

Open Finance: Emerging evidence from Africa

Webinar

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Speakers



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Agenda

1. Presentation:

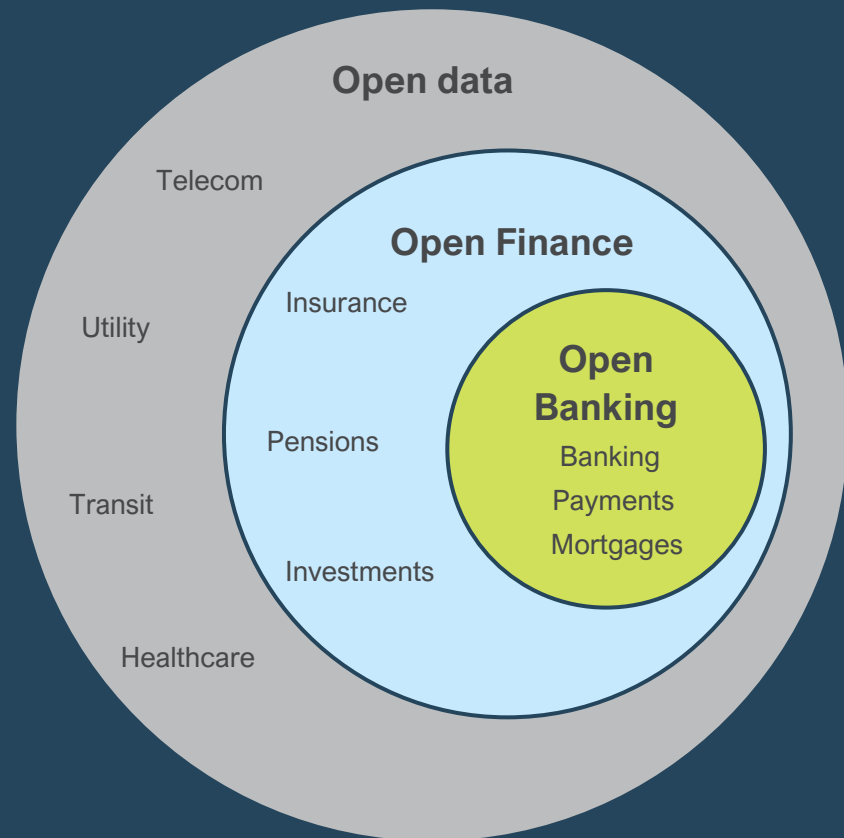
- The need for evidence-based implementation
- Approach for feasibility study and key learnings to date from focus countries
- Global lessons, African solutions

2. Panel discussion

3. Q&A

Setting the parameters: what do we mean by Open Finance?

Working definition: Open Finance is defined as the exchange of consumer data between Financial Service Providers (FSPs) and other FSPs and/or regulated third party services providers on the basis of consumer consent.



Rising interest in Open Banking/ Open Finance across Africa

However, there is no fully operational model in place yet

It was reported that Bank Al-Maghrib Morocco is exploring Open Finance in 2022.

Central Bank of Nigeria issued a regulatory framework and operational guidelines for Open Banking

Bank of Ghana planned to launch a regulatory sandbox pilot in March 2021 to foster fintech sector growth, including Open Banking

Bank of Zambia is currently exploring Open Finance

Bank of Namibia published a position paper on Open Banking in 2021

South African Reserve Bank issued a consultation paper and the FSCA issued a draft position paper, both in 2020

- Driven by: Central Banks
- Policy objectives: improve financial inclusion, increase competition, create a conducive environment for fintechs, expand the payment system, remain up-to-date with global trends
- Generally backed by data protection regulations – 61% adoption as of 2021.

Central Bank of Egypt is currently engaged in discussions about implementing Open Banking, with recent regulatory measures expected to facilitate adoption.

Central Bank of Kenya gave Open Banking a green light in 2020

National Bank of Rwanda is currently exploring Open Finance



[Fintech times](#), [Central bank of Nigeria](#), [Central bank of Ghana](#), [Bank of Namibia](#), [South African Reserve Bank](#), [FSCA](#), [Council of Arab Central Banks and Monetary Authorities Governors](#), [Central bank of Kenya](#), [UNCTAD](#), 2021



Poorly designed Open Finance frameworks run the risk of high implementation costs without realising any significant benefit



An evidence-based approach is critical to avoid such pitfalls



Conduct a feasibility study to understand the local market dynamics



Develop an appropriate roadmap which aligns global implementation best practise to the local market dynamics.



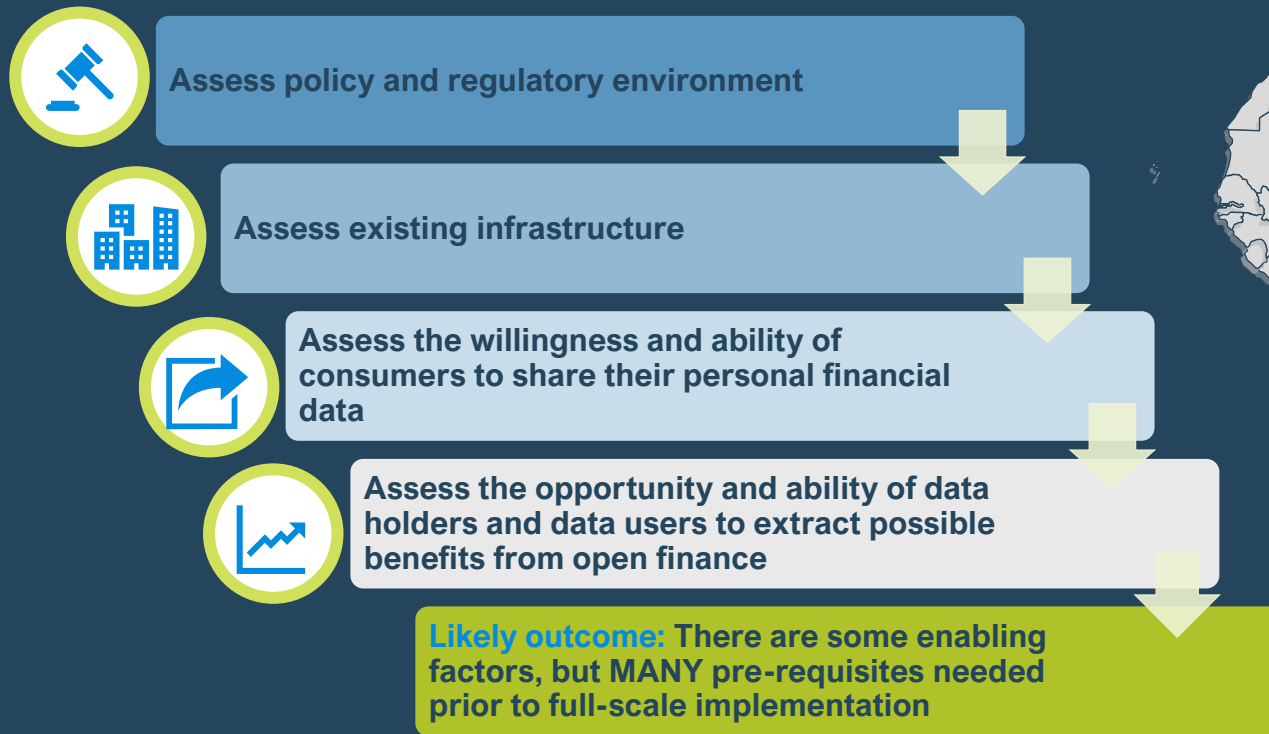
Ongoing monitoring and evaluation



Continuously engage industry stakeholders

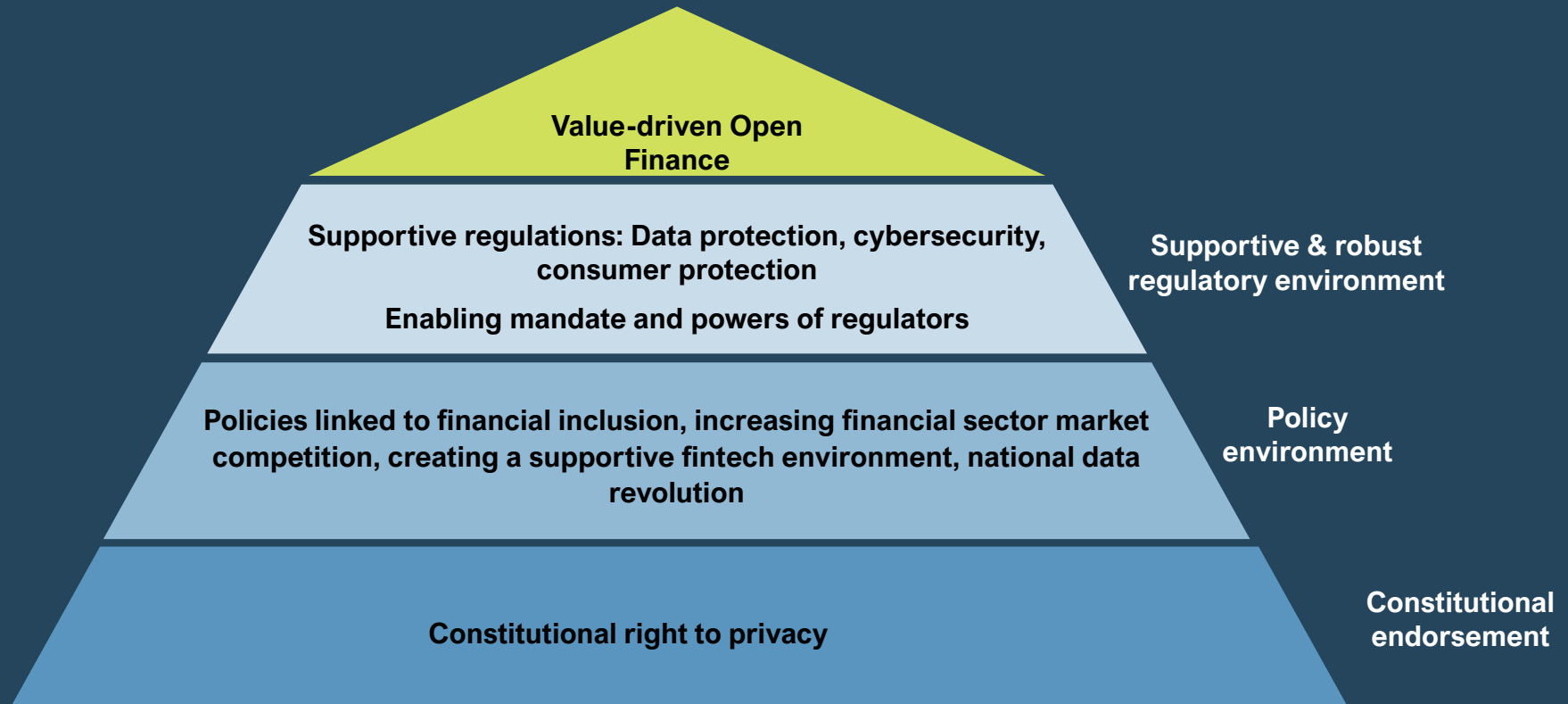
A suggested approach to determine feasibility and feasible implementation design

We conducted a high-level feasibility study in Rwanda , with a similar study ongoing in Zambia



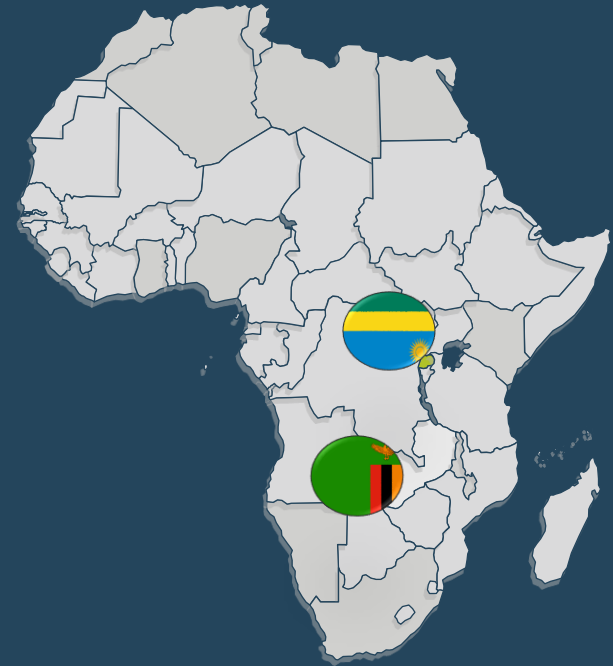
High-level policy and regulatory environment assessment

Where do you want financial services to take your country, and how could open finance help take you there?



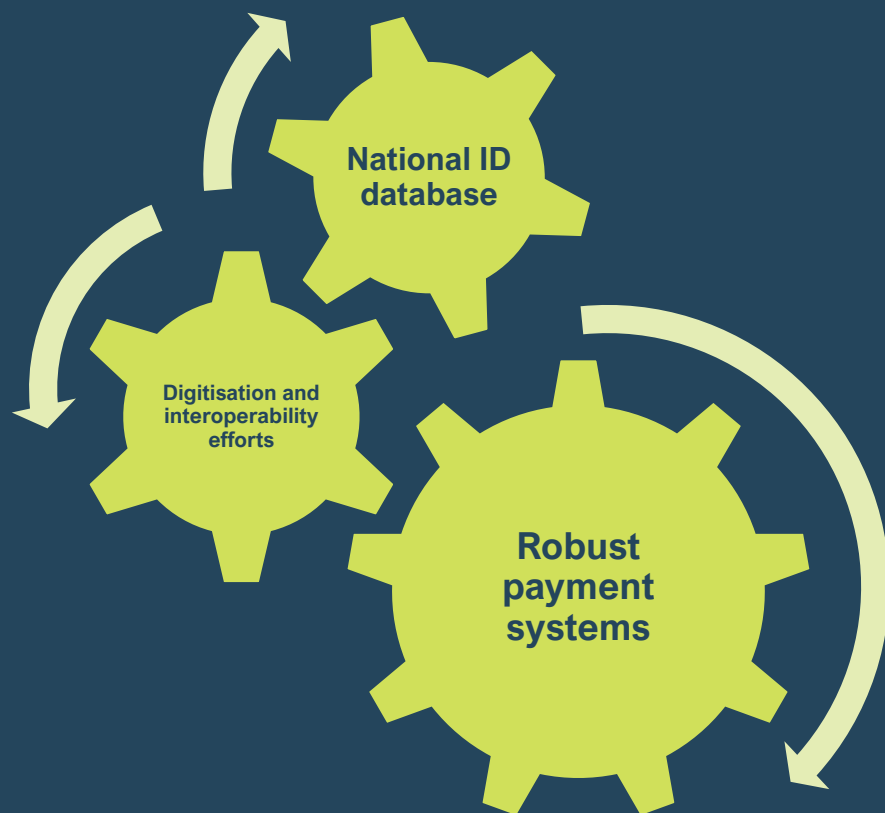
Lessons from focus countries

- **Operationalisation of regulations:** Data protection and cybersecurity measures are often established but may not be fully active in practice.
- **Role of Central Banks:** Central banks, due to their mandate and powers, are pivotal in leading Open Finance initiatives, with specialised departments such as payments systems, market development, or fintech typically spearheading these efforts.
- **Regulatory overlap:** Open Finance's cross-cutting nature results in overlapping regulatory mandates, necessitating coordination among various regulatory bodies.
- **Inclusion of mobile money operators:** It is crucial to consider whether mobile money operators, which have a rich source of consumer data making them integral to open finance, fall under the central bank's supervisory umbrella and how to incorporate them if they do not.
- **Third-Party Processor (TPP) licensing:** Establishing a TPP license is essential to incorporate additional participants into the data-sharing ecosystem.



High-level infrastructure assessment

Is your country's national infrastructure adequate for Open Finance?



In Brazil, the Central Bank spent nearly a decade on implementing robust payment systems and digitising financial services.

Lessons from focus countries

- **Varying levels of progress with regards to digitising national identity databases:** The absence of a digital national ID database poses significant eKYC challenges for the financial sector. A well-functioning digital database which enables direct identity verification by financial institutions is a key enabler.
- **Development of payment infrastructure:** The emergence of instant payment systems and interoperability efforts throughout the continent lays a robust foundation, although it is still in the nascent phase.
- **Adopting international standards:** Financial sector facing challenges in the application of the ISO 20022 standard.
- **Government-led data initiatives:** Government initiatives are being implemented to facilitate data sharing within the public sector.
- **Digitisation to bridge the gap for underserved communities:** The digitisation of Savings and Credit Cooperatives (SACCOs) provide an opportunity to tap into the unserved communities.



High-level assessment of market actors

Is there potential for established providers, innovators and consumers to extract benefits from Open Finance?

Interaction between **three** core sets of actors:



Consumers as **data owners**



FSPs as **data holders**



Fintechs or third-party providers as **data users**

High-level assessment of data owners

We conducted in-depth interviews and focus group discussions with individuals and SMEs/ MSMEs in each country, focusing on consumers who could benefit from open finance in the early stages



Data owners

Understanding the needs, concerns, and preferences of consumers - the end users of Open Finance services - is critical.

- How do consumers think about their personal and financial data?
- Would they willingly opt to share their data and, if so, for which use cases?
- Do consumers trust financial service providers to handle and share their data safely?

Even a non-nationally representative survey can reveal valuable insights into the attitudes and readiness for open finance with crucial segments of the population.

Lessons from focus countries



Enablers

- Increased financial inclusion, aided by the proliferation of mobile money
- Use of more than 1 financial product/ service by consumers



Opportunities

- Familiarity with existing data sharing processes such as credit checks and employment checks means consumers understand consent at a basic level
- High levels of trust in regulatory authority
- High usage of informal credit – opportunity to expand credit offering
- High mobile-phone penetration
- Recourse mechanisms will increase willingness to give consent to data sharing



Lessons from focus countries



Challenges

- Consumers need to see tangible benefits immediately, means that highly sensitive data needs to be included very early on.
- Low levels of financial and digital literacy.
- Low smartphone penetration.
- Not all consumers want to share personal data.
- Complicated processes and poor past experiences with financial service providers (insurance sector mentioned) may hinder participation.

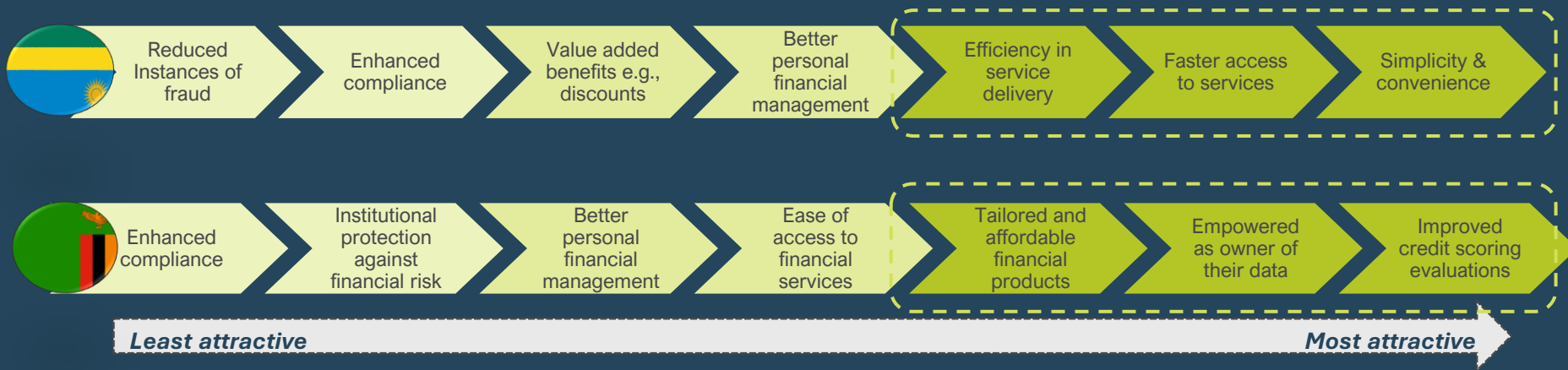


Lessons from focus countries: Top benefits expressed by consumers

"The benefits would be connection, the fact that it was connected would help me to get quick services."
Female, 35-45, SEC A

"While financial institutions have access to my data, I can get easier access to premium discounts."
Male, 25-34, Micro business owner

"The benefits would be connection the fact that it was connected would help me to get quick services."
Female, 35-45, SEC A



"If I have 100 cows in my village, I can register them with PACRA and give this data as part of my financial information...if anyone wants collateral, I can give this..... I feel empowered."
Male, SME, 18 -24 years

"Everyone would want to give their information if they can get something at the end of the day."
Male, Self Employed, 35-44 years

"If you need a loan, they will give you in a short period of time, It will not take days because you have already shared your personal data."
Female, Employed, 35-44 years

No difference in perceptions among different genders or employment types, but **less resonance among lower-income**

Lessons from focus countries

Top use cases for consumers



INDIVIDUALS	USE-CASES	SMEs
	Account aggregation	
	Accessing more suitable personal and/or MSME credit	
	Accessing suitable and affordable MSME insurance	
	Enabling faster insurance claim or policy evaluations	
	More convenient and simpler tax payments	
	More convenient subscription payments	
	Faster and frictionless payments for MSME's	



INDIVIDUALS	USE-CASES	SMEs
	More convenient and simpler tax payments	
	Account aggregation	
	More convenient subscription payments	
	Enabling faster insurance claim or policy evaluations	
	Accessing more suitable personal and/or MSME credit	
	Accessing suitable and affordable MSME Insurance	
	Faster and frictionless payments	



Low resonance with the use case

High resonance with the use case

High-level assessment of data holders and data users

We conducted in-depth interviews with more than 30 different providers in each country and held workshops attended by industry stakeholders



Data holders

Would it be possible to convince incumbent FSPs to cooperate in an open finance regime? And, if so:

- Do financial service providers as data holders have the capacity and data maturity to implement open finance?
- What are key incentives for data holders to participate?



Data user

Is there a market for the effective use of shared data by innovators:

- Would fintechs be able to operate on an equal footing with data holders?
- Would they have the capacity to participate in Open Finance, specifically the cybersecurity capacity?
- Would they be willing (within reason) to pay for data access?

Lessons from focus countries



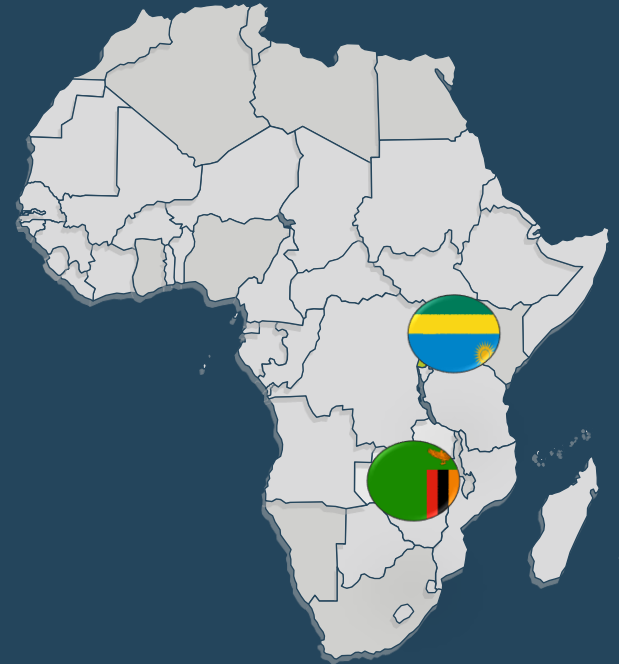
Enablers:

- Several market players equipped to share data and to benefit from greater data sharing
- Increasingly digitised operations
- Existence of bilateral agreements, but this is not without challenges



Opportunities

- Growing fintech interest and not just in the payments space.
- Inclusion of government data sets provides a compelling incentive for existing data holders.

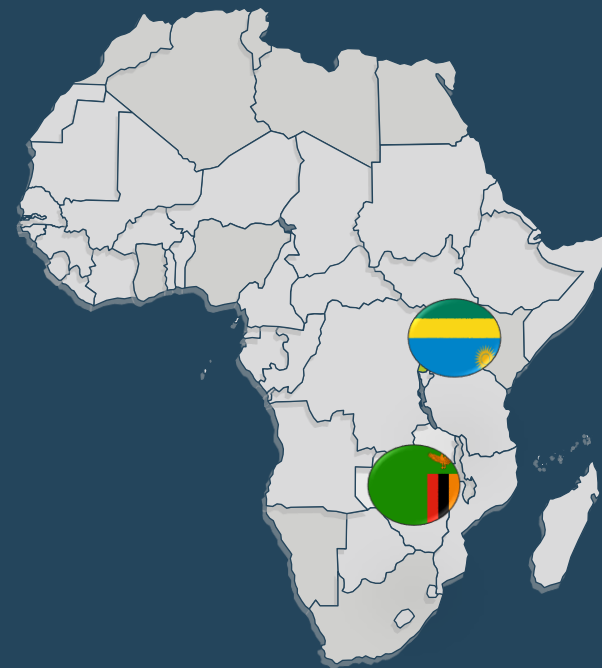


Lessons from focus countries

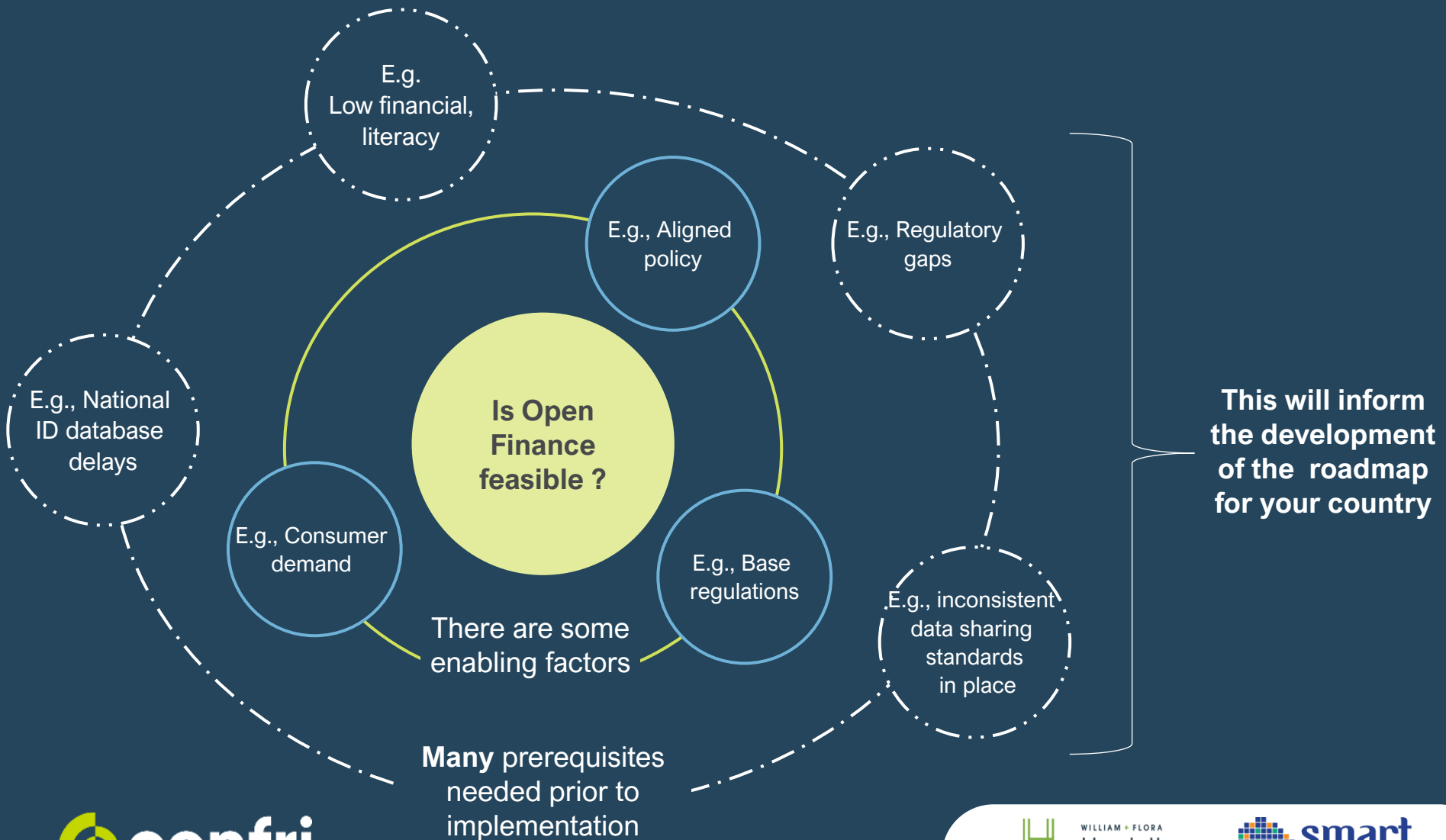


Challenges

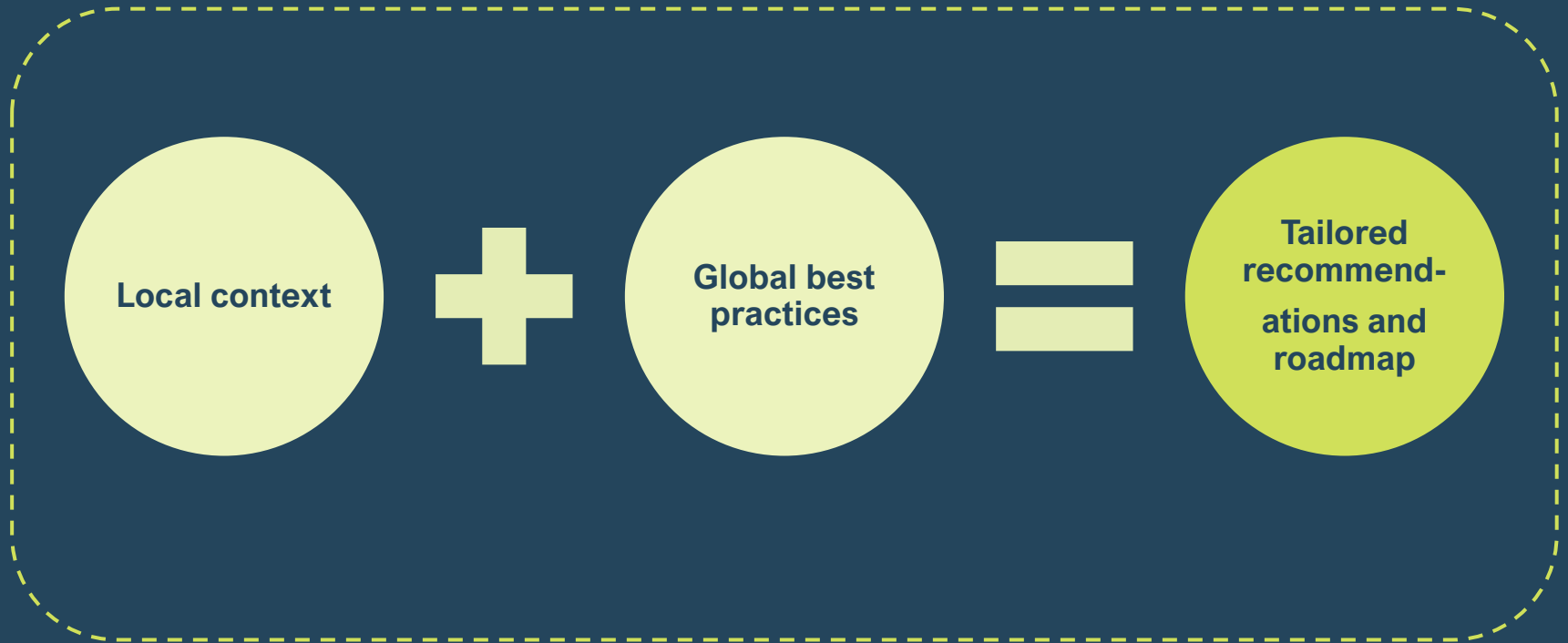
- Lack of incentive for larger market players to participate meaningfully highlights the need for a mandatory component to ensure participation.
- Inconsistent approaches to data sharing through current bilateral relationships
- Varying levels of digitisation
- Legacy systems and concerns regarding the capacity of data holders to manage data requests further complicate the landscape.
- Issues in complying with data protection regulations poses a concern.
- Nascent data-driven product development - more needs to be done to create a meaningful demand for data
- Fintechs lack of nationally representative databases means that open finance cannot help them create new innovative products
- Shortage of highly skilled data professionals



What should the findings from the high-level assessment tell you?

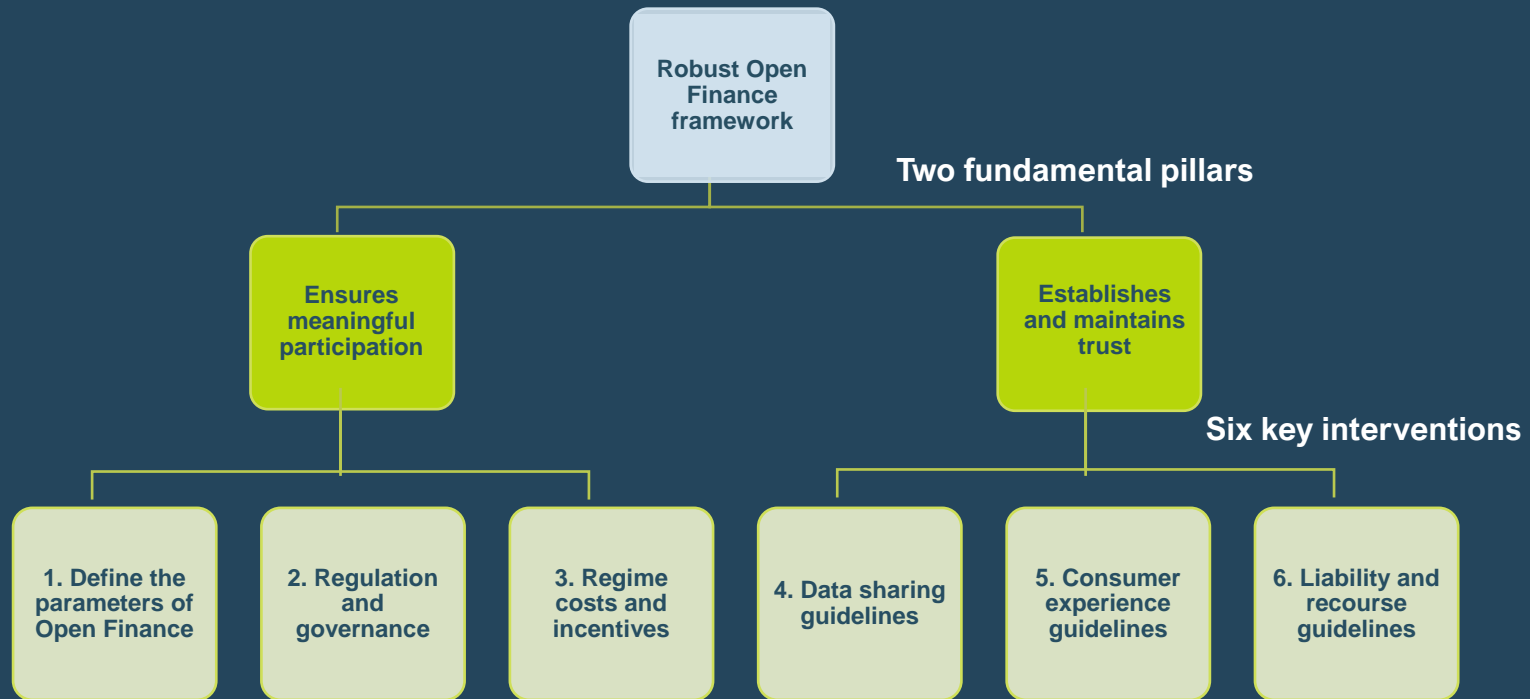


Formulating a robust Open Finance roadmap aligned with global best practices



Learning from emerging approaches to implementation

Every country is on a unique journey towards Open Finance; no single country has all the answers.

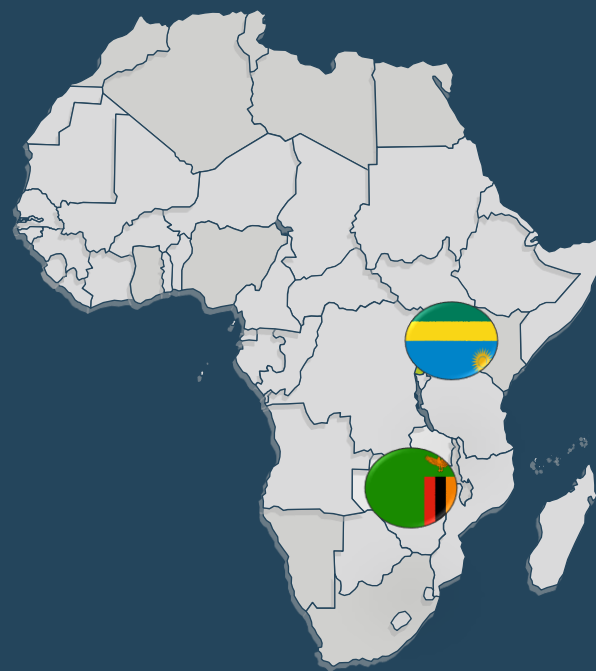


Individual actions may be simple to implement but the need for coordinated and concurrent implementation of a range of actions makes it necessary to categorise them for strategic implementation.

Lessons from focus countries

Effective implementation in most African countries is likely to be a multi-year process, even if it could be **technically** implemented more quickly.

But even without full implementation of Open Finance, some of the interventions can significantly assist with addressing existing frictions in the data sharing market.



Global learning, African solutions



No country has figured it all out or got it all right at once. It is important to **learn from early adopters**.

It is also critical that African countries develop **tailored approaches for the local context**.

Regional peer learning and ultimately **regional guidance and/or standards** are important to start giving consideration. Aligned with AfCFTA objectives to build the foundation for future cross border data sharing

Panel discussion

Panel members



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Thank you

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About Cenfri

Cenfri is a global think-tank and non-profit enterprise that bridges the gap between insights and impact in the financial sector. Cenfri's people are driven by a vision of a world where all people live their financial lives optimally to enhance welfare and grow the economy. Its core focus is on generating insights that can inform policymakers, market players and donors who seek to unlock development outcomes through inclusive financial services and the financial sector more broadly.

