



THE FUTURE OF INDIAN FINANCIALS: ACCOUNT AGGREGATION FRAMEWORK

Abstract

Indian financial regulators introduced the account aggregation (AA) framework in 2016, which simplifies the processes required to avail of various financial products and services. This paper examines the various nuances of the framework, its benefits and challenges for customers and financial institutions, and traces out the path ahead within the context of India's diverse demography and complex financial requirements.

The complications of managing financial data

Different financial Institutions (FI) use different methods to collect and verify the non-standardised financial information of customers. This tends to make availing their service offerings cumbersome, complicated, and time-consuming. For instance, imagine a customer intending to purchase insurance from company A, a mutual fund from company B, file tax returns through platform C, while maintaining a savings account with bank

D. She needs to submit KYC documents to the platforms of A and B, and supporting documentation to platform C. Additionally, for these KYC processes, she needs to retrieve her bank statements using the platform of bank D. For other products or services, she will need to submit and retrieve similar documents multiple times on multiple other platforms.

A potential solution to this problem is

an account aggregator (AA), connecting financial information providers (FIPs), financial information users (FIUs), and individuals using a shared interconnected framework. Using an interoperable consent-based AA ecosystem, customers can access financial products based on their creditworthiness on a single platform.



A framework for aggregating financial accounts

In the recent past, authorities across the world have played an encouraging role in the democratisation of data, giving access to the financial data hidden in the records of financial institutions. The main aim of their initiatives, such as Open Banking in

the UK and the Payment System Directive (PSD2) in Europe, has been the transfer of authority over the accessibility and utilisation of data, to data owners rather than holders.

Along similar lines, regulators in India led by the Reserve Bank of India, introduced the AA framework in 2016¹ specifically to cater to India's diverse demography and complex financial framework, while keeping customer convenience in mind.

¹<https://www.niti.gov.in/sites/default/files/2020-09/DEPA-Book.pdf>

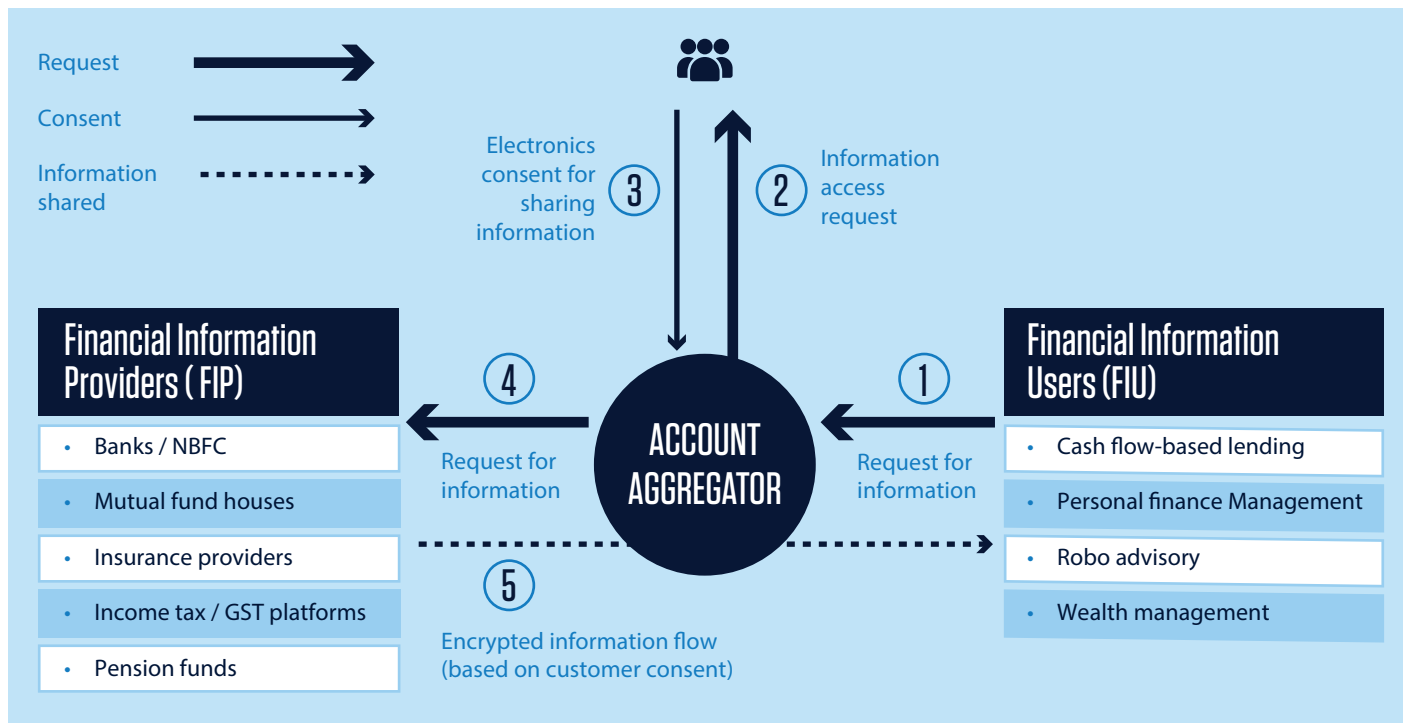


Fig 1: Overview of AA framework

As depicted in the graphic, the main stakeholders of the India's AA framework are as follows:

- Financial Information Providers (FIP):** Banks, mutual fund houses, insurance providers, income tax/GST platforms, and other financial institutions provide customers financial information such as on their transactions or spending patterns, to financial information users (FIU) via AAs. These FIPs are the custodian of the customer's current and historical data.
- Financial Information Users (FIU):** These organisations provide customers with quick access to various products and services, such as loans, insurance, or wealth management, by fast-tracking approvals with a well-informed decision process facilitated by the AA framework. For example, the AA ecosystem helps online lending platform NeoGrowth² to provide quick, hassle-free business

loans to MSMEs.

- Account Aggregators (AA):** AAs act as a bridge between FIPs and FIUs, fetching customer information requested by FIUs from the FIPs, based on customer consent. Though AAs enable individuals to control their financial data, they do not have any access to customer information, nor do they store any customer data.
- Technical Service Providers (TSP):** TSPs help FIUs and FIPs connect with the AA framework and deliver products and services as per the AA specifications set by RBI. A few examples of current TSPs are FSS, Setu, Perfios, and TransUnion.
- Certification Authority:** The nonprofit, member-driven, industry alliance group Sahamati (Digisahamati Foundation) strengthens the Account Aggregator ecosystem in India and oversees its strict adherence to AA standards set by the RBI.

As of today, RBI has approved AA licenses for 6 entities and accorded in-principal approval to 8 more entities³. A cumulative count of around 1.3 million accounts by account holders are linked and almost 1.26 million consent requests have been fulfilled on the AA ecosystem.

Globally too, a few similar frameworks have taken shape to cater to consent-based data sharing and data governance. Some examples include Open Banking in the UK, USA, and New Zealand, Consumer Directed Finance in Canada, Consumer Data Law in Australia, and PSD2 (Revised Payment Service Directive) in the European Economic Area. Although India's AA framework is built on a principle similar to the Open Banking framework's consent-based data sharing mechanism, it is specifically designed to cater to India's unique financial ecosystem, while also keeping in mind financial inclusion and data democracy

²<https://sahamati.org.in/fip-fiu-in-account-aggregators-ecosystem/>

³<https://sahamati.org.in/account-aggregators-in-india/>

A bevy of benefits for all

All the stakeholders in the AA framework – customers, account aggregators, and business entities – stand to gain through the rollout and widespread acceptance of the paradigm. Some of the key benefits for customers include:

- **One view of financial relationships:** Through a single platform, customers can easily view all their financial relationships with a range of institutions such as banks, NBFCs, mutual funds, and insurance houses.
- **Freedom from repeated KYC and other paperwork:** Customers can avail diverse products and services from financial service providers without the hassle of collecting and submitting various bank statements or other KYC documents each time. He or she only needs only to provide consent to the AA, which instantly pulls all the relevant data from FIPs and shares the same with requesting FIUs.
- **Customer control on data sharing:** The AA framework is designed in such a way that data can only be shared based on an individual's consent. Also, once consent is revoked, the data can no longer be shared or used by FIUs. This enables customers to become the owners of their data.
- **Data security:** As guided by RBI's data privacy principle, any data shared through the AA framework is fully encrypted from origination to destination and can only be used by FIUs with customer consent. Further, all FIUs need to stringently follow RBI's data governance guidelines to prevent any possible data misuse.
- **Simplistic and streamlined user journey:** The AA framework replaces multiple existing processes for document collection, verification, validation, and decision that are required for availing any service, with a

simplistic consent-based user journey. In this new process, the customer is always aware of the purpose, frequency, and duration of consent sharing with FIUs.

On the other hand, for account aggregating NBFC's, the framework offers multiple revenue generation opportunities. Since, AA entities act as mediators and financial data delivery agents between FIUs, FIPs, and customers, customers only need to link their relevant accounts and provide consent in order to avail an AA facility. Thus, the AA entities will have the potential to realise commission-based revenue from FIUs and FIPs via the number of accounts linked and the number of consents registered with them. Additionally, there will be other earning possibilities say through platform usage charges from FIPs and FIUs, or, as the framework gets popularised, through monetising customer engagement in the AA application.

Lastly, business entities too can leverage the AA framework for a host of benefits as below:

- **Faster, better-informed decisions:** FIUs will be able to access real-time customer insights such as spending patterns or net worth, and thereby can make better-informed lending decisions and provide more personalised products. Also, they can process loan applications much faster without the need for physical document submission.
- **Cash flow lending:** With ready availability of financial information, cash flow-based lending can enable lenders to offer the underserved MSME (micro, small, and medium enterprises) segment hassle-free access to institutional credit.
- **Effective, smooth, and risk-free personal finance:** Financial service providers can devise effective approaches for customers' wealth

management through analysing their financial information on the AA framework. The framework also enables the creation of a hassle- and risk-free experience for customers through not requiring multiple bank statements to be uploaded, or the sharing of their login credentials with personal finance applications.

- **Robo advisory:** With real-time access to comprehensive financial information, intelligent automation can provide customers with personalised recommendations of suitable investment products. Robo advisors can also help in the assessment and rebalancing of portfolios, with investment analytics, and so on.
- **Insurance:** A compressive view of customer's financial information will enable insurers to gauge a customer's underwriting and premium payment capability and recommend suitable insurance products
- **Ease of income tax/GST filings:** Entities providing income tax or GST filing services can make their processes far smoother for customers with their financial documents automatically collated, verified, and validated on the AA framework, along with personal documents such as salary slips, PAN & Aadhaar, and the like.



Looking at the warts

Despite the myriad benefits the AA framework offers for customers and financial institutions, there remain several kinks yet to be ironed out. For instance, the AA architectural framework does not explicitly prevent FIUs from profiling their existing customers using their financial information. This may lead to unwarranted data mining giving rise to ethical data issues.

Secondly, the approach of customer consent as a prerequisite of availing of any product or service leaves users not willing to provide the consent only one choice – that of not availing the product or service.

Further, the mandatory consent-based AA architecture increases a layer of friction each time a customer desires to consume a financial product or service, which may lead to consent fatigue. Customers may tend to overlook the details of the consent without fully understanding the terms or their implications, just to get over with the process.

Also, RBI's master directive allows FIPs to share customer information with AAs merely on the presentation and verification of consent. However, with consent obtainable from customers merely through the click of a button or a signed paper

form, there is possibility of misuse. Thus, a more robust consent collection mechanism needs to be enforced.

Lastly, another area which needs to be tweaked relates to the cancellation of customer consent. The current specification allows individuals to revoke consent directly on the AA's application or via FIPs, which then directs the AA to revoke the consent. More clear guidelines are required for the handling of customer data post-consent revocation by FIUs, which will prevent possible unwarranted data mining by FIUs.

The significant promise of account aggregation

A recent research report highlights that despite a swift urbanisation rate⁴ of 38%, by 2025 India will still have a significant rural population. With the increasing spread of internet access and financial literacy among the rural population, the AA framework can become a game changer to serve the untapped pool of rural customers. This is because, despite

its shortcomings, the AA framework aims at balancing data protection and security, with customer convenience.

Thus, going forward, the AA framework is anticipated to offer more accessible, on-time credit facilities for the country's underserved and underbanked set of customers. Along with these individuals, MSMEs without a proper credit history can

also tap this opportunity to avail of credit facilities and expand their businesses. More importantly, with the enhanced financial literacy going forward, the AA framework will go a long way towards facilitating customers' ability to make proper, informed financial decisions.

⁴<https://www.mckinsey.com/featured-insights/urbanization/urban-awakening-in-india>



Authors



Sougata Bose

Senior Consultant, Infosys BPM

Sougata is a Senior Consultant with over 13 years of industry experience in the financial services and banking domain viz. retail, corporate banking & payments. His core areas of expertise are program management, digital transformation, and product management. His current role involves working on consulting engagements in the banking domain, identifying gaps, and proposing digital solutions to address those gaps. Prior to Infosys, Sougata has been with IDFC First Bank, State Bank of India, and HCL Technologies in diverse roles across India and USA.



Sourav Ghosh

Senior Industry Principal, Infosys BPM

Sourav is a Senior Industry Principal with Infosys BPM's Digital Transformation Services, responsible for Industry Solutions – Global Digital solution design and Service delivery. An IBM-certified Design Thinking practitioner, he advises organizations on their operations strategy, assists them in improving profitability and efficiency of business processes, and helps in executing business transformation through calibration of operating model and technology.

Prior to Infosys, Sourav had been with IBM, Satyam, Tata Consultancy Services and Standard Chartered Bank across a variety of roles in India, the U.S., and the U.K..

For more information, contact infosysbpm@infosys.com

Infosys[®]
Navigate your next

© 2022 Infosys Limited, Bengaluru, India. All Rights Reserved. Infosys believes the information in this document is accurate as of its publication date; such information is subject to change without notice. Infosys acknowledges the proprietary rights of other companies to the trademarks, product names and such other intellectual property rights mentioned in this document. Except as expressly permitted, neither this documentation nor any part of it may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, printing, photocopying, recording or otherwise, without the prior permission of Infosys Limited and/ or any named intellectual property rights holders under this document.