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HIGHLIGHTS OF THE CBN'S REGULATORY FRAMEWORK FOR OPEN BANKING—EMERGING OPPORTUNITIES FOR FINTECH AND FINANCIAL INSTITUTIONS IN NIGERIA.

Introduction

The Central Bank of Nigeria (the "CBN") in an attempt to provide an enabling regulatory environment for provision of innovative and customer-centric financial services released the Regulatory Framework for Open Banking in Nigeria (the "Framework") on February 17, 2021. Prior to the issuance of the Framework, banks operated in a closed ecosystem, with exclusivity of access to customer information, locking out innovators, and forcing customers to rely solely on the digital channel offerings of their respective banks. With the issuance of the Framework, the financial services space in Nigeria will experience the simplification and integration of multiple and complicated financial services.

In light of the growing need for the integration of banks and other financial institutions with innovators and customers in the financial services space and the increasing adoption of Application Programming Interface ("API") based integrations in the industry, the Framework has become fundamental to filling this gap and driving innovations in the financial services sector. Hence, the purpose of the Framework is to enhance financial inclusion, foster the sharing and leveraging of data with third party financial services firms to build solutions and services that provide efficiency, greater financial transparency, synchronization and options for account holders across Nigeria to inter-operate within the financial system in Nigeria.

Given that the Framework seeks to achieve ease of accessibility of data to third parties and innovators, financial institutions can expand their addressable

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market, achieve product diversity, commercialize core systems and encourage flexible financial options that will be beneficial to customers and in tandem with international best practices adopted in other jurisdiction in relation to open banking.

This article highlights the key provisions of the CBN's regulatory framework for Open banking and the overall implication on the Fintech and Financial institutions.

What is Open Banking?

Open Banking is generally understood as the practice of sharing financial data with the consent of customers for use by third party providers in order to tailor services and applications. The objective of Open Banking is to have a payments and markets infrastructure which provides end-users with the ability to review all their banking and financial information in a central location. This is regardless of how many bank accounts they use, and which financial institution is used. For instance, almost everyone in Nigeria has two or more accounts. You receive funds in multiple accounts and make expenditure across the same multiple accounts. When you need to track inflows, outflows, check your balances, reconcile customer payments etc., you must log into the separate banking products just to perform mundane clerical tasks.

Consequently, from an end-user perspective, keeping track of your various inflows, outflows, balances, and due liabilities across all your suite of banking products is simply time-consuming. Now imagine a product/service that allows you click on one simple dashboard and you see all your inflows, outflows, balances, and liabilities across all banks. That is the aim of open banking. The implementation of open banking requires adoption of common standards for technology use, agreements on data sharing and regulatory guidelines.

Most advanced countries such as United Kingdom, United State of America, Japan, Singapore, China already have a form of open banking in place. Several Banks in UK and US have entered into strategic partnerships with accounting and insurance software providers such as Xero and FreeAgent to provide seamless and integrated accounting and insurance services for their business banking customers.

Benefits of Open Banking

The ability for end-users to view consolidated information about all their financial products across all authorized providers in a single location will yield productivity benefits for end-users whilst creating new opportunities for service providers. Specifically, small companies who leverage the output/solutions from open banking will benefit from the convenience of having a consolidated view of their banking activities (i.e.,

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balances, inflows, outflows etc.). Open banking will give small companies the opportunity to reach a larger customer base by partnering with larger banks to sell their products. Furthermore, the reduction of time-consuming manual and administrative efforts required during reconciliations will be a productivity benefit. For service providers, financial institutions will be able to sell more products as they gain more insights into their customers and worry less about overwhelming their customers with new accounts.

One interesting opportunity is the potential for credit growth. A consolidated view of a customer's net worth should allow Financial Institutions to analyse the credit-worthiness of potential clients.

Scope of the Framework

The framework is specifically for banking and other related financial services such as payments and remittance services, collection and disbursement services, deposit-taking, credit, personal finance advisory and management, treasury management, mortgage, leasing/hire purchase, and other services as may be determined by the Bank.

Data and Service Categories

The framework provides for the range of data that are accessible through open banking. The data is grouped into four broad categories – Product Information and Service Touchpoints; Market Insight Transactions; Personal Information and Financial Transaction; Profile, Analytics and Scoring Transaction.

Product Information and Service Touchpoints (PIST)

This includes information on products provided by participating institutions to their customers and access points available for customers to access services, such as ATM locations, contact channels (websites and applications), etc. This category has a low risk rating and can be accessed by institutions without regulatory license, institutions in the CBN regulatory sandbox, licensed payments service providers and other financial institutions (OFIs), and deposit money banks (DMBs).

Market Insight Transactions (MIT)

This includes statistical data not associated to any customer or account, which is aggregated based on established factors. This category has a moderate risk rating and can be accessed by institutions without regulatory license, institutions in the CBN regulatory sandbox, licensed payments service providers and OFIs, and DMBs.

Personal Information and Financial Transaction (PIFT)

This includes data in relation to an individual customer which can either be general information on the customer or data on the customer's transactions. (e.g., balances, bills payments, loans, repayments, recurring transactions on customer's accounts, etc.). This category has a high-risk rating and can be accessed by institutions in the CBN regulatory sandbox, licensed payments service providers and OFIs, and DMBs.

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Profile, Analytics and Scoring Transaction (PAST)

This includes information on a customer, which analyses, scores, or gives an opinion on a customer. e.g., credit score, income ratings, etc. This category has a high-risk rating and can be accessed by licensed payments service providers and OFIs, and DMBs.

Categories of Open Banking Participating Institutions

In addition to the financial service categories through which data sets can be shared, the Framework also divides institutions involved in open banking based on their risk management levels namely:

Tier 0 - institutions without regulatory license: Institutions in this Tier have access to the PIST and MIT data and can only gain access to the data-sharing framework on the sponsorship of either a Tier 2 or 3 institution. The sponsoring Tier 2 or 3 institution stipulates the on-boarding requirements, conducts a comprehensive risk assessment of the Tier 0 participant and registers the Tier 0 institution on the Open Banking Registry of the CBN within 3 working days of the on-boarding.

Tier 1 - Institutions in the CBN Regulatory Sandbox: Institutions in this Tier gain access to the data-sharing framework by virtue of their admission into the CBN Regulatory Sandbox. The Framework however provides that the CBN may establish additional entry requirements as it deems fit. These institutions have access to the PIST, MIT and PIFT data and service categories.

Tier 2 - licensed payment service providers and OFIs, and Tier 3 - DMBs: These Tiers are reserved for licensed payment companies, OFIs and DMBs. In addition to the license requirement, these financial institutions are also required to submit a Satisfactory Risk Assessment Report detailing their financial strength analysis, control environment assessment and risk management practices. The report is to be prepared by at least two partner institutions, which shall include either Tier 2 or 3 institutions. Institutions in these tiers gain access to the PIST, MIT, PIFT and PAST data and service categories.

Key Participants and Their Responsibilities

Provider: Providers are responsible for the publication of APIs, the definition of requirements and technical guidelines for the use of APIs and the definition of data and services available through the APIs. They are also to carry out Know Your Partner due diligence exercise on partner institutions and establish data access and service level agreements (which are to be revalidated annually) with their partner institutions. The providers are jointly responsible with their partner institutions, for any loss to the end-user, which is not occasioned by the negligence or fraudulent acts of the end-user.

Consumer: Consumers are responsible for obtaining the end-user's consent to the proposed data sharing. In obtaining consent, the Consumer must specify the

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implications of the consent to be given and the actions that may be performed on the account of the end-user. Consumers are to present the consent agreement in the end-user's preferred language and form. A copy of the consent agreement is to be made available to the end-user and the end-user's consent is to be revalidated annually, and when the end-user has not used the service within 180 days. The responsibilities of the Consumer with respect to obtaining the end-user's consent are in line with the provisions of the Nigeria Data Protection Regulation (NDPR). Under the NDPR, prior to obtaining consent, the data controller (in this case, the Consumer) must ascertain that the end-user has the legal capacity to give consent and must inform the end-user of the right to withdraw consent at any time.

Fintech: This includes companies providing innovative financial products and services. The Framework recognizes that a Fintech can be either a provider or consumer within the open banking system. Further, a fintech is to leverage API to produce innovative and interoperable products and solutions, while ensuring that all alterations to a provider's published API are done with the consent of the provider and are based on the provisions of the Data Access Agreement.

Developer Community: They develop APIs based on requests from participating institutions. Members of the developer community are to execute service agreements by outlining the business requirements and technical guidelines with partner institutions. They are also to employ secure coding and development standards and practices and strictly avoid interaction with the production server of the partner institution.

Central Bank of Nigeria (CBN): The CBN has an oversight obligation on the implementation and operations of Open Banking in Nigeria and is responsible for the enforcement of the Framework. The CBN is obligated to facilitate the development of Common Banking Industry API Standards within 12 months of the issuance of the Framework, and the maintenance of the Open Banking Registry. Further, the CBN is tasked with the responsibility of applying the Consumer Protection Framework to Open Banking disputes between the participating institutions and end-users, and arbitrating disputes between participating institutions before the commencement of judicial proceedings.

Rights of Customers and Redress Mechanism

The Framework sets out several guidelines for the protection of the customer whilst using open banking. Most notably, participants are required to ensure that the protection of the customer is paramount to their services and adhere to the provisions of the CBN Consumer Protection Framework. Additionally, agreements presented to the customers should be in the customer's preferred language and consent shall be given, and thereafter re-validated annually (or where the service has not been used for 180 days).

Participants (and their partners) are

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jointly responsible and required to bear the liability of any loss to the customer unless such loss was as a result of the wilful negligence or fraud against the customer.

Disputes between customers and the participating institutions are to be resolved by the CBN in compliance with its Consumer Protection Framework.

Meaning and Importance of APIs to Banking

An Open banking API, or application program interface, enables financial institutions to share financial data with one another, typically through a third party-developed application. Third party-developed applications are created by emerging Fintech companies and collaborators looking to make the digital banking industry better for everyone.

API Open banking platforms allow communication between two different applications, typically one from a Fintech provider and the other a financial institution. With a concept like open banking, security concerns over financial data are taken seriously by financial institutions and Fintech firms alike. They both must meet regulatory rules and requirements in order to share their open API banking platforms, so they share deep interest in providing customers the most secure banking experience possible.

The CBN Regulatory Framework for Open banking provides for the adoption of a common banking industry API standard spanning technical design standard, data standard, information security standard and operational rules. The development of this common standard is to be regulated by the CBN and is to adhere to the guiding principles of openness, reusability, interoperability, modularity, robustness, user-centricity, and security.

In developing an API, participating institutions are to take into consideration the data and risk level attached to the data that is to be shared through the API. The Framework further provides for specific standards to be applied for technical design, data, and information security.

Conclusion

The opportunities presented by Open Banking for enhancing financial inclusion, improving competition in the financial services space and promoting efficient services are compelling cases for the implementation of Open Banking in Nigeria. The Bank is committed to adopting beneficial international standard practice in the Nigerian Banking Industry with due cognizance given to risk management and applicability in the Nigerian environment.

The CBN issued the Regulatory Framework for Open Banking in Nigeria to foster the sharing and leveraging of customer-permissioned data by banks with third party firms to build solutions and services that provide efficiency, greater financial transparency and options for account holders and to enhance access to financial services in Nigeria.

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