Account Aggregator Network [UPSC Economy Notes]

The Account Aggregator System in banking was initiated by the RBI with eight of India's largest banks in September 2021. What is the Account Aggregator Network? What are its advantages and applications? Know more about this important 'Indian economy' topic for the IAS exam in this article.

What is an Account Aggregator Network?

The Account Aggregator (AA) Network is a framework for consent-based financial data sharing that would allow individuals and small businesses to "access, control, and share personal data" with third-party institutions.

- The Draft Data Empowerment and Protection Architecture (DEPA) framework released by NITI Aayog serves as the foundation for AA's architecture.
- This financial data-sharing system along with initiatives like UPI has the potential to revolutionise investing and credit by providing millions of consumers with greater access and control over their financial records and expanding the potential customer pool for lenders and fintech companies.

Account Aggregator Network Components

The financial data sharing architecture has 3 important elements as follows:

1. **Financial Information Providers (FIP):** An FIP is a data fiduciary who manages the data of consumers. It could be a bank, a non-bank financial institution (NBFI), a mutual fund, an insurance repository, or a pension fund repository.
2. **Financial Information Users (FIU):** The data from an FIP is consumed by an FIU, which then provides the user with a variety of services. An FIU is a lending bank that requests access to a borrower's information to determine whether the borrower is eligible for a loan. Banks serve two purposes: as an FIP and as an FIU.
3. **Account Aggregator (AA):** An Account Aggregator (AA) is a type of RBI-regulated entity that assists an individual in securely and digitally accessing and sharing information from one financial institution to any other regulated financial institution in the AA network. The Reserve Bank of India (RBI) In 2016 approved AA as a new class of NBFC (Non-Banking Financial Companies), with the primary responsibility of facilitating the transfer of user financial data with their explicit consent.

How does the account aggregator network work?

- AAs enable the flow of data between Financial Information Providers (FIPs) and Financial Information Users (FIUs). Banks serve as financial data producers, lenders serve as data seekers. Customers are free to sign up with an AA and share data from one of their accounts for some specific purpose to a new lender or financial institution by giving "consent" via one of the Account Aggregators.
- The Account Aggregator replaces the lengthy terms and conditions of 'blank cheque' acceptance with specific, step-by-step permission and control over each use of the customer's data.

Account Aggregator Network Features

The Account Aggregator strikes a balance between the need for greater financial data exchange necessary for deepening financial services and the protection of consumers' data privacy.

- The data that AAs exchange is encrypted by the sender and can only be decrypted by the recipient. AAs are not permitted to store, process, or sell customer data; they simply transfer it from one financial institution to another based on the direction and consent of an individual. Despite the name, they cannot 'aggregate' the data. AAs are not like technology firms that aggregate customers' data and create detailed profiles of the customer. According to the RBI, the AA will not have access to customer authentication credentials relating to accounts with various FIPs.
- A consumer can refuse permission to share the data at any time. If a consumer agrees to share data in a recurring manner over a period of time (for example, during a loan period), that consent can be revoked at any time later by the consumer. At the time of consent for data sharing, the consumer will be shown the exact time period for which the recipient institution will have access.
- Strong data security requirements are imposed by the RBI on the AAs, as well as a mechanism for consumer redress.
- For KYC purposes, Aadhaar eKYC and CKYC only allow the sharing of four 'identity' data fields (e.g. name, address, gender, etc). Similarly, credit bureau information only displays loan history and/or a credit score. The Account Aggregator network allows you to share transaction data or bank statements from the customer's savings/deposit/current accounts.

Account Aggregator Network Benefits

Under this section, we discuss the benefits and advantages offered by an AA Network.

For customers

- If a customer wants to get a small business or personal loan today, he or she must share a number of documents with the lender. Today, this is a time-consuming and manual process that affects the time it takes to obtain a loan. Through Account Aggregator, a company can access tamper-proof secure data quickly and cheaply, and fast track the loan evaluation process so that a customer can get a loan.
- With improved data access, pressing financial needs such as small-size loans for MSMEs and affordable micro-insurance could potentially be better met with the aid of the AA framework.
- Going forward, a large number of Small and Medium Enterprises (SMEs) can be reached without physical branches, transforming credit penetration. Open banking system adoption at the ecosystem level would help India to penetrate its vast untapped market for financial services.
- The AA system opens up an array of possibilities. For example, whereas physical collateral is typically required for an MSME loan, 'information collateral' (or data on future MSME income from government systems like GST or GeM) can be used to access a small formal loan through secure data sharing via AA.
- The Account Aggregator system has the potential to make lending and wealth management far more efficient and cost-effective since all financial data are put in one place.

For Banks

- Banks will be able to access consented data flows and verified data as part of India's digital infrastructure. This will assist banks in lowering transaction costs, allowing them to offer smaller ticket size loans and more tailored products and services to their customers.
- Reduce Fraud: AA reduces physical data fraud by introducing secure digital signatures and end-to-end encryption for data sharing. It will also assist lenders in complying with upcoming privacy laws.

Other Applications

- The AA framework can be extended to handle data from other domains, such as healthcare and telecommunications. However, if non-licensed entities must be permitted, a data privacy framework must be in place, as the RBI currently looks to safeguard only financial data within the scope of its mandate.