

CBN GUIDELINES ON OPEN BANKING IN NIGERIA: A TRANQUIL STEER

WHAT IS OPEN BANKING?

Open banking is an emerging financial services model that focuses on the portability and open availability of customer data held by financial institutions. Open banking is also known as “open bank data.”

Simply put; open banking is a banking practice that enables ordinary people to grant permission for our financial data to be securely shared between banks and other financial service providers through the use of application programming interfaces (APIs).

DEFINITION OF TERMS

Participants; A participant is an individual or entity that has access to, and uses, the financial data of end-users. A participant can be a provider, customer, fintech or developer community.

API; This is the acronym for Application Programming Interface. It is a software that allows two applications to communicate with one another to access data.

Financial data; Refers to bank account information, ranging from debts, assets, and credit ratings etc.

Data Access Agreement; is a formal agreement that clearly states what data is shared and how the data can be used.

SNIPPETS OF THE CBN OPEN BANKING GUIDELINES 2021

1. Data Categorization¹

Data is categorized into the following;

Product Information and Service Touchpoints (“PIST”)

- Information shared under this category have low-risk rating²
- Can be accessed by participants across all the Tiers.
- Includes information on products provided by participants to their customers and access points available for customers to access services, e.g. ATM/POS/Agents locations, channels (website/app) addresses, institution identifiers, service codes, fees, charges and quotes, rates, tenors, etc.

Market Insight Transactions (“MIT”)

- Information shared under this category has a moderate-risk rating³
- Can be accessed by participants across all Tiers.
- It includes statistical data aggregated on basis of products, services, segments, etc., and it's not associated with any individual customer or account.

Personal Information and Financial Transaction (“PIFT”)

- Information shared under this category

- have high-risk rating.⁴
- Can be accessed by participants across all Tiers excluding Tier 0 participants.
- It includes data at the individual customer level-either general information on the customer (e.g. KYC data, total number or types of account held, etc.) or data on the customer's transaction (e.g. balances, bills payments, loans, repayments, recurring transactions on customer's accounts, etc.)

Profile, Analytics and Scoring Transaction ("PAST")

- Information shared under this category have high and Sensitive-risk rating.⁵
- Is only available to Tiers 2 & 3.
- It includes information on a customer which analyses, scores or gives an opinion on a customer, e.g. credit score, income ratings etc.

2. Risk Management maturity level

Tier 0

- This level is applicable to participants without a regulatory licence.
- Data access; Product Information and Service Touchpoints ("PIST"), Market Insight Transactions ("MIT"),⁶

Tier 1

- This level is applicable to participants through the CBN regulatory sandbox.
- Data access; Product Information and Service Touchpoints ("PIST"), Market Insight Transactions ("MIT"), Personal Information and Financial Transaction ("PIFT").⁷

Tier 2

- This level is applicable to License Payment Service Providers and other institutions.
- Data access; Product Information and Service Touchpoints ("PIST"), Market Insight Transactions ("MIT"), Personal Information and Financial Transaction ("PIFT"), Profile, Analytics and Scoring Transaction ("PAST").⁸

Tier 3

- This level is applicable to deposit money banks.

- Data access; Product Information and Service Touchpoints ("PIST"), Market Insight Transactions ("MIT"), Personal Information and Financial Transaction ("PIFT"), Profile, Analytics and Scoring Transaction ("PAST").⁹

3. A common API standard

A common API standard promoting; openness, reusability, interoperability, modularity, robustness, user-centred, security.¹⁰

4. Participants

In achieving the Open Banking objectives, various individuals and entities play different roles at different stages. These individuals and entities are referred to as "Participants".

A participant may act in the position of any of the following;

Provider

- A Provider is a participant that uses API to avail data or services to another participant.
- The Provider establishes the Data Access Agreement and Service Level Agreements (to be revalidated annually) with other participants
- The Provider carries out Know Your Partner (KYP) due diligence on partner participants
- The Provider is expected to maintain customer service on twenty-four (24) hours/ seven (7) days a week basis to receive and sort the complaints of end-users.¹¹

Consumer

- A Consumer is a participant that uses API that the Provider releases, to access data or service.
- The Consumer must obtain the consent of the end-user on each action that may be performed on the account of the end-user as specified by the provider
- They must comply with data privacy laws and regulations.
- The Consumer is expected to maintain customer service on twenty-four (24) hours/ seven (7) days a week basis to receive and sort the complaints of end-users.¹²

FinTechs

- This covers companies that provide innovative financial solutions, products and services.
- FinTechs may either be Consumers or Providers of API(they must assume the roles embedded in whatever category they play)
- FinTech companies are expected to use API to innovate products that can interwork with other products.
- Any modification of the APIs should be based on the provisions of the Data Access Agreement or an addendum to the agreement,(as applicable).¹³

Developer Community

- This includes individuals and entities that develop APIs or provide programming services for other participants.
- Developer communities as participants must execute service agreements with the partner participants outlining technical guidelines such as secure coding, development standards etc.¹⁴

Central Bank of Nigeria

- The apex bank in Nigeria oversees the implementation and operations of open banking.
- It can arbitrate in dispute resolution processes among participants.
- The common banking industry API standard is to be developed within 12 months of the issuance of the framework.¹⁵

CONCLUSION

As predicted, data availability and sharing brings up privacy concerns. This is the reason why the open banking framework makes provision for the participants to adhere to strict compliance with data privacy laws, such as the NDPR (Nigeria Data Protection Regulation).

It is expected that the Open banking Framework will significantly improve financial inclusion, the ease of operating businesses in Nigeria and will also attract foreign investments which would contribute to the improvement of the economic status of Nigeria and Africa as a continent. The API common standard will be developed within 12 months of the implementation of the

framework, it is safe to say that 2021 and 2022 would be an interesting time for open banking in Nigeria.

It is also interesting to note that on the 1st day of September, 2021, OBE (Open Banking Excellence) landed in Brazil at an important moment when the Central Bank of Brazil and Brazilian financial institutions are preparing for the full implementation of Open Banking. Other countries that have adopted an open banking framework includes; South Korea (Republic of Korea), India, Australia, Canada, Hong Kong, Japan, Singapore, New Zealand, Latin America (Mexico, Chile, Colombia, Brazil), United States of America (USA) and Nigeria, which is the first African country to adopt an open banking framework. Also, Nigerian API companies such as; okra, mono, are contributing immensely to the development of open banking in Nigeria and the African continent as a whole.

END NOTES

- 1 Section 4.1 of the circular on the regulatory framework on open banking in Nigeria
- 2 Section 4.2 of the circular on the regulatory framework on open banking in Nigeria
- 3 Section 4.2 of the circular on the regulatory framework on open banking in Nigeria
- 4 Section 4.2 of the circular on the regulatory framework on open banking in Nigeria
- 5 Section 4.2 of the circular on the regulatory framework on open banking in Nigeria
- 6 Section 5.1 of the circular on the regulatory framework on open banking in Nigeria
- 7 Section 5.1 of the circular on the regulatory framework on open banking in Nigeria
- 8 Section 5.1 of the circular on the regulatory framework on open banking in Nigeria
- 9 Section 5.1 of the circular on the regulatory framework on open banking in Nigeria
- 10 Section 6.0 of the regulatory framework on open banking in Nigeria
- 11 Section 7.1 of the circular on the regulatory framework on open banking in Nigeria
- 12 Section 5.1 of the circular on the regulatory framework on open banking in Nigeria
- 13 Section 5.1 of the circular on the regulatory framework on open banking in Nigeria
- 14 Section 5.1 of the circular on the regulatory framework on open banking in Nigeria
- 15 Section 5.1 of the circular on the regulatory framework on open banking in Nigeria

Kindly contact us for further clarifications, guidance, information or legal advice.



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