

AMF Open Finance Workshop

27th May 2021



Financial Sector
Conduct Authority

Agenda

S. African Landscape & Open Finance Survey Findings

Our Recommendations and Feedback from the Industry

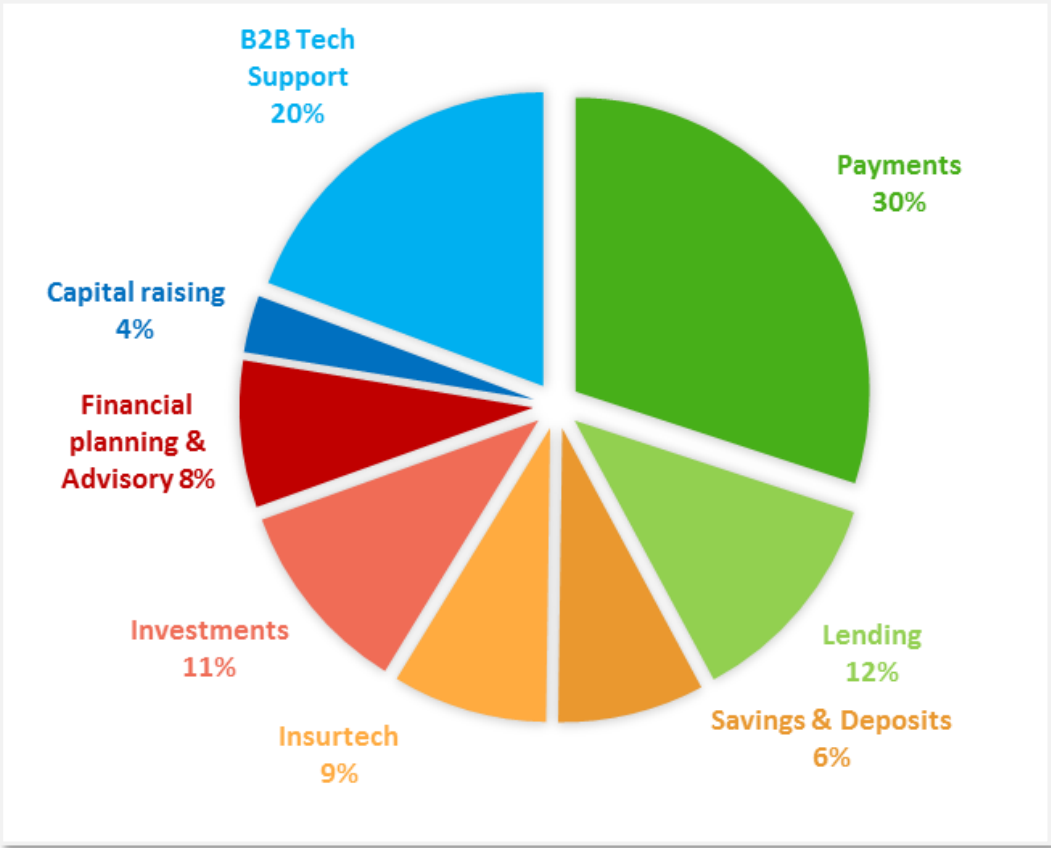
Next Steps



13.33 x 7.50 in

Fintech activity in SA has been on the rise. Our study of the market uncovered 220+ Fintechs. This number is expected to grow rapidly as digital adoption increases.

Distribution of Fintechs, by Sub-industry segment



- The results of SA Fintech sector deep dive revealed a total of **222 active operational fintech companies** in South Africa (in 2019). The fintechs identified in the study were mostly founded in the last 11 years, were not born out of the corporate structures of any incumbent financial services provider, and currently have a physical presence to serve a South African clientele.
- **Payments is the largest and most mature segment is the payments making up 30% of overall Fintech activity in SA.** This is mostly due to the large need for migrant workers in the country to send money to their countries of origin in Southern and other parts of Sub-Saharan Africa. The second largest segment is **B2B Tech (AI, Blockchain, RPA) making up 48% of fintech sector.**
- Most **fintechs in SA offer services already provided by traditional financial services, but in a cheaper and faster manner, while also looking to serve low income and underbanked customers** – whereas traditional financial services tend to focus on middle income and high net worth individuals

What is Open Finance?

Definition

- A framework to allow consumers and enterprises to access and share their financial data with third party **providers** who can then use that data to develop innovative products and services with consent.
- Unlike Open Banking which is concerned with current accounts/transaction data, open finance's **scope is much wider**, affecting home loan providers, consumer credit providers, investment and pension funds, as well as general insurers and intermediaries
- *Our key regulatory position is that customer financial data belongs to the customer who therefore have the right to give consent for that data to be shared with licensed third party financial services providers*

Key use-cases



Payments



Digital Banks/ Neo Banks



Account Aggregation



Alternative Lending



Insurtech



Personal & Business Financial Management

Enabling Technologies



Open APIs



Screen Scraping



AI/ML & Big Data

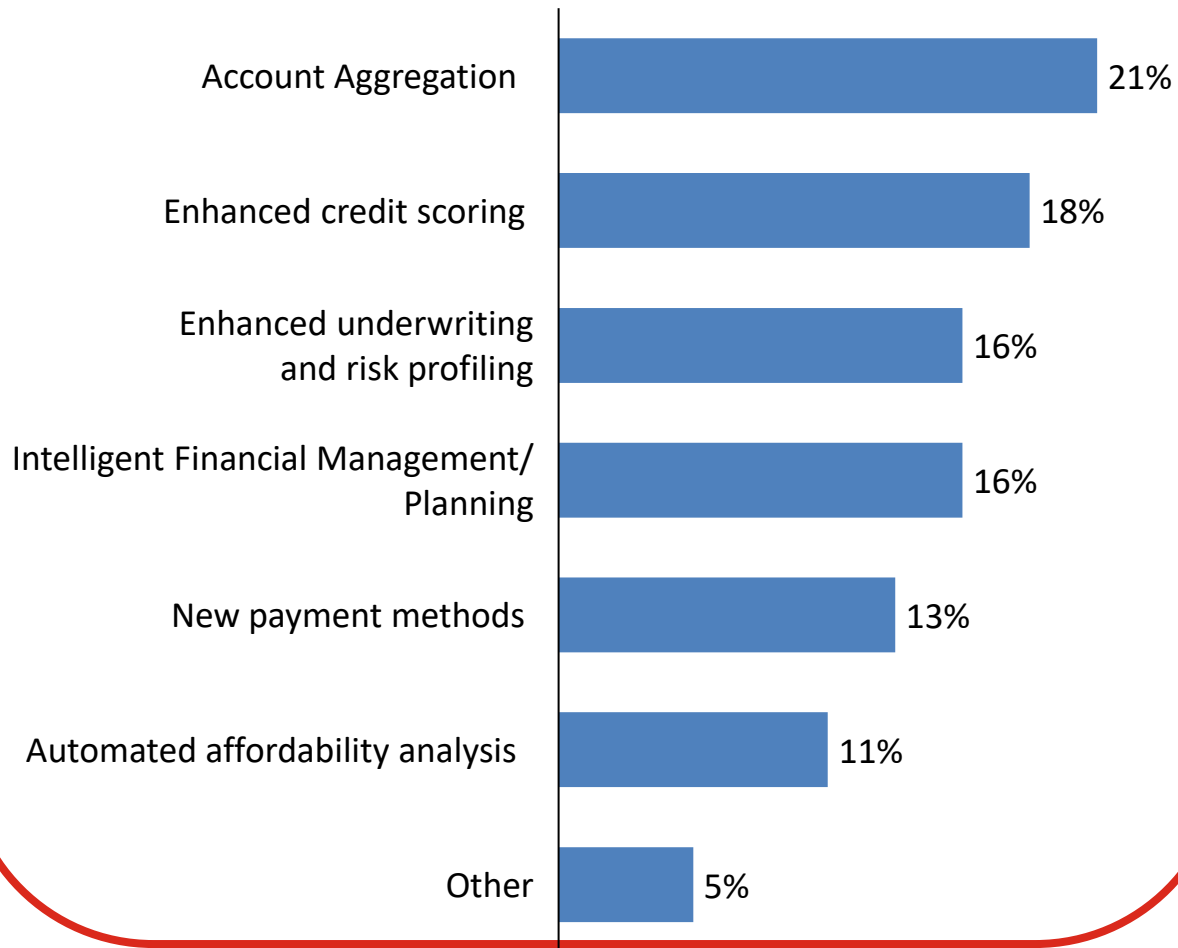


Cloud Computing

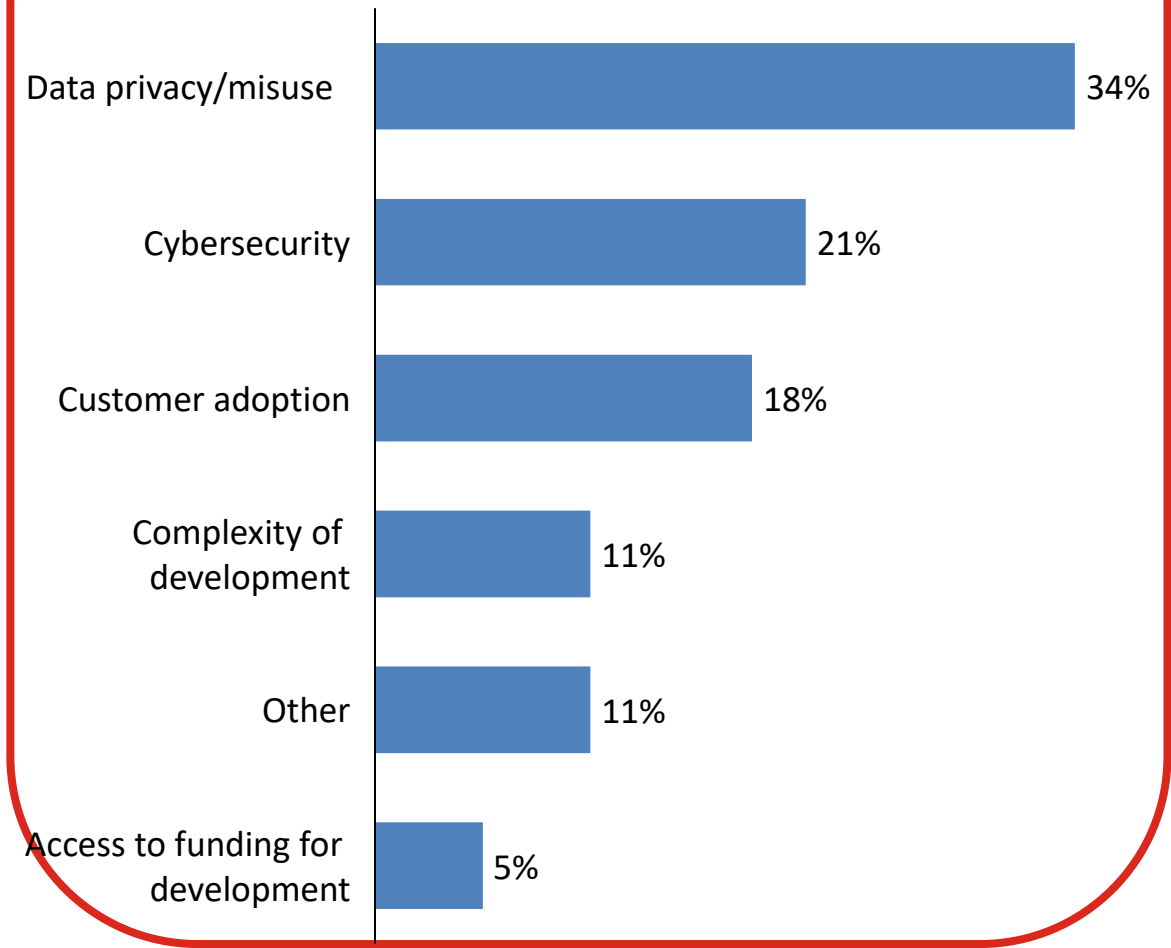
Open Finance Survey Results (1/2)

**75 Fintechs and Incumbent financial institutions surveyed*

Key Open Finance Benefits



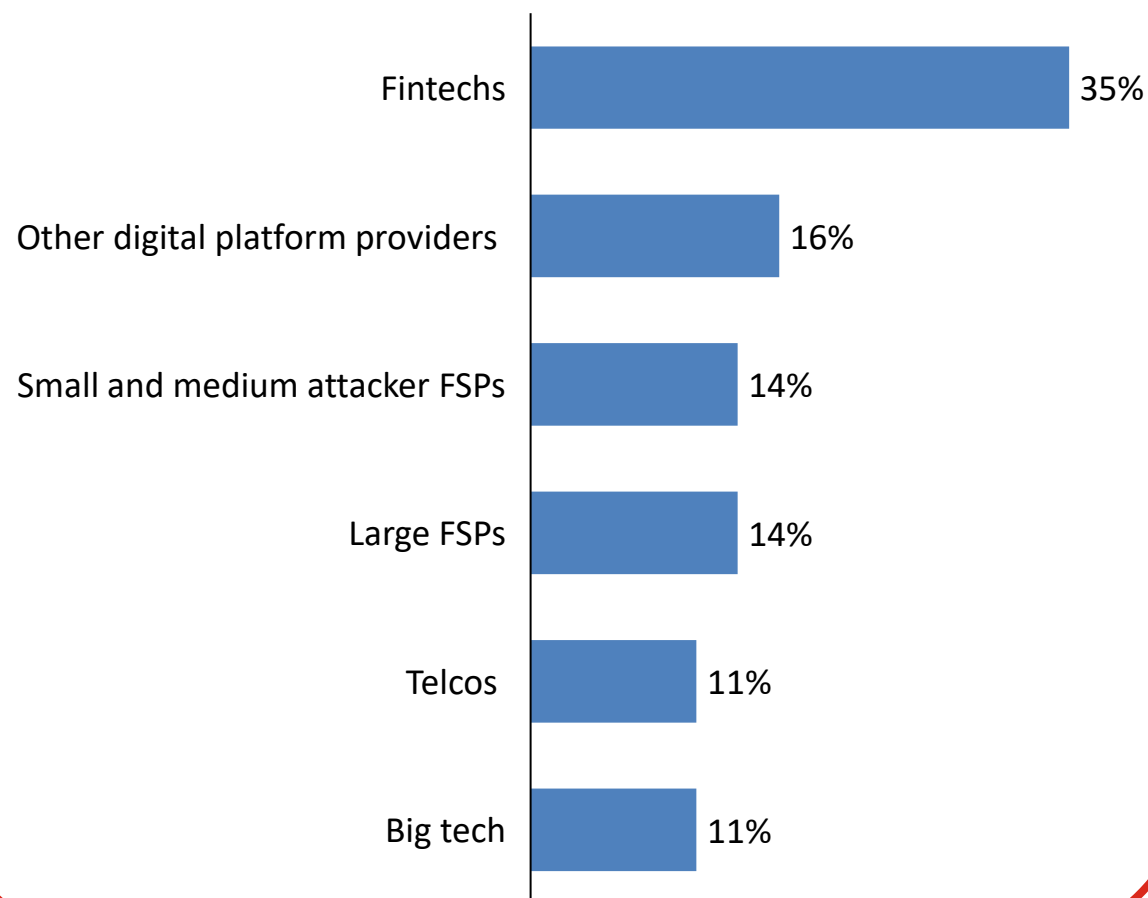
Key risks and Challenges



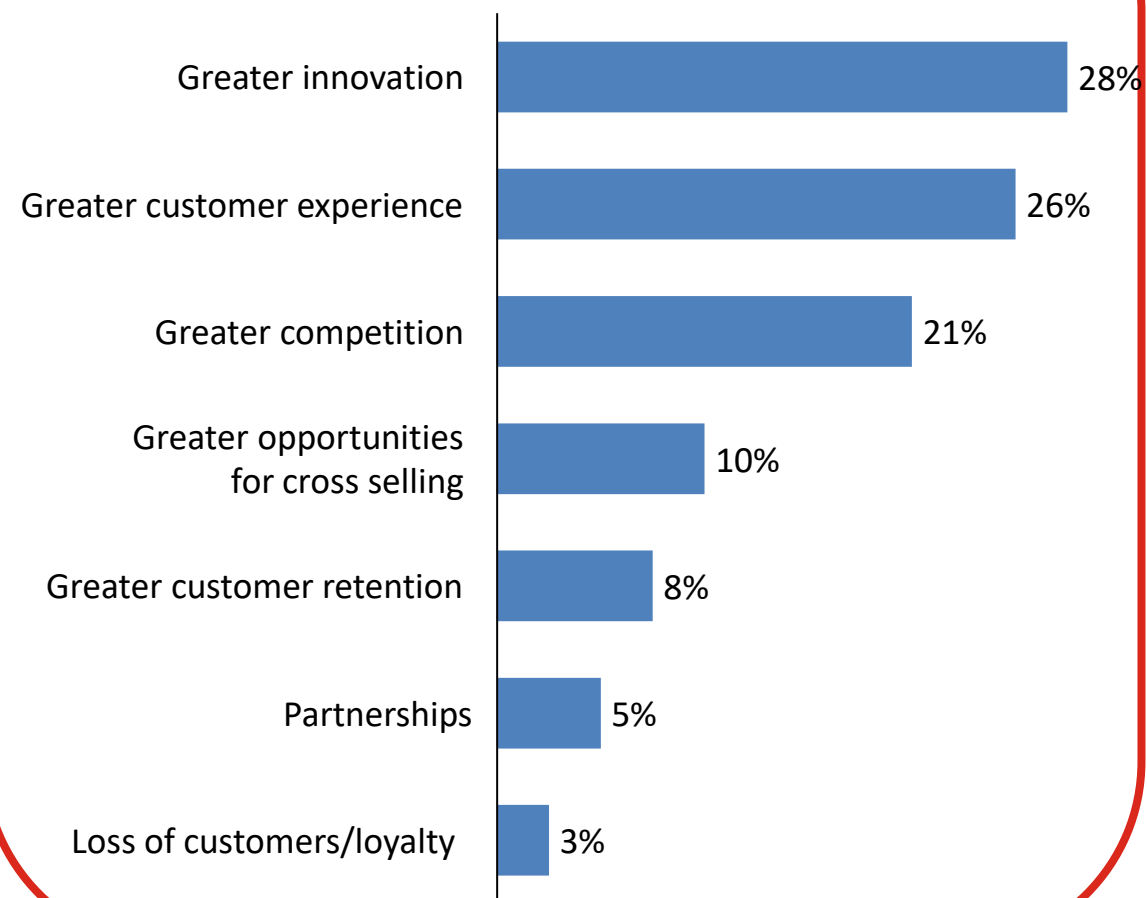
Open Finance Survey Results (2/2)

**75 Fintechs and Incumbent financial institutions surveyed*

Which players stand to gain most from Open Finance



Key expected outcomes from Open Finance

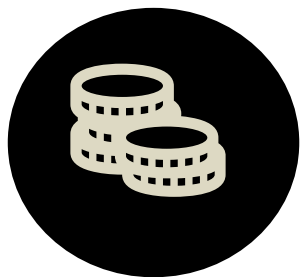


Our study of the landscape revealed innovation around 6 use-cases



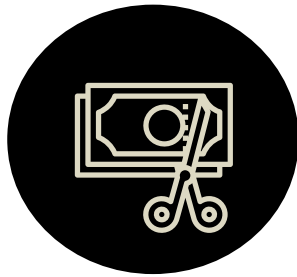
Payments

Customer transaction data is used by 3rd party providers to offer **alternative and value added payments products** that offer an enhanced experience, are cheaper and faster



Account Aggregation

Customer Data sourced from incumbent FSPs is used by 3rd party providers to **aggregate accounts into a single interface** making it easier for customers to manage their financial services



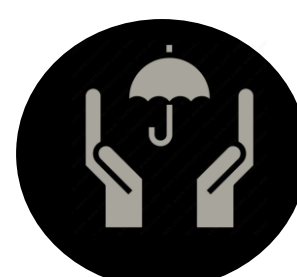
Alternative Lending

Customer Data sourced from incumbent FSPs is used by 3rd party providers for **credit scoring, affordability analysis and providing alternative lending products/value added services**



Financial Management

Customer Data sourced from incumbent FSPs is used by 3rd party providers to offer personal and business customers **financial planning and analytical tools** to assist customers to manage and track their finances



Insurtech

Customer Data sourced from incumbent FSPs is used by 3rd party providers to **help customers identify personalized and best priced insurtech products**



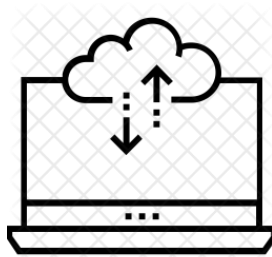
Digital/ Neo Banks

Digital banks **exchange data and integrate services from third party service providers via APIs**, in order to offer their customers a broader range of financial services



Additionally, our study revealed shifts in incumbent business models towards adoption of Platform-based Business models underpinned by Open Finance

Banking as a Platform (BaaP)

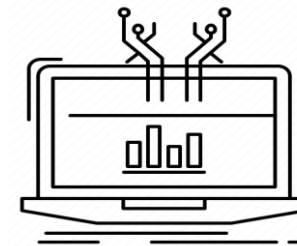


What it is: banks integrating services from third party fintechs, in order to offer their customers a broader range of financial services.

How it works: fintech services are fully integrated into the bank's app/webpage user interface via API.

- **Customer Experience:** Owned by the bank
- **Primary Channel:** Mobile or Web
- **Product ownership:** Owned by the bank or Third Party (depends on use case)
- **Customer Onboarding:** Shared between banks and Third Party (depending on use case)
- **Customer Service:** Provided by banks and supported by Third Party

Banking as a Service (BaaS)



What it is: licensed banks enable other businesses to integrate banking services directly into their own products.

How it works: the business' frontend is connected to the BaaS provider via API, allowing the business to offer banking services themselves in their own apps and websites.

- **Customer Experience:** Owned by third party
- **Primary Channel:** Developers portal
- **Product ownership:** Owned by Bank
- **Customer Onboarding:** Shared between banks and Third Party (depending on use case)
- **Customer Service:** Provided by Third Parties and supported by Banks

Survey findings revealed that Open APIs and Screen Scraping are the main technologies used to facilitate Open Finance

Open APIs

Open APIs are APIs that are used by external partners and developers to build innovative apps and products.

- Open API enable banks to exercise **greater control** over the type and extent of data shared and enable more secure access management and monitoring.
- Furthermore, open APIs provide advantages for third parties and customers, including potential improvements to **efficiency, data standardisation, customer privacy, and data protections**.
- Challenges regarding open APIs includes, the **time** and **cost** to build and **maintain APIs**;
- There is a lack the **lack of commonly accepted open API standards** in some jurisdictions; and
- The **economic cost for smaller banks** to develop and adopt open APIs have been cited as another challenge.

Screen Scraping

Screen scraping is the process of using automated scripts to collect displayed data elements from one application so that the data can be used by another application.

- Scraping from online platforms generally requires **the use of customer credentials to log in and access the data** as if the screen scraper was the customer.
- Screen scraping can undermine a bank's ability to identify **fraudulent transactions**, as banks cannot always distinguish between the customer, data aggregator, and an unauthorised third party that is logging in and extracting sensitive data.
- Screen scraping **doesn't allow customers to control the scope and duration** of access.
- Screen scraping may be perceived to **violate the terms and conditions** of customer accounts at financial institutions.
- However, screen scraping, when practiced by responsible parties, is a viable mechanism for data access with good control for security and operational risk.

Survey findings revealed several benefits and risks from Open Finance/ customer data sharing practices

Benefits

Financial Inclusion



Personalization



Affordability



Increased options and competition



Lower Barriers to entry



Risks

Insufficient customer education to obtain Consent



Data privacy abuses and data misuse



Discrimination, lack of Fairness and transparency



Cybersecurity, AML/CFT



Interoperability and inconsistent data sharing practices



Agenda

South African Landscape & Open Finance Survey Findings

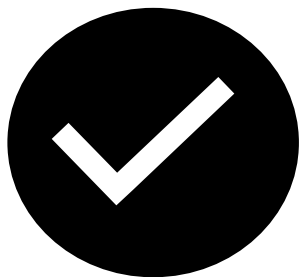
Our Recommendations and Feedback from the Industry

Next Steps



13.33 x 7.50 in

Our Open Finance consultation paper recommendations focused on 6 themes



Consent

Define customer consent, disclosures and customer education required to obtain it, and when it can be revoked



Customer Protection

Establish customer protection practices are in place to ensure customers are treated fairly



Dispute Mechanism

Ensure a complaints management process is in place to resolve disputes between all parties in the customer chain



Data sharing Standards

Explore the benefits and risks around APIs and other Data Transfer mechanisms like Screen Scraping



Commercial Models

Distinguish between data that should be freely shared with third parties, and value added data sets that can be sold under a commercial agreement

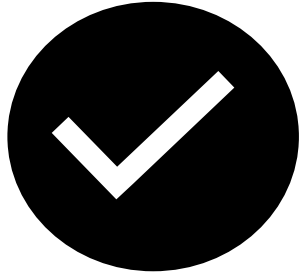


Data Protection

Establish the level of data protection and liability framework required to ensure customers data is secure and customers' privacy is upheld



Since issuing the consultation paper, we have received feedback from industry that will need to be workshopped further



Consent

- **Consent framework** needs to be clearly defined
- Consent should be **use-case specific**
- **3rd Party Providers** must be licensed



Customer Protection

- **Defined liability framework** defining **data security and consumer education standards and indicating who will be liable for data breaches**



Dispute Mechanism

- Mixed views between having a dedicated **Ombudsman** specializing in **Open Finance** vs leveraging **current complaints mechanisms**



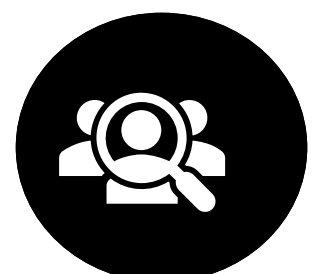
Data sharing Standards

- **Mixed views on Screen Scraping**
- **Open API standards needed**, making distinction between premium API data sets vs vanilla data sets
- Look into establishing an **industry-wide oversight committee**



Commercial Models

- **Mixed views on free vs. fee model** on data shared with 3rd Parties
- Need to clearly **define value added data sets**
- **Consumer not to bare costs of access to data. Should be borne by 3rd Parties.**



Data Protection

- Data protection standards and liability framework should **build on POPIA**
- **Where does the liability belong across the chain?**



Agenda

South African Landscape & Open Finance Survey Findings

Our Recommendations and Feedback from the Industry

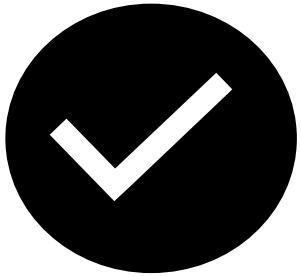
Next Steps



13.33 x 7.50 in

Next Steps: Two workshops will be undertaken, focused on detailing the six themes identified in the paper

Workshop 1



Consent

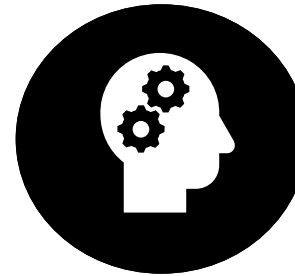


**Customer
Protection**

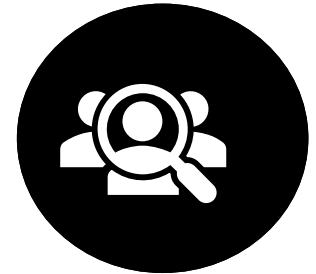


**Dispute
Mechanisms**

Workshop 2



**Data sharing
Standards**



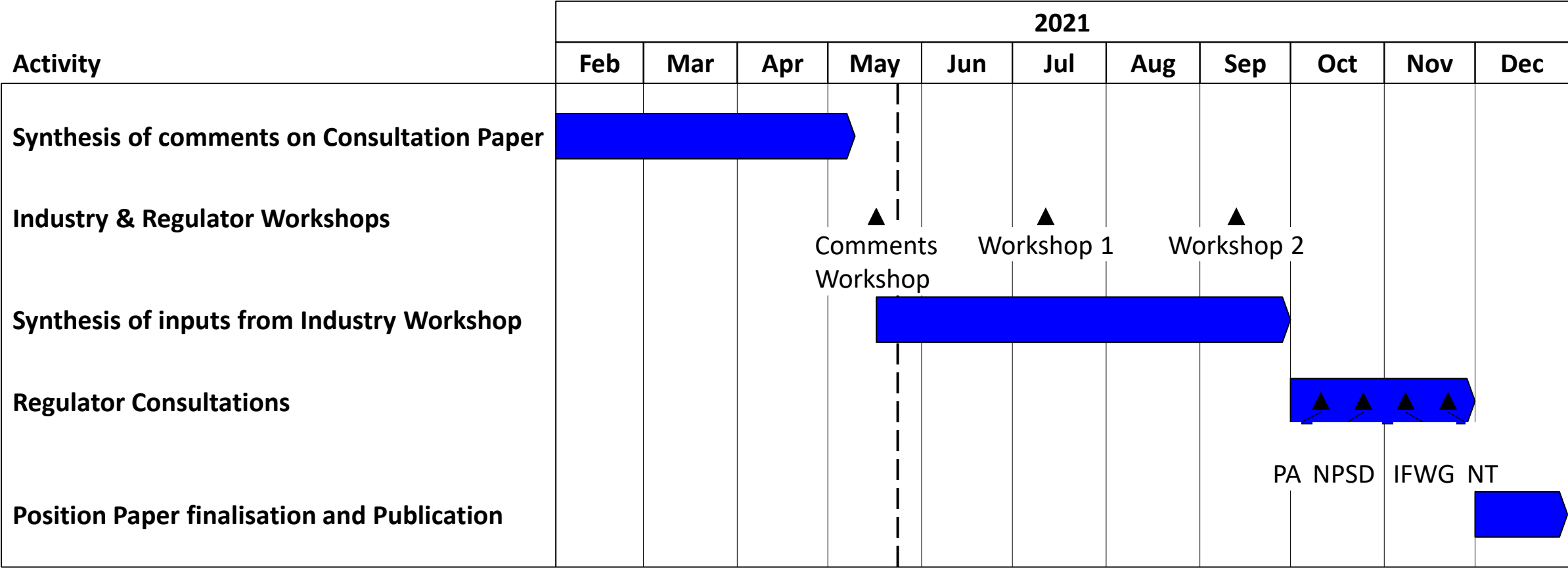
Data Protection



**Commercial
Models**



Next steps: Workplan



Today



Questions

