

How open banking is revolutionizing financial services in Africa

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Coding Colorful Banking

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**How does the Africa fintech market
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Africa is home to 370 million unbanked consumers, with more than twice as many mobile money accounts as bank accounts in many African countries, according to International Monetary Fund (IMF) data.

What is vital to understand, is that many western studies on the African financial market often incorporate extreme bias. Africa is made up of many different and moreover diverse cultures, which cannot and should not be generalised, as frequently seen in western studies. What results is often an inaccurate picture; while the western mindset considers someone not financially savvy for being unbanked, this isn't true in Africa due to the widespread use of mobile banking. While westerners need banks to manage their everyday lives, those in Africa often do not. The fact is that the starting point from where Africa currently exists has never existed in non-African countries; this must be taken into account. To paint an accurate true portrayal of the current financial situation in Africa, we must look at banking in Africa from a different perspective, its true perspective.

Despite the obvious challenges that lie ahead, a structural shift is nonetheless taking place within the African financial services sector. In a continent which has historically been very much "offline", 10% of banking transactions are now digital. Between 2020 and 2021, African tech startups tripled to around 5,200 companies. With approximate revenues of \$4 billion to 6 billion in 2020, McKinsey estimates that a 10% annual growth could take place in the African financial services market, resulting in revenues of \$230 billion by 2025 ⁽¹⁾. Even so, for digital payment services to succeed, an overhaul of both customer and service provider preferences must take place, which takes into account the true needs of each African country and its financial consumers, not clouded by the western perspective.

99[%]

70% of African consumers use debit cards through mobile payments & 99% in Ivory Coast & Kenya⁽²⁾

77[%]

01

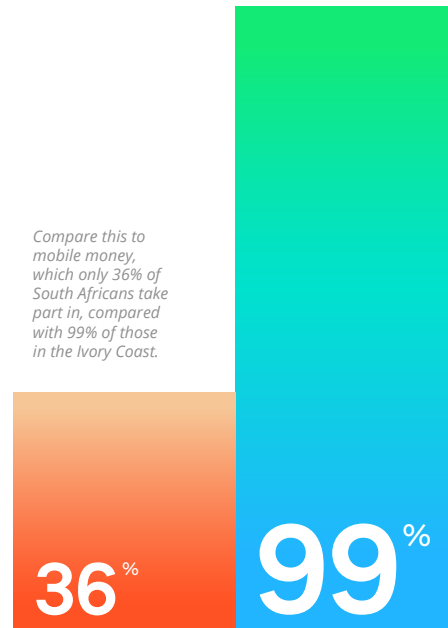
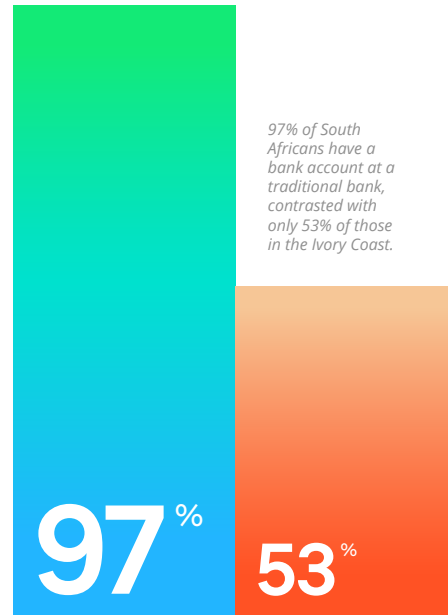
The initial barriers to finance in Africa

Africa, though a continent geographically, is not a continent politically.

In order to accurately understand the barriers to finance in Africa, we must first acknowledge the huge gap that exists between the rich and poor, and the very different needs which evidently result. Not only this, but **each country within Africa has different historic banking practices; we cannot group all of the African nations together under the generic heading of “Africa” and expect an accurate picture to be formed.**

As can be seen, the figures vary drastically depending on what part of Africa we take into consideration. ⁽²⁾

In terms of socio-economic status and banking preferences in Africa, more financially well-off customers are looking to their financial partners to help make working abroad, travelling, or sending money abroad to family easier and more cost-effective. Low international transfer fees are the priority. On the other side, there are people of lesser means, who live in the middle of nowhere and who have no access to cash, frequently living a



day's walk away from a physical bank. Currently, mobile money has largely solved this problem, as one only needs a mobile phone – not even a smartphone – to make payments, and credit can be uploaded almost anywhere. We must then ask ourselves, how do bank accounts benefit these people, if they can always pay conveniently through their phone? Digital banks must bring other benefits, such as improving financial literacy, increasing their savings, or by providing the option to receive micro-credits.

African fintechs have their work cut out for them. There are currently four main barriers they must face:

- Scale and profitability
- Navigating an unstable environment
- Dealing with scarcity
- Building adequate corporate governance entities ⁽¹⁾.

Many Africans are using feature phones, sometimes without internet, and in some countries internet usage is even censored. Moreover, **historic African banks are not willing to share their customer data with competitors or open their API's with fintechs, which is essential for open banking. Next to this, only two African nations have any sort of data privacy and protection laws (Kenya and South Africa).**

As it stands, there are infrastructure and financial literacy issues, making a continent-wide digital banking overhaul challenging. Africa has the largest informal business sector in the world, which makes up around 90% of the Sub-Saharan African economy. It's therefore no surprise that informal financial services are on the rise, which not only provide no opportunities for financial growth, but also come with a significant amount of risk. Despite this, it is important to know that being “unbanked” in the way the western economies see things, does not pose the same type of problem in Africa. African countries have their own unique set of standards and banking requirements; while you need a basic mobile account to receive funds, most people do not need a bank account as part of their daily lives. While it may not seem like such an influential element, Africa having the lowest internet speed in the world, is not without its implications.

At the same time, when looking at the finance industry in Africa, we can see that various mobile operators are providing various mobile money capabilities which enable people to pay, and furthermore that the banks are providing traditional capabilities such as savings and credits. But as long as there is interoperability at no or low cost between all the various mobile money operators as well as with the banks, people cannot benefit from owning a bank account and manage their daily finances (i.e. make payments) as well as benefiting from banking services (savings and credits in particular). As a minimum, open banking should precisely address such interoperability issues.

02 The current status of Open Banking in Africa

African banks' have shifted their strategy to better serve the individuals, enlarge their reach and be, eventually, in a position to increase revenue. Their plan is to use embedded finance while leveraging emerging tech, and this comes with challenges to overcome: mitigating cybersecurity and supply chain risks.

As part of their future vision, African bank's planned to invest heavily in these five initiatives: "Integrating cybersecurity with business strategy, enabling API access for third parties to integrate our financial products and services into their platforms."⁽³⁾

As such, open banking in Africa is not a concept of the distant future, it's already here. In the African nations of Uganda, Egypt and Ghana, open banking is already active. What's more, is that WhatsApp banking is gaining momentum with the banks in Kenya, Tanzania, Rwanda, Malawi and South Africa. This would make sending and receiving money as easy as sending a WhatsApp message. This would also add pressure to the traditional financial industry (including mobile money providers) to address the challenges within their customers' experience.

Back in December 2020, the Central Bank of Kenya (CBK) proposed a 5-year digitalization plan to completely overhaul the nation's payment industry, which outlines a strong support for open banking. Next to this, as recently as this past May, guidelines were proposed by Nigeria's central bank for open banking in the country. With a stable and fast-growing economy, Ghana has created a regulatory sandbox pilot to further the development of the fintech sector, which includes open banking. Several South African government agencies, as well as the Intergovernmental Fintech Working Group (IFWG) have also joined forces with the South African Reserve Bank to create the Innovation Hub in 2020, with the goal of advancing experimentation and innovation in fintech.

They also consider the current and mid term challenges to be: **"leveraging emerging technologies to engage customers, using environmental, social, and 27% governance (ESG) elements to differentiate our customer-facing products and services, and localise our sourcing to remove reliance on overseas providers (e.g., for developer resources, technology equipment)"⁽³⁾.**



(3): 128 decision-makers at African banks with responsibility for credit/lending, customer experience, digital banking, open banking or ecosystem initiatives, payments, and the technology stack. Source: A commissioned study conducted by Forrester Consulting on behalf of Sopra, July 2022.

03

The different use-cases which reshape the African banking industries

IBM is currently working with the Ethiopian bank Dashen to expand its open banking experiences with partners as well as fintechs, neo-banks and corporations through cloud integration architecture intended to benefit the customer experience. They have partnered with Bank Zero in South Africa to offer a fast, easy and continuous banking solution for digital customers using open source.

Take for example the South African open finance platform truID which enables users to securely access consumer financial data from all of the major South African banks. Stitch, also South African, has created an API which enables developers to easily connect apps to financial accounts. Then we have Nigerian startup OnePipe, which aggregates

APIs from fintechs and banks in a unified manner, and Mono who works with banks to create open banking infrastructure. NMB Bank in Tanzania created the nation's first fintech sandbox in October 2021, which allowed payments to be made more quickly by allowing fintechs to access banking APIs.



04 Improving financial inclusion in Africa through open finance

Financial inclusion is a prominent issue in Africa; however, open banking has the real possibility of offering a beneficial solution.

Open banking would help tackle previously established financial barriers. For example, digital finance solutions are often cheaper than traditional banking services, as the cost of operation for fintech platforms is often 60-70% less than traditional banks. This allows Fintechs to keep costs low, allowing for greater accessibility to those who historically couldn't afford banking services. Next to this, as 50% of Africans live in rural areas, making it extremely difficult not to mention danger-

ous for the risk of being robbed, to travel to physical branches, digital banking could provide them with the banking services they need without having to travel long distances.

For example, Africans living and working in rural areas are frequently paid in cash, and with banks at such far distances, interbanking would make it easier to minimise cash and increase safety, as employees would be paid using bank accounts. Open banking can create bridges to connect all of these banking systems that aren't possible with mobile money, which even if convenient, has limitations.

With values like transparency and openness, fintechs can restore faith in financial institutions by establishing trust from the start. While it must be acknowledged that minimum levels of financial literacy are required for one to understand the need of digital financial services in the first place, fintech products can help clients manage their finances and become better informed, through the educational materials and robo-advisors provided.

As AI and machine learning algorithms are used to determine whether an individual is suitable to receive a loan, existing prejudices experienced during in-person meetings may be eliminated, or at least greatly reduced, preventing a loan officer's bias from influencing the final decision. In regard to a limited credit system, fintech solutions do not base their loan granting decisions on credit scores; big data allows them to use transactional data to provide real insight into whether a potential customer can pay a loan, meaning more individuals will have the ability to receive loans as individuals or businesses, resulting in further growth opportunities.

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Open banking would allow non-banking Fintechs to easily open accounts for those financially excluded, as they are able to go where banks do not want to go.

Adedeji OLOWE
a trustee at
Open Banking Nigeria



05

How does the Africa fintech market need to improve?

While open banking has the potential to bring financial services to many more Africans, **the continent's fragile banking systems need to be completely overhauled in order to meet their customer's digital needs in a safe and sustainable manner.**

While the current statistics indicate the African fintech market looks promising, necessary improvements are required to position the continent as a global player. What's clear is that any growth would not be uniform across Africa's 54 countries; each country represents an opportunity for specific services to flourish.⁽¹⁾ Next to this, it's vital to remember that it is essential to stop judging Africa based on western banking standards—Africa has its own standards and own financial needs, and these differ per country within the continent.

So how does one become a market leader in such a unique market? By establishing a large active user base, and quickly. Monetization strategies must be clear and rolled out effectively, their value proposition must be in line with market needs, while finding a way to manage lower-than-expected revenue per customer, and by coming up with a solution for Africa's offline market, as well as actively engaging and working with regulators.⁽¹⁾

With banking having traditionally been a private affair, for financial inclusion and an improved economy to be made possible through open banking, significant shifts must take place not only regarding how financial information is exchanged, but also

in terms of data protection laws, which as it stands are few and far between. With even higher technical demands, more investment in terms of knowledge and monetary funds is also required. In terms of the standardisation of regulations surrounding open banking, this must also gain further headway to ensure some kind of continuity. Next to this, significant technological developments are necessary to up the cybersecurity measures in order to protect customers from cyberattacks in the form of fraud, phishing and invasions. As it stands, many African banks have weak internal data controls, leaving them susceptible to fraudsters.

For open banking to successfully support lowering the cost of money movement and improve financial savviness globally, it must have access to clean customer data. If the data is compromised or is unstructured, as it has often been with African banks, it will fail.

As it stands, the next few years are set to be incredibly influential, with the likelihood of seeing the next generation of African fintech unicorns emerging. Who will carve out their share of this expanding market? We can't wait to see what the future holds.

\$30 billion

according to McKinsey & Company, African fintech revenues have the ability to increase eightfold, reaching \$30 billion by 2025⁽¹⁾.

McKinsey&Company



**Sopra Banking
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Bruno held Director positions in various industries including Staffing, Pharma and Intl Supply Chain. For the last 10+ years, he has been focusing on Financial Services and Open Finance.

At Sopra, within a focused team of 5 people, he participated to the creation of the Digital Banking Engagement Platform which enabled 30 banks across 15 countries in Eu to comply with PSD2 at the time of its enforcement (2019).

He has been co-chairing the Berlin Group openFinance Advisory Group for the last 4 years, he is the Vice President for new technologies at the French Cluster "Finance Innovation", and earlier this year, he was chosen by the EU Commission to join its expert group on the Financial Data Space.

