



BRINGING
SMART
POLICIES
TO LIFE

FRAMEWORK FOR DIGITAL FINANCIAL SERVICES INTEROPERABILITY IN AFRICA



FRAMEWORK FOR INTEROPERABILITY

The AfPI leaders in their Roundtable Meeting held in 9th May 2017 in Maputo, Mozambique, directed AfPI to provide policy and regulatory guidance to address the challenges of implementing digital financial services interoperability¹ in Africa. To undertake the assignment a technical subgroup² on interoperability was formed from the AfPI's Expert Group on Financial Inclusion Policy (EGFIP). The Interoperability Sub-group initiated this regional policy model that incorporates practical policy and regulatory recommendations aimed at facilitating in-country implementation of enabling policies to foster implementation of digital financial services interoperability.

This framework underscores the overarching goal of promoting use of digital financial services in Africa through interoperability. This is necessitated by the fact that ownership of mobile accounts in Sub-Saharan Africa has almost doubled from 11% in 2014 to 21% in 2017 (WB: Findex). Further despite the region having almost half (135) of the global mobile money deployments (276) the activity rate is 10 percentage points less to the global average of 29.3%. Interoperability is one of the major tools to drive account activity, thereby spurring access and usage of wider range of financial services to the underbanked population. This policy model on digital interoperability, aims to enhance in-country policy implementation that will expand interoperability amongst digital financial service providers and with other financial

services providers to enhance efficiencies, increase customer convenience and boost scale for both domestic and cross-border payments.

This framework provides minimum requirements for enabling interoperability. For ease of referencing the minimum requirements are clustered into three enabling pillars: (i) Regulation (ii) Infrastructure; and (iii) Market Aspects. Cooperation is considered a fundamental requirement in fostering industry-wide acceptance and sustainability. An annex is provided with country examples on implementing some of these minimum requirements.

AFI members are encouraged to apply this guide in developing or improving their interoperability policies and regulations. The guide will also be used in the network to further reinforce practical capacity building initiatives and in-country support. This guide is a living document, it will be further improved in subsequent versions to reflect members' approaches in advancing interoperable digital financial services that expand financial inclusion.

- 1 Interoperability or seamless flow of payments from and through multiple accounts held by consumers arising from transactions from different service providers, enhances user experience, promotes product development to meet user needs, increase convenience, relatively reduces costs and several other benefits.
- 2 The Subgroup members that initiated this framework were from the following member institutions: Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO), Central Bank of Egypt, Bank Al-Maghrib (Morocco), Central Bank of Nigeria, Central Bank of Kenya, and Bank of Tanzania

LEVERAGING INTEROPERABILITY TOWARDS INCLUSIVE PAYMENT & FINANCIAL SERVICES

REGULATIONS



- > Clear Approach to Interoperability objective
- > Key Elements for Supervision and Oversight of Interoperable Payment Systems:
 - Clearing and Settlement
 - Risk Management
 - Safety and Security Standards
 - Fair and Open Access to Interoperable Solutions
 - Consumer Protection

INFRASTRUCTURE



- > Robust Payment/Clearing Platforms
- > Management & Resilience of Infrastructure
- > Comply with International Standards
- > Access to Transaction Channels

MARKET ASPECTS



- > Viability and Sustainability of Interoperable Business Models
- > Data-Driven and Evidence Based Approach to Determine Market Demand
- > Appropriate Product Development and Designs
- > Promoting the Use of Digital Payments
- > Awareness and Financial literacy
- > Provider/Industry driven approach towards responsible financial service delivery

COOPERATION & COLLABORATION

REGULATIONS



CLEAR APPROACH TO INTEROPERABILITY OBJECTIVE

- > Develop a policy/vision document on enabling payment ecosystems with specific reference to interoperable payments from a regulatory and infrastructure standpoint.
- > Include provision for interoperability within regulatory frameworks.

KEY ELEMENTS FOR SUPERVISION AND OVERSIGHT OF INTEROPERABLE PAYMENT SYSTEMS

Clearing and Settlement

- > Provisions for safe, efficient clearing and settlement mechanisms.
- > Establish insolvency rules to safeguard against systemic risks and loss of consumer funds.

Risk Management

- > Provide rules for identification, management and mitigation of risks such as technology risk, liquidity/settlement risk and other operational risks.

Safety and Security Standards

- > Provide for policies/rules for compliance with international standards that facilitate safe, secure and seamless interoperability transactions.

Fair and Open Access to Interoperable Solutions

- > Set clear eligibility criteria for establishment and participation.
- > Have clear business and operating rules.
- > Establish a governance framework and that is transparent and inclusive.
- > Incorporate rules to prohibit monopolistic tendencies.

Consumer Protection

- > Effective consumer redress and dispute resolution mechanism between participating payment system providers and for their beneficiaries.
- > Data protection, security & privacy provisions that facilitate efficient flow of payment transactions.
- > Transparency and disclosure of end-to-end pricing, accessible/easily understandable terms and conditions.

INFRASTRUCTURE



ROBUST PAYMENT/CLEARING PLATFORMS

- > Availability of interoperable retail payment and clearing platform(s). This could be government owned or market led.
- > Robust, flexible and scalable interoperable platforms.
- > Ability of the retail payment system to incorporate innovations in the payment space: NFC, QR Code etc.
- > Ability of the platforms to support cross border payments/remittances.

MANAGEMENT & RESILIENCE OF INFRASTRUCTURE

- > Build resilient infrastructure that withstands service disruptions along with effective business continuity plans.
- > Ability of the payment platforms to adhere to compliance requirements.

COMPLY WITH INTERNATIONAL STANDARDS

- > Build payment systems that are compliant with international standards on safety/security including enabling scalability.

ACCESS TO TRANSACTION CHANNELS

- > Enable open and fair access to messaging channels such as USSD, SMS, internet etc.
- > Enable open and fair access to financial transaction channels such as agents, ATMs, online/offline merchants.

MARKET ASPECTS



VIABILITY AND SUSTAINABILITY OF INTEROPERABLE BUSINESS MODELS

- > Develop interoperable business models that are viable for service providers and affordable for users.
- > Develop innovative pricing models that leverage payment trails/digital footprints to gain additional revenue and at the same time substantially reduce basic transaction costs to consumers.

DATA-DRIVEN AND EVIDENCE BASED APPROACH TO DETERMINE MARKET DEMAND

- > Leverage data (in the form of demand side surveys, payment statistics etc.) and consult market players/stakeholders to chart a pathway towards interoperability.
- > Where possible, leverage interoperable payments data as public good to further scope the market and come up targeted, segment-specific product development initiatives.

APPROPRIATE PRODUCT DEVELOPMENT AND DESIGNS

- > Customer-centric approach towards product development.
- > Simplified business process (customer friendly environment).

PROMOTING THE USE OF DIGITAL PAYMENTS

- > Digitize bulk payments such as government subsidies/cash transfers, salary payments, value chain payments, merchant payments, relief and humanitarian payments etc.
- > Facilitate development of value added products/services such as payments, savings, investment, credit, insurance etc. by utilizing payment trails and other data sources.

AWARENESS AND FINANCIAL LITERACY

- > Effective awareness programs to empower consumers
- > Cooperation for multi-stakeholder participation in financial literacy/education programs

COOPERATION & COLLABORATION


- > Develop policy/vision document through a consultative process by incorporating market players and other important stakeholders.
- > Cooperation among various key regulatory authorities domestically to facilitate effective interoperability (Central Banks, Financial Service Authorities, Telecom Regulators, Competition Authorities, Consumer Protection Bodies etc.).
- > Establish governance structures that are inclusive of market players and stakeholders.
- > Create positive incentives to encourage market participants and stakeholders to actively participate in the governance structure.

- > Cooperation among various key regulatory authorities domestically to enable fair access to information and transaction channels.
- > Government plays a catalytic role in the market development. Also, there are clear and obvious efficiencies in a market led evolution. So - in circumstances where the markets are non-existent or dysfunctional, government intervention is imperative. However, the intervention should have a clear hand-over strategy to the markets/market players. This ensures that the government retains its primary mandate of financial stability and inclusion.

- > Collaborate with providers and other stakeholders to promote innovation and market development.
- > Introduce initiatives such as innovation hubs, incubators, accelerators, awards etc. that foster innovations within the ecosystem.
- > Cooperation among regional/international regulatory bodies to:
 - Learn best practices
 - Explore possibility of cross border interoperability initiatives

Alliance for Financial Inclusion

AFI, Sasana Kijang, 2, Jalan Dato' Onn, 50480 Kuala Lumpur, Malaysia
t +60 3 2776 9000 e info@afi-global.org www.afi-global.org

www.facebook.com/AFI.History  [@NewsAFI](https://twitter.com/NewsAFI)