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Innovation Insights

**Open Finance:
The Key to Financial
Inclusivity and
Empowerment**

Innovation
Insights

Across the last decade, the banking and financial services realms have witnessed industry-shifting changes that have changed the way technology, business approach and customer relationships are being handled.

Many aspects related to the way states, businesses and individuals consume financial services have diversified, across several geographies. Behind those shifts, the arrival of Open Banking.

It has indeed allowed both the growth of a whole new category of industry players comprised of Fintechs, Challenger or neo-banks, as well as a new banking paradigm for traditional players, looking to retain their client base by investing heavily on innovation.

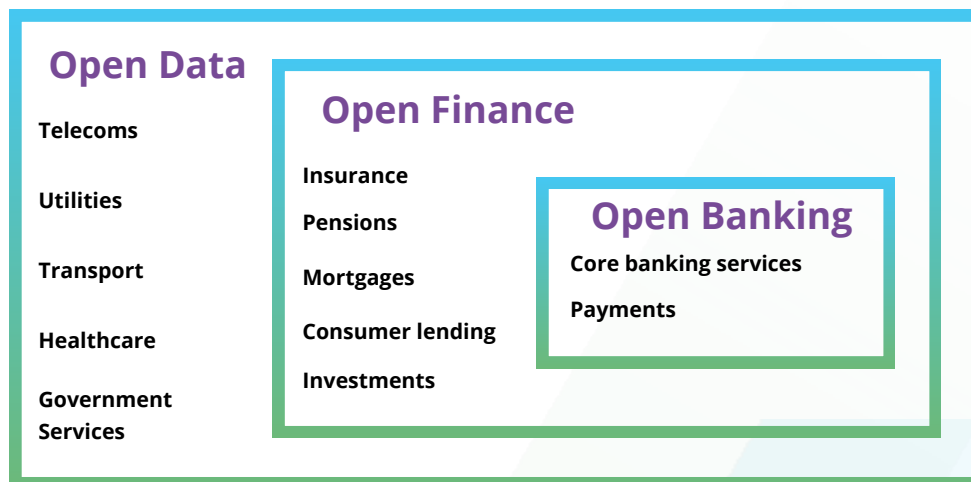
Open Banking has nonetheless reached a certain limit in terms of impact, and Open Finance is now the main talk in terms of Innovation efforts. With a broader reach in terms of financial services accessed through the power of collaboration and APIs, Open Finance is perhaps the so-long awaited answer to the financial inclusivity challenges that are still met in many regions across the globe, especially Africa, alongside an effort to provide transparent, innovative, and adapted financial products.

What is Open Finance, and how does it differ from Open Banking?

Open Finance describes a financial ecosystem where consumers are sharing their finance-related data with financial service providers across multiple industries such as banking, insurance, pensions, mortgages, investments, etc. It encompasses a broader range of “functionalities” in terms of financial products as it allows individuals for instance to manage comprehensively and transparently all aspects of their finances, thanks to the use of APIs.

During the last decade, the term Open Banking has taken a prominent place in the financial landscape, and confusion still exists when it comes to differentiating it with Open Finance. Essentially, Open Finance goes beyond the payment and checking account information shared via Open Banking, by offering consumers access to a wider array of financial services within a shared framework.

In other words, where Open Banking only focuses on a common framework to facilitate the exchange of financial services, Open finance extends the concept by linking and expanding the range of products and services within the same framework, making it dynamic and evolving.



Source: Centri, 2022

What are the drivers to adopt on Open Finance initiative?

As discussed in our previous article regarding Hyper personalization, banks, but also overall financial service providers are engaged in a consumer satisfaction race in which customers have now access to a large array of competitors, all eager to maximize their product and services optionality range to attract and retain a maximum of clients. This readiness is not just important from a healthy bottom-line standpoint, but it is also essential to keep track of changing regulations, compliance obligations, adaptability to market shifts and of course a growing for financial services.

Therefore, multiple imperatives lie behind the necessity to advocate and adopt Open Finance:

- **Staying ahead of the curb:** an immediate access to market data allows readiness to shift in according with technology innovation and consumer preferences.
- **Regulatory compliance:** An Open Finance environment allows all types of financial service providers to stay on top of compliance obligations in line with data privacy, cybersecurity, anti-money laundering and anti-fraud regulations.
- **Real-time customer experience enhancement:** The race to stay on top of customer preferences is on, and an increased level of cooperation and interoperability between FIs and third-party providers can help keep up the rhythm.

- **Technology innovation:** Fintechs have brought a whole new range of technology innovation in the payment area thanks to Open Banking, impacting all banking core tech stacks. The same is to be expected with the overall Financial service providers.
- **Data-driven strategies:** as delved into within our Data articles series, developing a data-driven market approach is an utmost imperative. Belonging to an Open Finance ecosystem would not enhance that, but it would help access rich and up-to-date data streams.
- **Financial inclusion:** despite multiple initiatives and efforts, allowing financially under-served populations access is still a major challenge. Open Finance could finally bring an industry shift to this issue. By leveraging interoperability and cooperation among financial stakeholders, developing targeted products fitted to a realistic market segmentation can become reality.

What are the key principles behind the establishment of an Open Finance Ecosystem?

There are several imperatives in terms of data and commercial governance if an Open Finance ecosystem is to have the expected impact, both on companies and customers:

- **Data Control:** Consumers are made explicitly aware of the multiple usage their data will be made of should they accept to share it. This consent lies at the core of the ecosystem
- **Security and Privacy:** All stakeholders need to account for strong and up-to-date security infrastructure, ensuring all customer and company data remain secure across the ecosystem
- **Transparency:** Data access and data usage should be accounted for and open for evaluation by the concerned parties in a timely and transparent manner
- **Durability:** The infrastructure put in place needs to be able to sustain a permanent access to data usage information and direct consumer access.

Besides being a matter of innovation and financial inclusivity, Open Finance must first be a matter of personal and online safety. Stakeholders involved must indeed invest heavily to be able to sustain all further development in terms of adoption and product innovation.

Open Finance is a roadmap to materialize; what are its key milestones?

The easy, and first, answer, would be to state that to have an Open Finance ecosystem in working order, one is to first have a strong and established Open Banking framework. Such stance has its truth to a certain degree, but taking into consideration the above discussed points, the opportunities lie far beyond the simple banking paradigm. What can we thus consider as important steps to be accomplished to facilitate an Open Finance ecosystem arrival, especially in developing countries?

1 . Adopting and strengthening an Open Banking framework: In the grand scheme of things, this is a quick win, thanks to several documented regulations, data governance principles, namely the PSD2 and the GDPR, as well as a history of success-stories in Europe and other geographies. As such, regions that are looking to have a strong foundation for their Open Finance initiative must start by leveraging existing guidelines to support this first layer of interoperability and analysing the first results.

Furthermore, it would engage stakeholders in strong innovation efforts, customer-centric strategies, and data culture development.

2 . Fintech proliferation: Open Finance does not happen without this essential component. From neo-banks to digital wallets fintechs to insurtechs and others, the ecosystem needs the appearance of these actors that bring challenging business models, disrupting traditionally rigid industries and fully data driven. As such, allowing for a fostering ecosystem, driven by strong funding and growth support, is necessary.

3 . Regulatory initiatives: Open Finance's key word is Open. That means a streamlined access to consumer data to keep up with ever changing market conditions and preferences. This cannot happen if governments, in an interoperable and regional paradigm, don't delve into regulatory initiatives to support both the security aspect but also the innovation paradigm needed in the market. Pushing both on the cybercrime front and the financial inclusivity is sine qua non to reap the expected results in terms of financial empowerment.

4 . Proliferation of Experimentation

platforms: Led by both public and private actors, the establishment of these platforms is necessary to allow fintech to experiment, develop, ensure market adoption outlook but also regulatory compliance. Putting together such environments would on one hand ensure all standard of cybersecurity and data governance are respected and reduce risk for fintechs to launch unfit products.

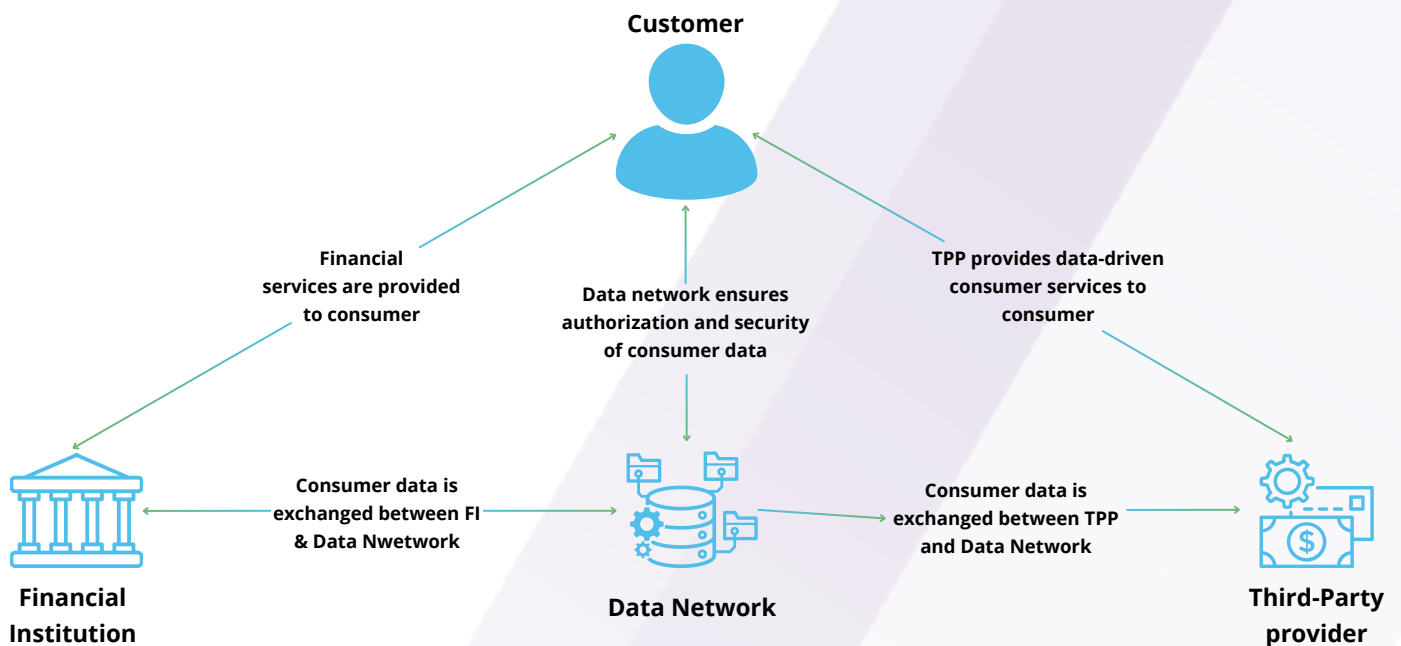
5 . Fostering Collaboration: As much as collaboration is a founding principle of Open Finance, the right exchange frameworks and attitudes must be in place. Collaboration between traditional banks or insurance companies and newcomers in the form of fintechs and insuretechs must emerge to allow for an innovative Open Finance development, in an equal-to-equal relationship.

6 . API Integration and standardisation:

There is no Open Finance if there no APIs. Standard, secure, scalable, and integrated APIs. Open Finance requires indeed both elasticity and scalability to allow evermore financial services providers and consumers to join the ecosystem and allow for seamless operations. Interoperability, as mentioned earlier, rests on the standardization of the APIs across diverse financial systems, in line with regulatory compliance. Best design practices for instance, lie in using RESTful principles to ensure adaptability and JSON data handling approach.

Open Finance is a roadmap to materialize; what are its key milestones?

As discussed, a strong data workflow and exchange framework, powered by standard APIs is necessary to ensure all actors operate in seamless conditions, allowing for all stakeholders to play their unique role in a larger scheme.



Source: Centri, 2022

Is Open Finance the answer to Africa's long sought after financial inclusivity?

Microloans, instant credit scoring, seamless KYC processes, or payment initiation. A short but nonetheless representative list of the current financial use cases in which most Africans still find strong challenges accessing and building financial history around.

Having said that, the continent witnessed during the last few years the rise of several factors, discussed above within the milestone part, that is currently helping a shift of paradigm in Africa's eventual readiness for an Open Finance successful implementation, among which:

- About 1 in 5 African countries' central bank is currently driving an Open Finance exploratory initiative, pushing for collaborative ecosystems between Financial Institutions and Fintechs, and allowing for a regulatory shift discussion. (Centri)
- Between 2021 and 2023, Fintechs account for the type of start-up enterprises that have accumulated the largest share of funding across the continent.
- Digital Transformation is a reality in Africa, with most countries' population's majority connected to mobile internet via a smartphone, and the proliferation of financially connected services such as M-Pesa, MarocPay, etc.

However, the continent, home to 1.4 billion people, still counts more than 350 million adults with no access to financial services altogether. Infrastructure, costs, connectivity sometimes and lack of awareness are playing a role in the current state of the lack of inclusivity. Furthermore, most financial institutions, especially banks, still run on legacy systems and data-driven initiatives are still not legion in the area.

Yet, the premises allowing for the eventual coming of Open Banking and Open Finance on the continent are existing, as Africa is a very specific market, home to specific consumer expectations and regulatory approaches.

Indeed, despite the continent's overall low rate of access to financial services, it can rely on an important mobile connectivity rate, opening the door to a whole different array of use cases and specific problematics. Fintechs and third-party entities can utilize unconventional data types to drive innovative product strategies. This approach can create significant value for varied customer groups throughout Africa, particularly reaching individuals typically marginalized. open banking in Africa is likely to evolve uniquely, adapting to suit the specific needs and context of the region. Among the critical use cases in Africa, we can cite:

- **Crowdfunding investment:** this would allow stronger financing in economies where most companies are small (2-10 employees) to very small (1-5 employees) to cover for the lack of financing provided by banks for these small businesses.
- **API-driven strategies:** By accessing customer transaction history, behaviour, etc, businesses in Africa can have a better understanding of their clients and strengthen their business health by adapting themselves to consumer expectation, rather than drive the market and rely on adoption.
- **B2B payments:** Delayed payments, hard impact on treasury, delayed supply chains, power of intermediaries are all results of a poor B2B payment infrastructure, to which Open Finance, in this case Open Banking, can bring a solution by streamlining processes and payment information between stakeholders.

What is then needed to put together the premise of an Open Finance framework in Africa?

- **Robust and Integrated Regulatory governance frameworks:** Contrary to Europe, where the EU drove as a single entity the PSD2, and implemented its governance framework across the board, Africa's reality is far more complex. As there is no economic and commercial superseding entity, the success of the implementation of the said framework is depending on a higher than ever level of collaboration between all countries central banks, regulatory and compliance bodies, and private sector actors. Standardizing the approach and agreeing on a common roadmap will allow for the highest chances of success.
 - **Industry-led initiatives to push the right narrative and framework:** Although Europe's example shows that a regulatory-led initiative can be fruitful, the financial and monetary policies diversity in Africa call for industry-led initiative to maximize the success of it.
- From pan-African payment industry actors to localized innovative fintech through interbank groups, an overall dialogue between said actors can help build two main discussion foundations: on one hand, keeping a realistic approach thanks to a real-time understanding of the market and its dynamics, making sure the initiative's narrative has the right fit, and ensuring the economical viability of the initiative on the other.
- **Implementation of regulatory and technology enablement platforms:** directly in line with the above discussed point, fostering a successful Open Finance ecosystem in Africa lies with the success and the strength of adapted technology platforms. Reducing regulatory uncertainty, developing collaboration, increasing market entry success odds are among the benefit of a successful platform. To allow that, African financial stakeholders must come together in a spirit of cross-border collaboration to allow the best chances of success for all fintechs involved in the process.
 - **Data Privacy:** perhaps the most critical factor of success. Data sovereignty and security is a prime subject on the continent. From central banks to personal users, African have a very conservative approach to their personal information and history, thus putting together the utmost strength of security is an absolute key to ensure any initiative's success.

- **Digital Connectivity:** What could be considered the main strength of Africa Open Finance approach is also one of its main challenges. Digital connectivity in many areas and broadband strength and availability is still a work in progress. It is not to be considered for granted.

Conclusion

Open Finance represents a transformative leap beyond Open Banking, extending its foundational principles to a wider array of financial services, and fostering a more inclusive, transparent, and interconnected financial ecosystem. This evolution not only enhances consumer control over financial data but also significantly amplifies the reach and effectiveness of financial services globally, particularly in under-served regions like Africa.

By leveraging robust regulatory frameworks, fostering innovation through fintech proliferation, and promoting interoperability through standardized APIs, Open Finance has the potential to address long-standing barriers to financial inclusion. As it stands, Open Finance is not just the next step in financial technology's evolution—it is a crucial enabler for economic empowerment and a more equitable distribution of financial services worldwide.

The journey towards fully realizing the benefits of Open Finance is underway, with clear milestones and a strong focus on consumer safety, data transparency, and collaborative development setting the path forward.

We eagerly await your insights!

Please don't hesitate to contact us at businessinnovation@hps-worldwide.com

We're all ears and ready to engage in meaningful discussions.

The logo features the letters 'HPS' in a bold, black, sans-serif font. To the right of the letters is a stylized slash mark. The slash is composed of two parallel diagonal lines: the top line is light blue and the bottom line is light green. The background of the entire page is white, with a large, faint, light purple diagonal shape behind the text. The page is framed by a blue border on the left and top, and a green border on the bottom and right.

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