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Innovation Insights
**Payments, Transport,
& More: How can Open
Finance bring integrated
& practical solutions to
Africa**

Innovation
Insights

Africa's future lies with Open Banking and Finance.

This bold and straight statement has been at the forefront of most of the conversation around the solutions to ensure a future where Africans are financially integrated. As discussed in our latest article, "Open Finance: The Key to Financial Inclusivity and Empowerment", the "Open" process could indeed be the source of several changes in the daily interaction of Africans with financial services, ranging from digitalized payments to informed credit scoring.

As we reviewed the necessary pre-existing conditions to allow a thriving Open Finance to establish itself and for all stakeholders to drive innovation in our previous paper, including digital infrastructure, regulatory support, financial literacy, partnerships, data security, and access to capital, this article will now dive into several interrogations that directly challenge and support the Open Finance applications in Africa. From the right implementation methodology to real-life use cases with one main question in mind: how will Open Finance bring innovation while integrating with the cultural and social specificities of the continent and its multiple economic logics?

1. Choosing the right Methodology to Define Open Finance Implementation in Africa: Use Cases vs. Data-Based Approaches

Home to multiple economic realities and mismatched data availability levels Africa has a unique yet varied economic and social landscape. As such, when it comes to defining the application methodology, the latter must be robust, adaptable, but also rooted in the continent's regional unique landscapes. The debate between a use-case based approach and a data-based one is pivotal, but the most effective solution might lie with a hybrid vision.

- **Use-Cases based approach:** Such a method focuses on identifying and developing specific scenarios where Open Finance can solve real-life problems.
 - **Relevance:** Practical and directly relevant to population needs, this method can bring much efficiency, but can also remain localized. The solutions address indeed tangible issues faced by individuals and businesses. The benefits are therefore immediate and noticeable, thus increasing adoption.

- **User-centric design:** the end-user is at the center of the design process. By understanding their needs, preferences and behaviours, solutions can be tailored to maximize the added value.
- **Prototyping and testing:** The use case approach allow for a pragmatic design, in line with real-life scenarios. Developing adapted new processes can allow targeted user feedback, paving the way for a robust and effective financial product offering as a result.
- **Data-based Approach:** This technique aims to analyze vast amounts of data to uncover trends, gaps, and opportunities. This approach remains high-level, highlighting broader issues rather than individual use cases.
 - **Comprehensive insights:** Data Analysis can reveal patterns and correlations that are not immediately obvious and help identify systemic issues that allow for effective call for actions.
 - **Predictive capabilities:** using data insights can lead to proactive enablement rather than reactive solutions and predict future trends and behaviours.
 - **Scalability:** Data can help inform open finance strategies that are scalable, across different regions, ensuring for a maximized impact.
- **The Hybrid methodology:** Although both approaches have their merits, a hybrid paradigm integrates a comprehensive strategy for implementing Open Finance in Africa. It allows optimal outcome thanks to:
 - **A balanced perspective** between individual needs and broader trends
 - **Enhanced validation** of feasibility and potential impact of each use case
 - **Adaptive and resilient solutions,** thanks to continuously refined and improved processes

2. Targeting the right use cases for Africa

To illustrate the profound impact Open Finance can have on daily lives in Africa, let's explore specific use cases across different sectors. These examples will allow us to directly gauge how Open Finance applications and process could have a hand in adding value to citizens' daily life.

1 - Peer-to-peer lending & crowdfunding:

Credit access is among the most pressing issues across the continent. Lack of credit history, collateral or investor recommendations, especially for small and very small businesses, that cannot scale if not backed financially by an external source, account for some of the reasons behind banks' reluctances to lend, even in the case of microcredits.

Solution: By establishing a lending and/or crowdfunding platform, which can thrive on Open Finance principles by gathering data from multiple and alternative sources (social media, national registry, debt history, etc.) and allow for a scoring system, small businesses can have easier access to investors, both local and international, to review their business profiles and plans, access transaction history and financial history if any, and decide on lending. The difference with a traditional crowdfunding portal lies with the data implemented. By using Open Finance principles and technologies, new sort of datapoints such as peer recommendation can be implemented in a scoring process and cover the lack of financial history.

2 - Mass and Individual transport payments:

Cash accounting, fuel management, small change issues and lack of proof of revenue are among the most important issues car and motorcycle taxi drivers and owners are facing across African geographies. Digital and card payments have indeed not reached the inside of taxi cabs yet, notably due to the high price of a POS for an industry where margins are quite thin and already stretched due to continuous oil price changes, car repair fees and the arrival of alternative transport solutions such as trams and VTCs.

Yet, need for public transport is only on the growth. By 2024, Africa's public transport is expected to turn over \$8.39 billion in revenue. Furthermore, it is expected that by 2030, 50% of Africans will be urbanized and in need of transport solutions.

Solution: Open Finance can lead to initiatives facilitating a unified payment system, based on easy to use and cost-reduced technologies such as QR code payments to provide payments directly to the taxi driver's personal or corporate account should he be part of a taxi corporation. This system would allow a client to scan a QR code showing up on an app or else, specific to each ride, integrated with a mobile wallet, providing instant confirmation of payment. Such a process provides simplification, convenience, income security, and digital economy promotion.

3 - Healthcare payments

Healthcare is one of the most pressing challenges across the continent, not just from an access to health centres standpoint, but also payment-wise. Many are those who lack immediate funds or access to traditional banking, especially in front of medical emergencies. Health Expenditure in Sub-saharan Africa reached almost \$100 billion in 2021 (World Bank), but still with most of it paid in cash or check according to most sources, as precise numbers on digitalized payments in healthcare in the region are scarce, showing the lack of.

Solution: Open Finance could enable patients to link their mobile money accounts with microloan providers. They can access immediate credit through their smartphone, pay the hospital bill directly, and repay the loan in small and manageable installments. From financial burden reduction to increased access to healthcare, through financial integration and the ability to building a credit score, Open Finance has in one instance has allowed four main financial challenges to be tackled effectively.

4 - Agricultural Financing:

Agriculture is still the most important economic sector in the continent. More than 500 million Africans depend on small or micro-scale farming as their primary source of livelihood. Credit access for farmers remains to this day one of the most challenging issues in Africa, across all countries where agriculture has a deep role in the economy. In fact, the demand for loans by Small and Medium Agricultural Enterprises (Agri-SMEs) is around USD 90 billion per annum. Many farmers who are looking to scale or simply keep up with the rampant prices of fertilizers or seeds must eventually ask for financing, but Lack of credit history and cash prevalence aren't helping.

Solution: Thanks to data aggregation platforms, that seek to build credit profiles by gathering data from different sources including mobile money transactions, farm produce sales, peer recommendations and supplier and client feedback, we can remedy to the lack of traditional credit scoring by engaging alternative data sources and allow farmers agricultural loans, all the while taking into considerations the environment's social and cultural specifics.

5 - Government Subsidy Distribution:

On a continent where government welfare still plays an important role to ensure socio-economic balance, developing a digital infrastructure to ensure proper, targeted and intermediary-free subsidy distribution is becoming a must. For most African countries, it is indeed not just about ensuring the funds go to the right people, but also abiding by proper anti-money laundering and anti-fraud rules to ensure compliance standards.

Solution: By linking government databases, focusing on digital identities, with mobile money or payment accounts, which operators oversee ensuring a secure and verified onboarding and avoiding fraud attempts, subsidies can be immediately transferred to the populations in need, allowing transparency, accountability and process speed.

Governments, Fintechs, Banks, and end-users all play a part by interconnecting their systems and data to allow for seamless processes.

3. Is Open Finance the key to payment means convergence ?

One of the most pressing challenges to allow Open Finance to thrive but perhaps most importantly, to engage a durable financial integration on the continent, is the question of payment means convergence. Convergence, crucial for the future of payments, operates on two levels: the convergence of payment methods and industry convergence accelerated by payment services.

The former enables seamless, omni-channel payments across various means such as Mobile Money, which Africa account for 70% of global traffic, and card payments for instance. The latter involves different industries leveraging each other's strengths, such as banking and telecom collaborating to offer mobile payment services for the unbanked, exemplified by Mobile Network Operators and banks working together.

On a continent where mobile money accounts grew by 12% to 1.75 billion in 2023, while international remittances grew to almost \$29 billion, overcoming the limitations of mobile money for international transactions by linking mobile wallets with Card networks is a major opportunity to integrate further Africans in global digital commerce (Business Post Nigeria, 2024).

Finally, financial inclusion remains a critical issue globally, with 1.7 billion adults lacking a bank account. In Africa, with its strong mobile penetration rates, the convergence of industries like banking and telecom has significantly advanced financial inclusion through mobile money services. Despite challenges like lack of interoperability and poor infrastructure, countries or groups like Morocco and the West African Monetary and Economic Union are making strides by launching interoperable mobile payment schemes, allowing various transactions and aiming to provide more services to unbanked customers. This initiative aims to reduce cash usage, extend banking services via mobile wallets, and create value for the unbanked population.

Conclusion

Africa's future undeniably hinges on the successful implementation of Open Banking and Finance. The transformative potential of Open Finance lies in its ability to revolutionize financial services, fostering financial inclusivity and empowerment across the continent.

This article has highlighted the critical need for a hybrid approach—combining use-case based methodologies with data-driven strategies—to effectively navigate the continent's unique economic and social landscapes.

Real-life applications illustrate the profound impact that Open Finance can have on daily life in Africa. By addressing immediate and tangible issues, enhancing financial integration, and promoting sustainable economic growth, these use cases demonstrate the versatility and efficacy of Open Finance solutions. Collaboration among stakeholders—governments, fintechs, banks, and end-users—will be crucial in driving innovation and ensuring the seamless integration of Open Finance with the continent's cultural and economic specificities.

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 diagonal slash mark. The slash is composed of two parallel 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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