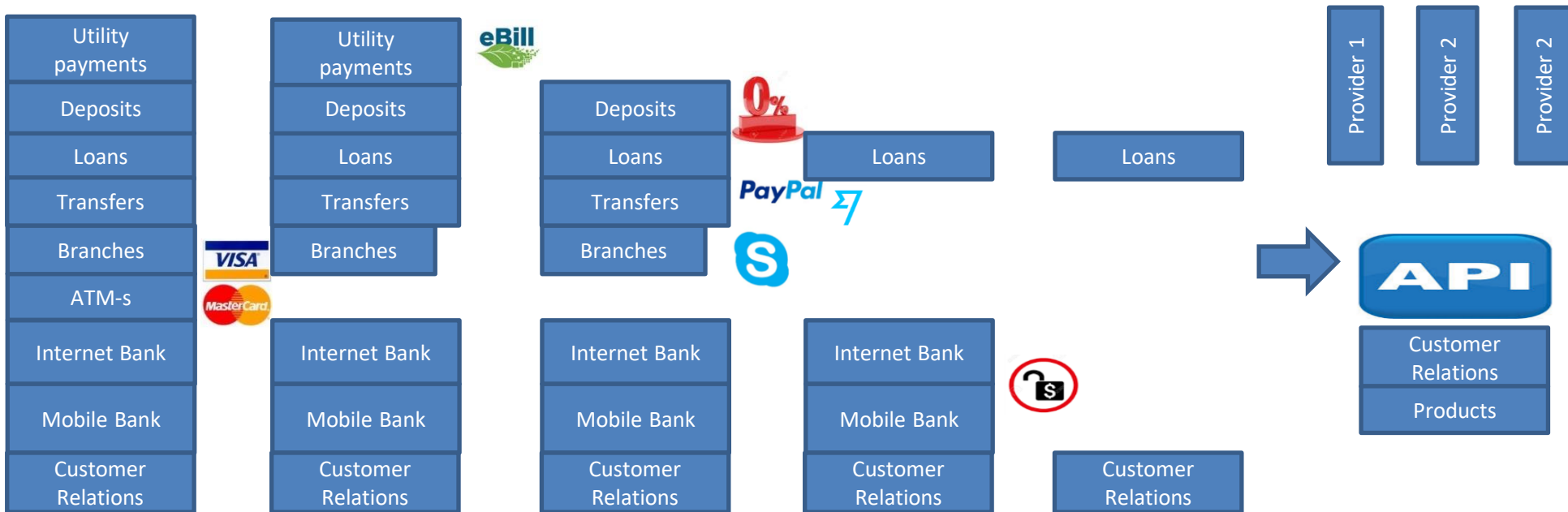| | Technology innovations – disruption drivers | | | | |
|---|---|---|---|---|---|
| **Areas – disruption targets** | **CONNECTIVITY** | **INTERFACES** | **AUTOMATION** | **BIG DATA** | **MACHINE LEARNING** |
| **Financing** | P2P lending, funding, factoring | Marketplaces | Debt collection | Risk monitoring and decision making | |
| **Transactions** | Micro payments Money transfer Ethereum / networks | Payment system Aggregators / Wallets Cards Mobile payments | Blockchain | Fraud prevention | Customer insights |
| **Wealth/Financial management** | Crowd funding Savings apps | PSD2 and other dashboards for ERP | Robo advisors Trading tools Budgeting/cashflow | | |
| **Customer experience** | | IoT E-receipts and invoices | | Sales optimization Loyalty | Artificial Intelligence Bots |
| **Regulations** | | Smart contracts | Compliance tools Accounting tools Cyber security | | |
| **Infrastructure** | Identification tools | | Clearing & Settlement Expense mgmt. | IT system Anomaly detection tools | |

# New Reality in Banking

# Changes in customer behavior