Open Banking in Africa – The power of data

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Without Prejudice

Banks continue to collect and control customer information. In the past decade much has been done by legislators in Africa and around the world to protect the privacy of individual customers and their data.

Without reversing or prejudicing the privacy rights of individual customers, Open Banking exploits the use of the data owned by customers but held and controlled by banks to create value for customers. Open Banking allows authorised third party developers to access the customer data held by a bank in a secure manner, typically via application programming interfaces (APIs) rather than screen scraping. It can facilitate more useful data analysis and presentation for individual customers (in relation to their own data) and for financial services providers (in relation to groups of customers).

How did Open Banking start?

The concept of Open Banking was developed in the United Kingdom in response to the 2013 investigation of the UK Competition and Markets Authority (CMA) into the lack of competition in their retail banking market. Acknowledging the advantage created by access to large volumes of customer data, the CMA directed, among other things, the country's nine largest current account providers to implement controlled access to customer data by authorised third parties (the CMA Order). This was followed, in January 2018, by the implementation of the European Union's Second Payment Services Directive (PSD2), which enables regulated third party providers to access a customer's payment account information and/or request payments. PSD2 applies to all online payment accounts and all payment service providers and has broader reach than the CMA Order. At the heart of the CMA Order and PSD2 is customer consent.

What it means for Africa

In Africa, where a large part of the population remains unbanked or underbanked, Open Banking has the potential to facilitate financial inclusion; especially in as far as it addresses access and affordability. Emerging fintech and mobile banking players have already improved financial inclusion in Africa by developing mobile payment and transfer solutions. By fully harnessing the potential of Open Banking, banks, telecommunication companies and other fintech players can further strengthen and broaden African financial markets.

Open Banking, if implemented correctly, improves the ability of financial services providers to meet the needs of customers. Provided security and privacy is not compromised, this should also increase trust in financial services providers.

Developments in Africa

Although no African country has implemented a clear regime or legislative framework for Open Banking, there are promising developments in a number of countries. Leading the way, the National Bank of Rwanda (BNR) has acknowledged that fintech and more particularly increasing the availability of digital customer data can revolutionise financial markets. The growing fintech market in Rwanda already supports the availability of digital customer data that can be mined and analysed to gain a better understanding of customer needs, but the BNR has now also published a regulation to formalise the approach and the publication of standards is imminent.

Rwanda modelled its approach on the European Union’s PSD2. The legislation makes provisions for new types of payments providers (such as “payments initiation service providers”), and the creation of a regulatory “sandbox” where controlled testing of new finance products or services take place.

The Open Banking regulation in Rwanda covers individual consumers and small businesses and addresses data sharing and data portability with a view to encouraging innovation, efficiency, new products development and new players. As in the UK and Europe, informed customer consent is required.

Because 90-95 percent of Rwanda's population already accesses financial services via telecommunications providers rather than banks, it is critical that Rwandan legislation and policy should apply to and require participation by telecommunications companies and mobile banking providers in addition to traditional banks.

Although Kenya has embraced new technologies in banking and payment systems (including mobile money transfers) the CEO of technology company Quoxient Ltd, Mugambi Munuyua, notes concerns in this African market around the security risks of accessing a customer's transactional information. Nevertheless, with the number of Kenyan bank accounts (traditional as well as Mshwari and KCB M-pesa accounts) estimated at 49 556 363 by the Central Bank of Kenya at the end of 2017, Kenya is extremely well placed to use available data on consumer spending, borrowing and savings behaviour within age, gender, demographic and business segment groupings to improve product targeting and pricing.

With no formal legal framework or policy in place, fintech companies like Quoxient Ltd are partnering in the private sector with platform providers to develop financial services applications that operate on Open Banking principles.

Kenya might look to the UK's legislative model on Open Banking for guidance but, given how varied and developed available fintech solutions in Kenya are, Kenya is equally well placed to develop a less prescriptive regime that might better facilitate innovation around Open Banking.

Developments in South Africa

By contrast, South Africa's banking and financial markets are highly regulated, with financial institutions having to comply with an array of financial, consumer protection and data legislation. South Africa is more likely to take a regulated and mandatory approach to Open Banking. That said, fintech companies in South Africa are already implementing Open Banking concepts with corporates that allow controlled access to their clients' data through APIs and will continue to do so absent clear policy guidance and regulation.

The challenges in South Africa and elsewhere will be to ensure that Open Banking is implemented in a way that (i) improves financial inclusion and (ii) does not cause banks to be in violation of their statutory duties in relation to consumer protection, treating customers fairly and privacy and data protection.

Towards the end of 2016, the Intergovernmental Fintech Working Group (IFWG) was formed by South Africa's National Treasury, the South African Reserve Bank, the then Financial Services Board and Financial Intelligence Centre. The IFWG provides a platform for future regular engagements with industry on focus areas like crowdfunding, Open Banking and their regulation. Whether the legislator in South Africa eventually chooses to introduce a mandatory or enabling Open Banking regime, it is not likely to be prioritised over other proposed reforms aimed at improving financial inclusion.

The way forward for Africa

On a broader level, FSD Africa is a financial sector development programme that aims to build efficient and robust financial markets in countries where its member organisations are located, including Rwanda, Nigeria, Kenya, Mozambique, Tanzania, Uganda, Zambia and Southern Africa. It supports technological interventions like Open Banking and regional convergence and collaboration. While acknowledging the UK and European Union approaches as a meaningful point of reference, it recognises that African markets are diverse, and the needs of African consumers differ widely, making a single approach to Open Banking across the continent improbable.

Although the European Union's PSD2 legislation and the UK Open Banking Standard can be used as a starting point, legislators in African countries must create frameworks that address the needs of their specific markets. This may take time and may stifle innovation in the short term, but the long-term benefits of Open Banking justify a careful, thoughtful and thorough approach.

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