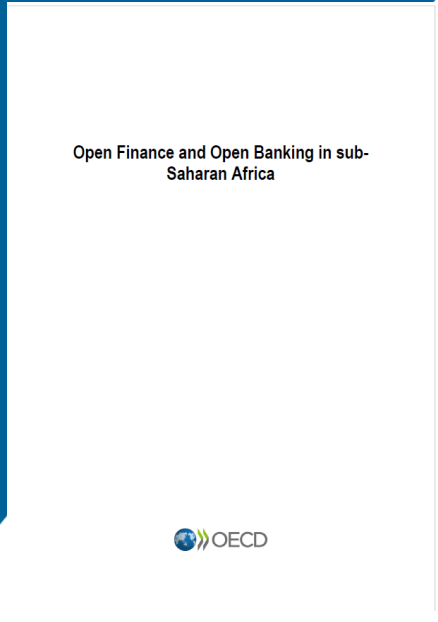
Open Finance and Open Banking in Sub-Saharan Africa

OECD Background Report – Main Findings

Digital Finance in Africa Policy Workshop



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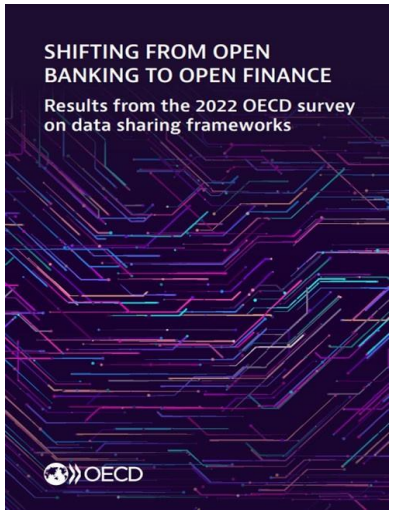
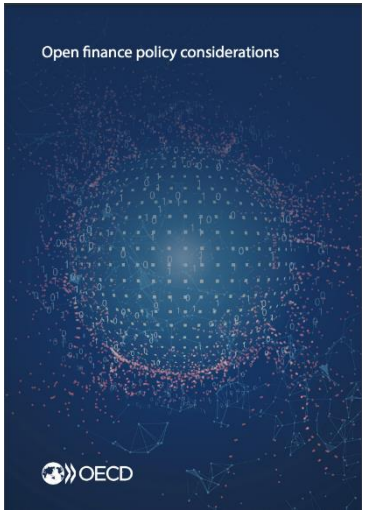
Structure of the OECD Background Report

- Drawing from the experience of OECD countries:
  - 2022 OECD Survey on Open Finance "Shifting from Open Banking to Open Finance"
  - 2023 OECD Open Finance policy considerations



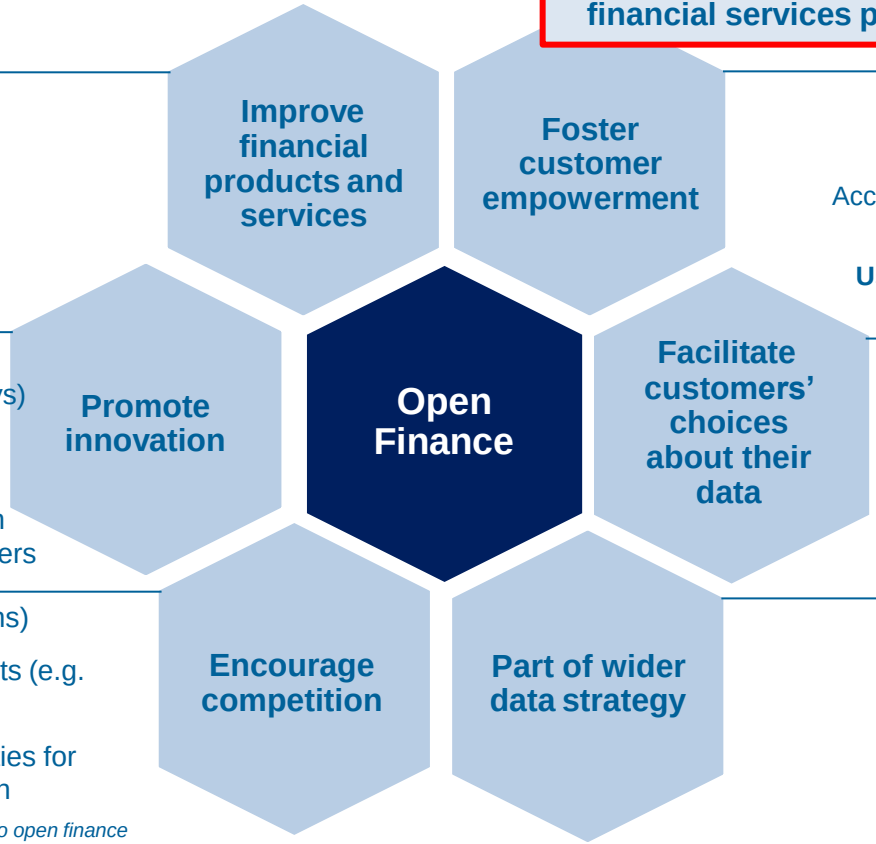


Background Report Contents

- Benefits of Open Finance for Sub-Saharan Africa (SSA)
- Open Finance market trends in SSA economies
- Policy and regulatory trends in SSA, drawing from OECD experience
- Policy considerations for SSA countries

Objectives of Open Finance[1]

Caveat: **Safeguards** in place to **protect consumers**, **financial services providers**, and **markets** from risks



Product diversity

Enhanced personalisation

Efficiencies and costs

Use case in SSA: Tailored microfinance for rural communities

Financial management

Product switching

Access for previously underserved clients

Use case in SSA: Leapfrogging limited banking infrastructure

Different products (existing products in new ways)

New products

Use case in SSA: Innovation can reduce costs for consumers

e.g. dashboards

Use case in SSA: Data privacy-related concerns

Growth of TPPs (e.g. FinTechs)

Emergence of new participants (e.g. PISPs*)

Use case in SSA: opportunities for FinTech entrants in the region

De-monopolisation of data

Data-related policies (e.g. AI)

Use case in SSA: More data-driven market strategies

[1]OECD (2023), *Shifting from open banking to open finance*

*PISP stands for Payment Initiation Service Provider (PISP): authorised to initiate payments into or out of a user's account.

Open Finance in SSA: Current Market Trends

- Open Finance frameworks have already been developed in larger SSA economies driven by (a) significant level of market-led initiatives and (b) consumer uptake in mobile payments
  - Over 200 FinTechs operate in **South Africa**, where screen scraping (as opposed to open APIs) is a common activity as a cost-effective way of collecting consumer data. This practice has also been observed in OECD countries such as the US.[1]
  - In **Kenya**, opening of APIs have been bilateral agreements between banks and TPPs
  - **Ghana**'s newly launched regulatory sandbox is also new means of churning market activity

- Many companies identify Open Finance potential benefits, especially for FinTechs
  - Cultivating innovation, enhancing customer experience, and fostering competition

- Still, significant risks also exist
  - To reap these benefits, the risks will need to be addressed (e.g. capacity building of FinTechs and TTPs)
  - E.g., according to the FSCA 2020 survey, although most banks do not support third-party use of screen scraping, they effectively dispose of no mechanisms that are able to intercept such activities[2]
  - Other detected risks to financial institutions include breaches to data privacy, cybersecurity and lack of uniform API standards

[1]FSCA (2023), "Draft Position Paper on Open Finance".

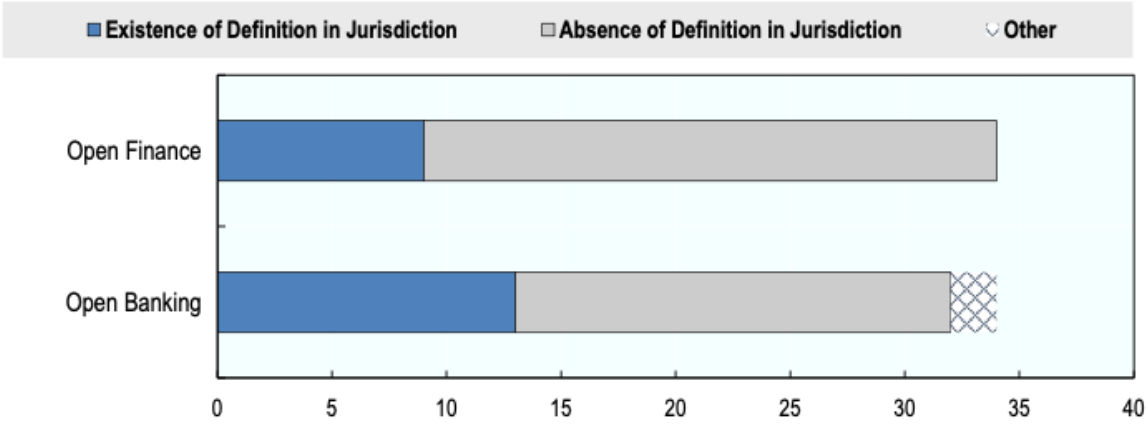
[2]FSCA (2020), *Regulating Open Finance Consultation & Research Paper*.

Policy and regulatory trends: Drawing from the OECD countries experience

- Objectives and definitions
- Management structure
- Information sharing
- Privacy and identity
- Security and risk
- Technical specifications
- Dispute resolutions

Objectives and definitions

Defining Open Banking and Open Finance in OECD Countries



Source: OECD (2023), Shifting from Open Banking to Open Finance.

Objectives and definitions *(cont'd)*

OECD

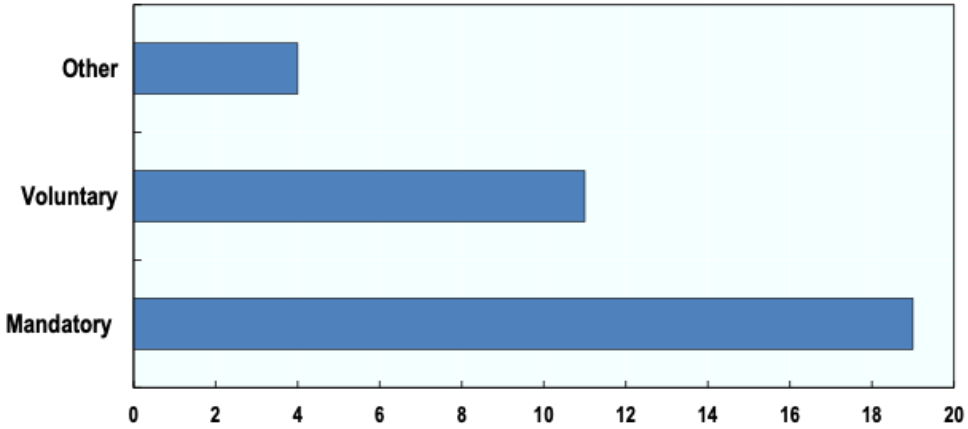
- Open Finance is guided by **multiple objectives across the OECD** (see slide 3)
- Data sharing can be used to promote innovation through developing new products and services across the financial landscape, enhance customer experience, ensure data privacy, and more
    - E.g.: In Japan, the 2018 amendments to the Banking Law established an institutional framework designed to foster open innovation between financial institutions and Fintech companies, all the while prioritising user protection.
- **No specific legal definition of Open Banking** in majority of OECD countries
- ***BUT* common understanding** of what these frameworks entail shared by all OECD countries
- **Not all OECD member countries have established definitions for Open Finance** within their jurisdictions, but those that do already have laid down foundations for Open Banking frameworks already

SSA economies

- **Heavy overlap of objectives** of Open Finance between SSA and OECD economies
    - E.g.: Central Bank of Kenya: customer centricity, interoperability for digital finance, and quality of products and services
    - Minimizing privacy and security risks caused by screen scaping are also a key regulatory objective in South Africa
- SSA economies are already **shifting towards Open Finance**
    - South Africa provides a **framework of financial data sharing that extends beyond payments**. Such expansion of the regulatory scope allowed for a gradual progression towards Open Finance
    - Nigeria has extended Open Banking framework to other services that also fall under Open Finance
    - Terms like "open infrastructure" and "data sharing," used in Kenya, Ghana, and Rwanda

Existence of mandatory and voluntary frameworks for Open Banking/Finance

Mandatory or voluntary character of data sharing arrangements in OECD Countries



Source: OECD (2023), Shifting from Open Banking to Open Finance.

Existence of mandatory and voluntary frameworks for Open Banking/Finance (cont'd)

OECD

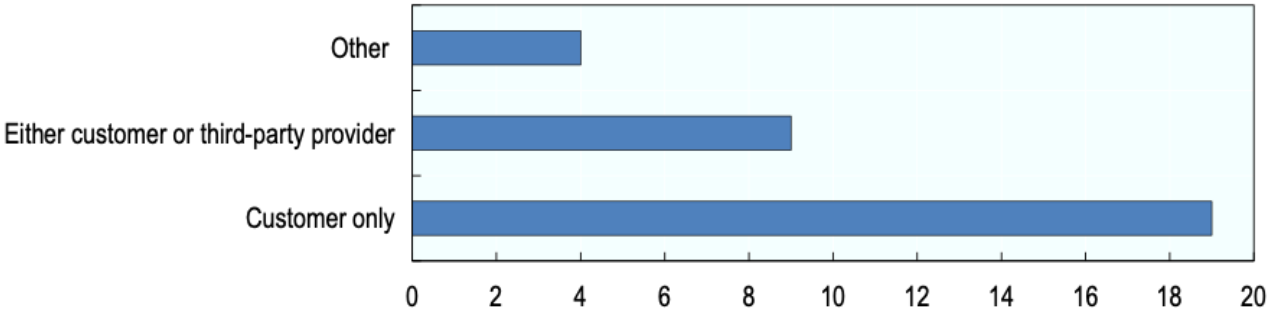
- **Multiple OECD countries have established frameworks** for Open Banking, some of which are now expanding beyond payment data, evolving towards Open Finance
- In some countries, legal frameworks have been incorporated, although **secondary regulations necessary for their implementation may be pending**
    - E.g.: in Mexico, the legal provision mandating the disclosure of Open Banking information on payments and transactions exists, but the regulatory guidelines for its implementation have not been issued yet
- Other countries are **in the process of establishing their frameworks**.
    - E.g.: Canada issued a mandate in March 2022 to develop a "made in Canada" regime based on the recommendations in the final report of the Advisory Committee on Open Banking
- The majority of data sharing arrangements in OECD countries are **compulsory, although both mandatory and voluntary are considered equally effective in delivering their objectives**

SSA economies

- A few **larger economies such as Nigeria and South Africa have published Open Banking/finance frameworks**, while others such as Kenya, Ghana, and Rwanda are in the process of **developing frameworks as part of their longer-term payments system and digital finance strategies**
    - E.g., Open Banking in Nigeria guided by a regulatory framework and set of operational guidelines that permit data access based on a 4-tiered risk management system
    - E.g., While South Africa's regulatory design is still under consideration, it has published key research and consultation documents that identify key objectives and participants
    - E.g., Kenya and Ghana remain under the process of setting up their Open Banking frameworks under the umbrella of the National Payments Systems Strategy
    - E.g., Mauritius has incorporated APIs into MauCAS directly without a published framework
- Open Banking and Finance mechanisms in SSA are **either voluntary or incrementally mandatory**
    - **Fitting the idiosyncrasies of the corresponding economies**

Initiation of data access request

Initiation of Data Access Request in OECD Countries



Source: OECD (2023), Shifting from Open Banking to Open Finance.

Initiation of data access request *(cont'd)*

OECD	SSA economies

• In most OECD countries**, only the customer has the authority to initiate a data access request**
  • In some countries, such as Brazil, Colombia, Germany and South Africa, data access request may be initiated by the customer or the third-party provider, with the essential condition of having acquired customer's consent
• Importantly, **customers have the ability to revoke their consent to data sharing** across various jurisdictions.
  • The procedure for such withdrawal is contingent on the specific country's domestic framework or the overarching data sharing legal framework, depending on the country in question.
  • For instance, in the EU, consent may be withdrawn by the payer at any time, but it must occur no later than at the moment of irrevocability in accordance with Article 80 of PSD2
	• **Customer consent is similarly given high priority in SSA countries**
	• E.g.: In Nigeria, "customers shall always have control over their data and be able to access, manage or withdraw their consent at any point in time."
	  • If an entity wants to share data with non-Nigerian participants, a specific approval must be obtained from the CBN, which is assessed on the basis of application detailing how the data is intended to be used
	  • In South Africa, requests for data access can be initiated by the customer or by the third-party provider, based on customer consent
	  • Many of these data protection principles are enshrined in the Protection of Personal Information Act, 2013

Data Protection and privacy

OECD	SSA economies

• Privacy remains important consideration for many OECD jurisdictions
  • E.g., In Australia, financial data intermediaries are required to comply with the general privacy laws in Australia (Privacy Act 1988) to the extent that they handle personal information.
	• SSA legislation and regulation around Open Finance are recognisably **prudent regarding customer data protection**.
	• In Nigeria, participants are explicitly required to comply with the **Nigerian Data Protection Regulation (NDPR)** and any CBN-issued data protection regulations
	  • Nigeria's regulations also contain provisions with regards to **identity management**
	• In South Africa, to **prevent data privacy risks associated with screen scraping**, FSCA recommends the development of technical standards for APIs along nine guiding principles: openness, usability, interoperability, independence, stability and transparency
	• To complement **Kenya's Data Protection Act**, 2019, which provides a framework for protection of an individual's data, the Central Bank of Kenya intends to support the development of a framework for specifically financial data protection and governance
	• In **Rwanda**, the **Data Protection and Privacy Law of 2021** forms the foundation of the framework governing any data sharing initiatives. It provides requirements for collection, storage, and processing of personal data

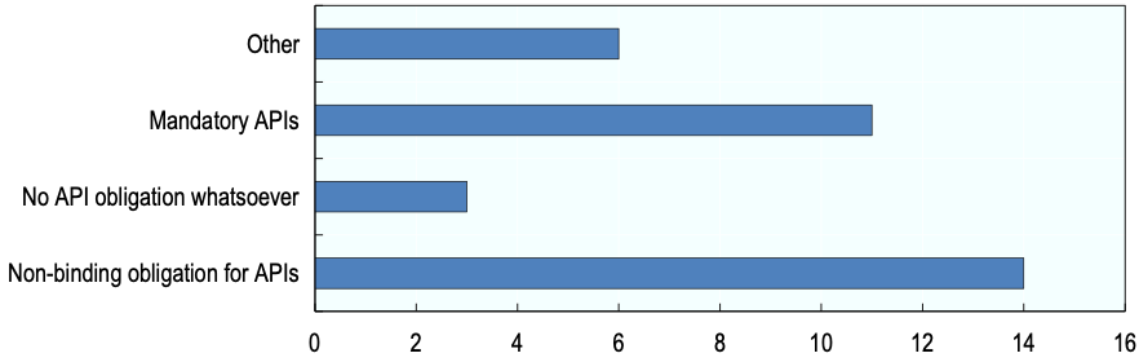
Data security and cyber-risk

OECD	SSA economies

• Similarly, security and risk are not measured as such on OECD Survey on Open Banking and Finance, but **data security is significant concern across the OECD**
• For example, under the UK Open Banking framework, firms are required to have **a data security policy** and measures for security control and risk mitigation
	• Cybersecurity is a key concern for **SSA countries where capacity for mitigating cyber threats may be reduced**
	  • E.g. all participants in Nigeria's Open Banking system are required to comply with **minimum security principles** as outlined in the US NIST CSRC
	  • In South Africa, there are **existing conduct frameworks** that can help regulate Open Finance activities for certain areas, such as cybersecurity and information security, until a bespoke policy is implemented
	• Nigeria and South Africa, among others, also provide **risk management frameworks** and define various forms of risk.
	  • South Africa also proposes **disclosure requirements for risks related to lower digital literacy**, a challenge less likely for OECD economies

Infrastructure and technical specifications

Existence of APIs as a mandatory or non-binding obligation for banks and/or other financial institutions in OECD Countries



Source: OECD (2023), Shifting from Open Banking to Open Finance.

Infrastructure and technical specifications (cont'd)

OECD	SSA economies
• **Open Finance APIs** enable third party providers to access consumers' transaction data without requiring consumers to share their usernames and passwords • Some OECD countries **incorporate APIs as a mandatory obligation for banks and other financial institutions** to comply with data sharing frameworks (e.g., Australia, Brazil, Türkiye).	• **Application Programming Interfaces (APIs) are also an important consideration in SSA frameworks**: • Nigeria's Operational Guidelines advocate for technical API standards and provide two detailed resources for API standards and calls • In South Africa, in order to minimise the risks presented by screen scraping, the NPSD recommends use open APIs but does not make them mandatory • Central Bank of Kenya is working to define API standards and mandate robust and secure data portability for the Kenyan market • Thus far, CBK has completed the framework and security review for APIs and is working to create industry-wide standards

Liability provisions and dispute resolution

OECD	SSA economies

• **Liability provisions are integrated into data sharing arrangements** to establish legal clarity regarding accountability in instances involving data access, quality, privacy, confidentiality, processing, sharing, storage, and cybersecurity breaches
• The **attribution of liability** in OECD country data sharing arrangements **varies.**
  • In Switzerland, the liability depends on the different cooperation models employed
• Regarding complaints handling, in most instances, customers have the option to lodge complaints with either the data source entity (AISP) or the third-party service provider (TPP).
	• **Dispute resolution** is well documented in both Open Banking and Open Finance frameworks for Nigeria and South Africa
	  • **Rules for complaint mechanisms, liability management, and dispute resolution** have also been established in Nigeria's Operational Guidelines
	  • In South Africa, mechanisms for dispute resolution and liability management are recommended; however, according to FSCA, there are **existing conduct frameworks available to financial institutions**, such as the General Code of Conduct under the Financial Advisory and Intermediary Services Act, for managing statutory complaints that can be extended to matters related to Open Finance

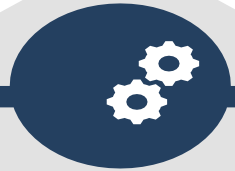
Preliminary policy considerations[2]

Build trust

- Introducing **data privacy safeguards**
- Enhancing **data security**
- Establishing clear **liability rules**

Build incentives

- Promoting **reciprocal access to data** between all parties
- Consider allowing **economic compensation**, with principle of *proportionality* in mind



Build interoperability

- **Support data sharing** between service providers
- Across **different sectors** *and* across **different countries**
- Consider a level of **harmonisation of data formats**
- Guide and support **industry-led efforts on interoperability of technical interfaces** (e.g. APIs)
- Invest in advancing ongoing or planned efforts for **digital identities** delivered by the official sector

❖ Importance of following the principle of **technology neutrality**

❖ **Coordination** between authorities to avoid risk of **fragmentation of oversight**

[1]OECD (2023), *Shifting from open banking to open finance*

Thank you!

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