

Open banking has the potential to transform South Africa's financial-services sector

By [Harsha Maloo](#)

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Every South African should care about open banking. It would give consumers more control over their financial data and empower them to use the banking services that best meet their needs.



Source: Supplied. Harsha Maloo, head of payments at Synthesis.

Open banking promises to reinvent the way consumers view and interact with financial products and services.

Simplistically put, open banking refers to use of open application programming interfaces (APIs) in the banking industry. APIs have been around and have been used since the early days of computing, however the access to and use of the APIs by third-party providers only became popular in the early 2000s with the rise of the internet and web-based services.

APIs are the enabler that powers open banking, but alone they are not enough to achieve open banking.

Currently, several banks in South Africa have exposed some APIs that can be used by businesses, partners, suppliers, providers, or resellers in a one-to-one arrangement, either directly to partners or through a marketplace. This is not open banking. These are just partner APIs that the banks have made available in order to build closer partner integration.

Open APIs are a step ahead of partner APIs in that they are published on a platform or website that is open to the public and where anybody may sign up, test, and use them.

Honestly defining open banking

However, if these APIs were created using the bank's proprietary protocols, then that is also not open banking. Open banking occurs when these APIs are standardised and when an ecosystem of players working together to provide financial services utilises these standard protocols.

Globally, open banking is still in the early stages of development. Several strategies have been adopted to achieve open banking across the globe. Some countries such as UK and member states of the European Union have adopted a regulator-driven approach, in which the regulator controls the standards that the banks are mandated to implement.

On the other hand, United States and countries in Far East Asia have taken a market-driven approach where this initiative is led by industry participants at individual capacity and there is no regulatory framework in place.

In certain countries such as India, Hong Kong, and Singapore, the regulator has set up the necessary infrastructure for open banking, but the initiative is scaled by industry participants based on market forces and competition.

South Africa joins global community

South Africa has likewise joined the global community by contemplating and ideating on open banking. In the absence of any regulatory direction, the industry has adopted a market-driven approach. However, the banks are merely using this market-driven strategy as a front to monetise the APIs and add a new revenue stream. As the incumbents have chosen to operate in a partner-led mode, it is not actually opening the ecosystem for innovation.

Additionally, a select few banks that have made their APIs available on publicly accessible websites are ensuring that the businesses that wish to use these APIs become the partner of the bank. Furthermore, South African banks are building these APIs adhering to their proprietary standards, some citing the CMA (UK) and PSD2 (EU) as their guiding principles. Observing the pattern, it is evident that under the shadow of open banking, the South African banking industry is just strengthening its partner ecosystem.



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On the regulatory side, the Intergovernmental fintech working group has established an open banking integration working group to assess potential implications of open banking in South Africa and articulate policy imperatives. However, this requires further traction.

No matter what strategies are used by these different countries, the fundamental objective remains the same. In essence, open banking seeks to permit the use of open APIs that would let third-party providers securely access customer's financial data from banks and regulated institutions on consent of a customer.

And the key principle that should govern open banking is that consumers are able to securely permission their data with transparent consent for the different services they want.

Driving a triple bottom line

To drive adoption of open banking in South Africa, the impetus needs to be tri-directional – competition, regulator, and consumers. The change needs to happen on all three fronts. The countries where open banking is driven just top-down by regulators, the conversation is usually around APIs and its technical standards and not so much about the business case and how much of the consumer's data can be permissioned by means of these APIs.

To truly harness the power of technology and create a systemic shift, all the players need to come together and ensure that the needs of the consumer are not neglected when balancing the priorities of the regulator and the banks. The regulator should ensure this initiative promotes competition rather than creating another conduit for monopoly.

They should also make sure that the end consumer is safeguarded. The third-party players should act as the consumer's data fiduciary, and empower the consumer instead of using this as an opportunity to penetrate in the market and increase their revenue share. The emphasis for all players should move away from bottom line to triple bottom line (profit, people and planet).



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Open banking allows for development of new and more personalised financial products and services, and improve the overall customer experience. It also drives down costs for customers and helps to increase financial inclusion by providing access to financial services for those who may have been previously excluded from the traditional banking system. And

most importantly, it enhances competition by opening the ecosystem to non-banking players.

It has the potential to transform South Africa's financial-services sector. It can enable banks to access new revenue streams by partnering with fintech firms and reduce their cost of customer acquisition.

It can enhance the fintech's value proposition by giving them power to build an innovative business model, new experiences, products, and services, and provide customers with more personalised, value-added services.

In addition, it can help to improve the security and reliability of financial transactions by providing a secure and standardised way for customers to share and access their financial data. Overall, open banking has the potential to benefit all the players in the ecosystem if adopted correctly and at scale.

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