



2022 PENSION LAWYERS ANNUAL CONFERENCE

OPEN FINANCE

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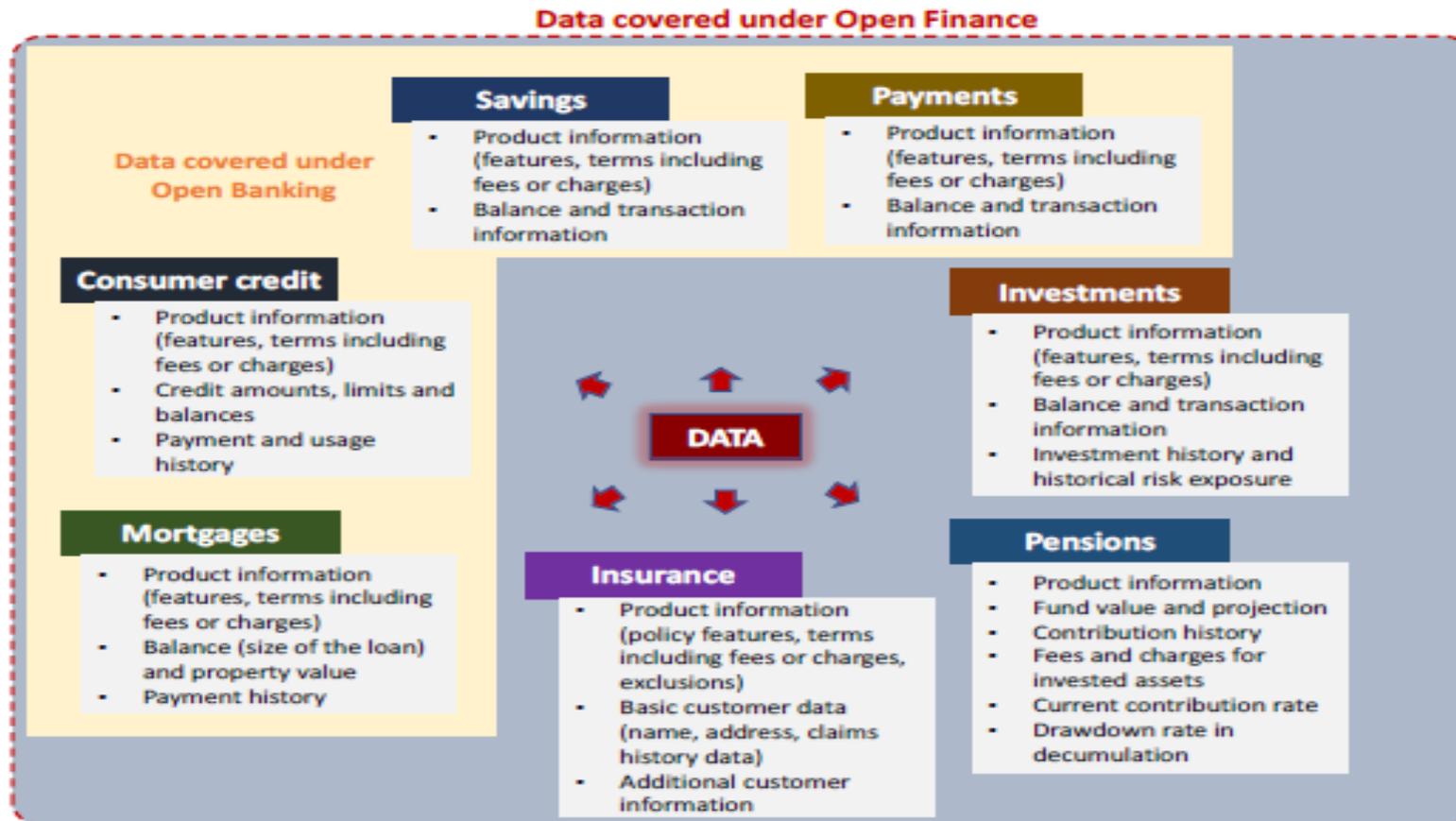


What is Open Finance

IFWG, November 2022, 'Articulating the policy rationale and policy imperatives for Open Finance in South Africa'

- Open finance is defined as a framework that allows the sharing and leveraging of customer permissioned financial data by financial services providers with third-party providers who can then use that data to develop innovative products and services with customer consent.
- Whereas open banking focuses primarily on the sharing of customers' banking current account/ transaction data, open finance is broader as it affects other financial services such as consumer and business credit, insurance, investments, pensions, and mortgages.
- Open finance also extends beyond banks to the wide spectrum of financial service providers that store customer financial data such as insurers, lenders, wealth management firms, and others.

Open finance is proposed to be a mandated framework for consent based financial data sharing to licensed third parties safely and ethically



Source: FCA, 2019, Call for Input: Open finance document (2019)



Open Finance Workstreams

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South African Reserve Bank

Focusing on crafting regulatory frameworks on Open Banking – payment systems



Wider focus on crafting regulatory frameworks around Open Finance – emphasis on how the customer is treated, how customer data is handled



Open Finance Working Group established to draw on perspectives from regulators and policy makers, unpack wider implications of Open Finance and articulate key policy imperatives



IFWG November 2021 Paper

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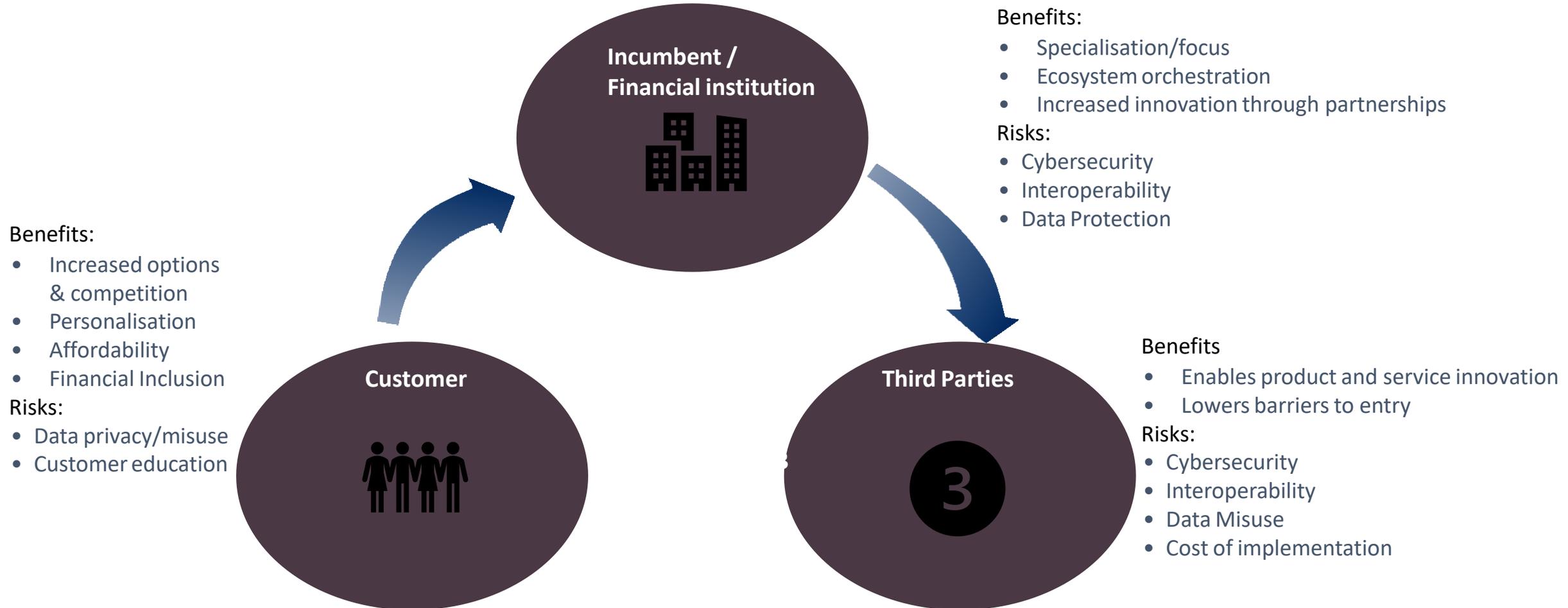
1. Initial collective view of the IFWG on various open finance considerations, high-level position on the policy rationale and imperatives for open finance in South Africa.
2. South African authorities need to establish a clear policy stance on open finance and embark on a path of creating a regulatory framework for it:
 - foundation for future regulatory developments
 - to establish a common understanding of what open finance is
 - provide a view on the rights of consumers over their data
 - reflect on the potential benefits and risks of open finance in South Africa.
3. Key rationale and imperatives in the South African context to appropriately enable and regulate open finance in South Africa include
 - Ensuring financial stability and integrity
 - Promoting financial inclusion and access
 - Improving competition, promoting innovation, and encouraging participation
 - Consumer protection
 - Consumer education and transparency



Open finance presents a huge opportunity to digitally advance the South African financial sector, promote financial inclusion and financial deepening, and increase innovation and competition.



Open Finance promises a number of benefits but also poses some risks



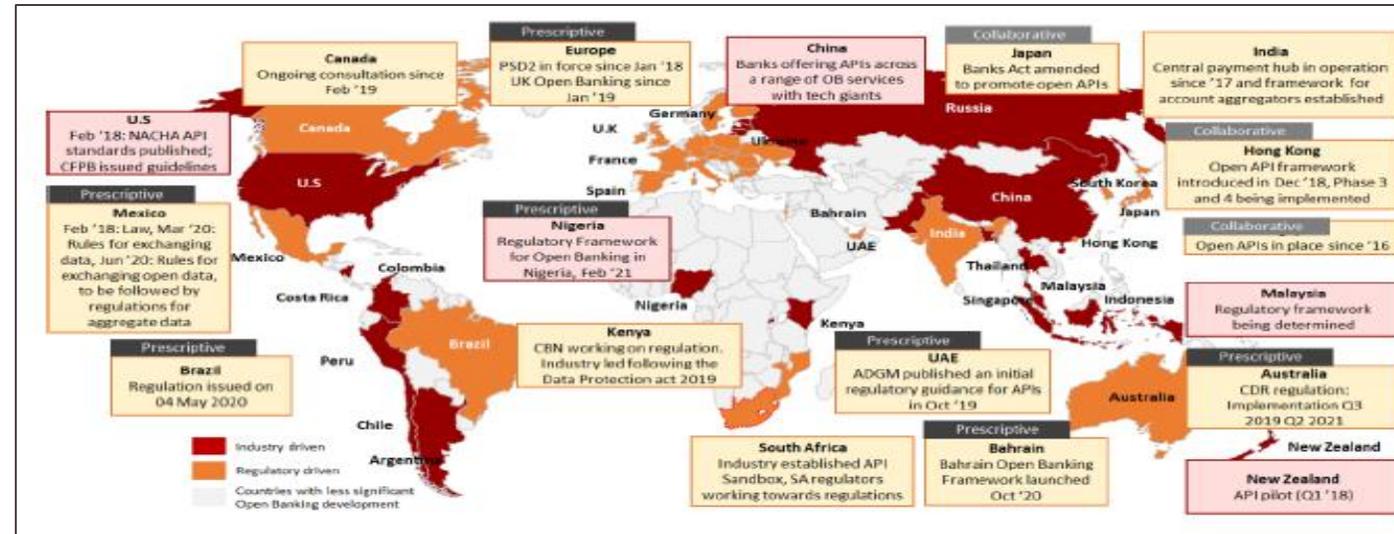


Mandatory vs non-mandatory approach to open finance

- IFWG's policy view is that a mandatory regime with set guidelines and input from relevant stakeholders including industry participants is the most appropriate for South Africa.
- The goal is to promote a fair playing field that ensures there are no exclusionary practices that create barriers to entry for alternative providers.
- The approach to and shape of the mandatory open finance regime will require further engagement between the South African regulators and close consultation with industry and other relevant ecosystem stakeholders.
- Data sharing reciprocity
- From competition to collaboration

Mandatory
Regulatory authorities drive the process by setting norms and standards
APIs set by regulators
Data sharing monitored

Voluntary
Market driven
3rd party & incumbents develop API
Role of regulator is limited



IFWG, November 2022, 'Articulating the policy rationale and policy imperatives for Open Finance in South Africa'



Who owns the customer data

Position is that customer financial data belongs to the customer who has the right to give their consent for that data to be shared with licensed third party financial service providers

Personal Customer Data

- IFWG has taken the view that personal information stored by financial institutions **belongs to the customer**
- The POPI Act has implications on the operations of financial institutions with regards to protection of consumer data as it provides guidelines on disclosure and processing of personal information
- The absence of a definition for **transfer or portability** in the POPI Act creates some uncertainty in terms of what constitutes a “transfer” of personal information, and what rights customers have in that regards.
- Data sharing should be in accordance with the privacy, security, and consent measures outlined in the POPI Act.
- This view and the associated practical aspects therefore will be subject to further engagement amongst regulators, including the Information Regulator, further legal guidance, and engagement with industry actors.

Value add data

- **Value added data is confidential** (meaning not shared with the customer or publicly) and its proprietary nature means it is used for commercial purposes to give the financial institution an advantage over its competitors
- These value-added datasets, analytics, and other additional insights such as credit scoring models are different from personal customer data and do not belong to the customer
- It is therefore the view of the IFWG that **customers do not have rights over this data and can therefore not request holders of their personal data to share the value-added data that they have generated as well**

Aim is to put more control in the hands of customers in terms of what happens with their data

Discovery vs Liberty judgment - the data subject and not the responsible party owns their personal data



Consent

Position is that customer financial data belongs to the customer who has the right to give their consent for that data to be shared with licensed third party financial service providers

- Informed customer consent should form the basis of any open finance regime
- Need to be aware of and understand the information they are sharing, who it is being shared by and with, what it will be used for, and for how long that information will be held
- Also need to be aware of the rights they have over that data and the recourse mechanisms that are in place in case of any adverse events such as data breaches and financial loss
- Abuse of customer consent depending on how specific or generic that consent is.
- Must be in accordance with the privacy, security, and consent measures outlined in the POPI Act



Consent

- **Consent should include *who* is the provider, what data is being used and for how long.**
- **Consent should be linked to customer verification**
- **Consent should be recorded**
- **Consent should not be too broad or narrow.**
- **Consent should be use case specific**
- **Consent should be maintained and audited at a transactional level.**
- **Consumers should be able to revoke consent.**
- **Consumers should be able to dispute consent.**

Source: Open Finance Workshop 1: Consent, Customer Protection and Dispute Mechanisms Aug 2021



Policy imperatives

- Ensuring financial stability and integrity
- Promoting financial inclusion and access
- Improving competition, promoting innovation, and encouraging participation
- Consumer protection
- Consumer education and transparency



Next Steps

- The respective regulators will continue to embark on their respective open finance regulatory journeys as they work towards establishing frameworks in line with their respective mandates.
- This would include further unpacking the practical aspects of the views presented in this paper, which might refine or alter the views in the IFWG paper in the process of developing the respective regulatory approaches.
- IFWG Open Finance Integration Working members will continue to unpack some of these cross-cutting regulatory elements in more detail

What type of data will and/ or will not be shared under the South Africa open finance regime

What data sharing methods will be permitted in South Africa - APIs

What type of and how third-party providers will be licenced and regulated

Whether open finance will be implemented in “full” or in a phased approach

Regulatory regime and the role of the respective regulatory

How industry input will be sought in the standard setting process

Whether data reciprocity is a consideration and the framework thereof



Opportunities

	Problem	Open Finance Solution
Single-sector and cross-sectoral account aggregation and financial management	<ul style="list-style-type: none">• Financial literacy• perceived or actual difficulty in managing different product types, or products held with multiple providers	Holistic personal financial management platforms which could aggregate and display information on a customer's financial products cross-sectoral (banking, credit, insurance, pension)
Savings, investments, life insurance, and pensions	<ul style="list-style-type: none">• Higher levels of personal savings help to reduce the financial vulnerability of households• One of the reasons for the low savings and investment rate is lack of awareness and knowledge	Open finance can support the development of tools to: help 'de-mystify' investing; help consumers better understand their savings, investments, and pensions and consider whether they continue to meet their needs



How could Open Finance solve some of the key issues with Retirement Funds

Complete consolidated view

- Dashboard to allow members customers to find and see all of their lifetime pension savings in one place, finally giving a clear and complete picture of their true pension amount.
- Customers need access to key pension data that will help them to make informed decisions – balances, charges, investment information.

Projections

- Combine transaction, savings, investment and pension data to make automated, informed assessments on whether customers are setting themselves up for a financially stable retirement
- Model how changes to contributions and spending can impact member retirement income, allowing members to take action and make changes now to ensure members are on track to meet their future retirement goal.

Optimisation

- Digital tools can offer actionable assessments on how members could switch to lower cost providers, better allocate their existing funds, or increase their contributions over time.
- Enable advice on how best to withdraw, manage and structure a pension once it can be accessed.
- Members would benefit from insights on how to drawdown and manage their pension in the most optimal way based on their specific needs.

Open Finance can transform the retirement funds industry and change members behaviour and interactions with their retirement savings



UK Open pensions and open finance

Lessons learnt from Open Banking

Don't standardise over-

Think about regulatory requirements

Don't let security kill the customer journey

Use cases

Key policy considerations:

- A consumer data right
- Let the market develop open finance

Hurdles to implementation

Need the right culture, digital-first attitude, and technical flexibility to manage a mandatory regulation whilst taking advantage of other opportunities

Imperative to being digital-first in both value proposition as well as operations

Need to have digital data - extensive programmes to digitise paper records

Collaboration between policymakers and regulators and industry - must work together to understand the key challenges and deliverables

Source: *Open pensions and open finance: building a better future for UK savers* Plaid and PensionBee

THANK YOU

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