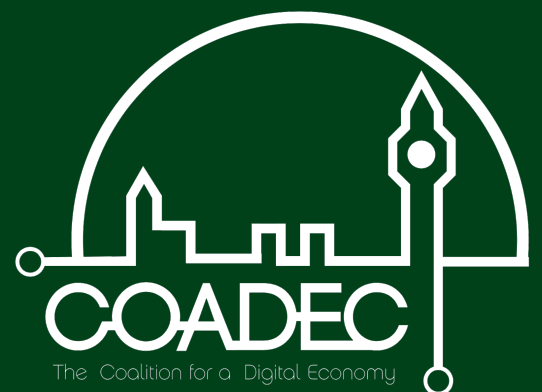


Breaking Banks

**A blueprint for Open Finance
that puts customers first**



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About Coadec

The Coalition for a Digital Economy (Coadec) is an independent advocacy group that serves as the policy voice for Britain's technology-led startups and scaleups.

Coadec was founded in 2010 by Mike Butcher, Editor-at-Large of technology news publisher TechCrunch, and Jeff Lynn, Executive Chairman and Co-Founder of online investment platform Seedrs.

Coadec works across a broad range of policy areas that matter the most to startups and scaleups: Access to Talent, Access to Finance & Technology Regulation. We represent the startup community on the Government's Digital Economy Council, and the UK on the international organisation Allied for Startups Board.

Aknowledgements

We're extremely grateful to the members of the startup community who have contributed to this report - either in person or via email. Ultimately, this report for you and about you. We're extremely appreciative of the support and guidance offered by Plaid, PensionBee, Transferwise and Monzo, who have added massively to our evidence base.

Summary of Recommendations

1 Put customers first

The Government must empower customers by granting them a new data sharing right, that builds on existing GDPR rules and takes its focus from the perspective of the customer.

HM Treasury must remove the 90-day re-authentication rule from the PSR 2017. It is an unnecessary barrier that is preventing customers from accessing better financial services.

2 Complete the payments landscape

The FCA must publish the findings of the VRP testing that is currently being done in the FCA's Regulatory Sandbox. Those findings should be shared with the Government and the CMA who should then confirm that variable recurring payments are a mandatory element of the roadmap.

HM Treasury must work with the FCA to enable TPPs to operate continuous, unattended access, without the need to provide authentication to the bank every 90 days. Now that the UK has left the EU, the Government has greater flexibility to find a better solution.

The FCA must put in place a clear set of Service Level Agreements around API performance and latency in line with industry standards (i.e. Open Banking Customer Experience Guidelines) to monitor ASPSPs.

3 Maximise opportunity through smart regulation

HM Treasury and the FCA must work with TPPs and the FS industry to define use cases. The new Digital Sandbox should be leveraged as a proving ground to test and develop use cases for Open Finance, and to identify where rules, guidance and further legislation might be needed.

The FCA must remain technologically neutral and only develop a high-level set of principles that governs the development of Open Finance, to ensure a level playing field. This is vital in order to promote, rather than kill, innovation through Open Finance.

4 Better architecture

HM Treasury must convene a working group of Technical Service Providers (TSPs) and aggregators to understand their value for Open Finance and beyond. Their role is central to the incentive model that will drive Open Finance, and speeds up its market readiness.

There should be closer collaboration between FCA, Digital Identity Unit (at DCMS) and the Information Commissioner's Office (ICO) on support for a federated digital identity approach for consumers, based on government-backed standards.

5 Coherent government structure

The Digital Markets Unit (DMU) must be transparent and representative, involving aggregator specialists (who have the expertise in building data integrations to a variety of data sources in different sectors), TPP stakeholders, regulated providers from across different market sectors, as well as government and market sector regulators.

The Smart Data Function should become the home for the OBIE's knowledge assets and the continuation of its work to develop Open Banking "Premium APIs" under direction from the CMA and the FCA. It should then begin to work with other industry level initiatives

Section 1:

Intro: Herding

Unicorns

Our tech sector is a great British success story. It is growing twice as fast as the rest of the economy and is securing the UK's position as a tech superpower. Last year, the sector secured over \$13.2bn of venture capital investment, third in the world after the US & China^[1].

This success has led to the UK developing more “unicorns” (pre-IPO startups with a valuation of over \$1bn) than any other European country. Even when we leave London aside, Oxford and Cambridge have produced more fast-growing tech companies than both Paris and Berlin. Manchester has more unicorns than Madrid, and Edinburgh has more than Dublin^[2].

It's our Fintech startups that spearhead this prized herd, accounting for 40% of all British unicorns^[3]. Household names like Transferwise, Revolut, Monzo, and Funding Circle are all less than 10 years old, yet are global brands in their own right, serving customers and small businesses all around the world.

We also have great strength in depth! Almost half of Europe's fintech “future unicorns” (companies valued at \$250m-\$800m, with a realistic potential of achieving unicorn status in the near future), are located in the UK. Whether it's Atom Bank in County Durham, LendInvest in London, Starling Bank in Southampton, or Oodle in Oxford, these up and comers are driving growth and employment throughout the UK.

The UK's historic strength in financial services, combined with forward-thinking regulators in the Financial Conduct Authority (FCA), and pro-competition policy in the form of Open Banking, have all contributed to establishing Britain as the fintech capital of the world.

But enough backslapping for now...

Not only are our international rivals catching up when it comes to the volume of fintech deals, they are also drawing up plans to open up more financial - as well as non-financial - data for their fintechs to access. These go well beyond the limited scope of current accounts under our own Open Banking regime.

Over the last six months, the EU has embarked on an ambitious path beyond the Payment Services Directive II (PSD2), towards Open Finance, with the stated aim of being the “leader in the data-driven society.” This has included:

- a European Strategy For Data — looking at a single market for data;
- a Retail Payments Strategy for the EU — developing a vision for realising the benefits of payments across the EU; and
- a broader Digital Finance Strategy.

This is why the FCA's Call for Input on Open Finance and BEIS' Smart Data Initiative are so important. If we fail to stay ahead of the chasing pack, then our promising herd of potential economic drivers will amount to just that... potential.

But we do hold a significant advantage over our near neighbours. We are no longer hamstrung by the bureaucratic wranglings in Brussels. No matter how bold and revolutionary PSD2 was, it was also a very lengthy project to get off the ground - spanning 5 years (2013 to 2018), one Directive, 8 Guidelines, 6 technical standards and 7 Opinions. Our approach towards a functional Open Finance ecosystem must be more agile, leaner and cost-effective.

This paper lays out the framework for achieving this. Our own, highly standardised, Open Banking regime started in 2015 and it is now 2020 and some key aspects are still being finalised. We cannot afford to repeat this.

By first empowering customers with the right to share their data, then utilising better and cheaper architectural solutions, and providing the right incentives for both fintechs and financial service (FS) providers, we can avoid previous pitfalls and shave years off market readiness. This will be critical in the global race to herd more unicorns.

The UK's Tech Success is Worth Building On

\$5.2bn

Fintech investment in the UK more than doubled from 2018 to 2019, with \$5.2bn invested in fintech firms - more than China, Germany, Sweden and France put together

Manchester
1 unicorn
1 future unicorn

Birmingham
2 future unicorns

Oxford
1 unicorn
5 future unicorns

Aberdeen
1 unicorn

Edinburgh
1 unicorn
1 future unicorn

Cambridge
2 unicorns
4 future unicorns

London
13 unicorns
47 future unicorns

Bristol
2 unicorns

#1

UK is Europe's leading 40% in Unicorn nation, and London is maintaining its global lead in Fintech

6x

UK's tech sector GVA has grown six times as fast to that of the UK economy as a whole

5/20

Manchester, London, Bristol, Oxford and Cambridge are among Europe's top 20 cities for tech investment

2.93m

Tech employment has grown for the last 2 years, now accounting for 9% of the national workforce with 2.93m jobs created

Open banking is dead, long live open finance?

No, not quite.

Whilst the latest Open Banking roadmap might suggest that the project is nearing its completion after five long years, it is far from it. There are a number of procedural, user experience (UX) and process barriers that banks have directly, or indirectly, which impede the growth of startups and Open Banking's wider adoption.

There's no doubt that Open Banking has made a strong start by allowing third party providers to access and harness financial data from current accounts, through secure Application Program Interfaces (APIs), in order to build innovative and much-needed products and services. Whether that's account aggregation, personal and business finance management, or better credit scoring and account-to-account money transfers.

However, in a fast-paced digital environment where fintechs and agile start-ups are disrupting the financial services at lightning speed, Open Finance is the logical next step on from Open Banking.

Long term financial planning and better decision-making needs a holistic set of financial data beyond Open Banking. This is the chief idea behind Open Finance, it extends the principles of Open Banking to pensions, investments, loans, mortgages, insurance protection, healthcare and savings. The potential benefits to consumers of seeing all their financial world in one place are multiplicative, not additive, and maximising these benefits will help to level-up financial outcomes for consumers and rebuild trust in financial services.

For both SMEs and individuals, it will allow for more sophisticated and holistic finance management, automated switching and renewals to get better deals, more accurate creditworthiness assessments and, possibly the nirvana of all, a financial adviser in every pocket. The final result of Open Finance is a world in which everyone, regardless of their wealth, can take control of their finances.

This will help people to make better decisions about their financial situation, provide them with access to cheaper finance through greater transparency and comparison sites, as well as improved pension plans or debt advice. Importantly, for the first time, it could also provide access to financial services for those people currently considered to be financially excluded.

But there's also huge scope for public sector utility. Take the "Help to Save" scheme, for example - a government-backed savings scheme that gives low-income savers a bonus payment of up to 50 per cent on their savings. Opening this up to fintech players would ensure that customers seeking to save through the scheme could benefit from innovative saving tools, such as "rounding up" transactions and saving the remainder (say 10p saved when you purchase an item worth £1.90), or automatically "sweeping" money left over at the end of the month into a savings account.

This new chapter on Open Finance provides us with an opportunity to rectify the deficiencies of Open Banking. Many of its shortcomings stem from its basis in the CMA Order and PSD2, which limited its scope. The FCA is reviewing the potential for Open Finance this year, and the Government is progressing new regulatory structures under the Smart Data Review. If we get it right, it will lay the foundations for a much wider data-driven economy.

Benefits of Open Finance for Consumers

links

Use Case

Customer Benefit

Case Study

Personal financial Management

Customers will be able to understand and optimise their overall financial position (cash flow, savings, investments, spending, goals). These could, for example, help a customer understand whether to put an extra £100 into a savings account, mortgage overpayment, or pension – and execute that payment on the customer's behalf.

Emma uses Open Banking to give customers a simple and clear dashboard to easily analyse their money and spending habits. By analysing customers' spending patterns, Emma also offers a host of useful features, like the ability to predict when users are about to hit their overdraft.

If Emma gives customers oversight of their finances, Chip optimises and automates them.

By connecting Chip to your current account, Chip analyses your spending behaviour and automatically saves money, without you feeling it. Chip's AI-powered algorithm intelligently analyses your life to make the decisions you should make, automatically.

Automatic switching and renewals

It will enable services that remove friction and encourage shopping around. This could help consumers get a better deal and increase competition. Access to data could give customers more competitively priced quotations based on the product features they are most applicable to their personal situation and interests.

Plum already uses Open Banking to analyse customers' monthly bills and prompts them to switch energy suppliers if they could save money. This saves their customers an average of £180 a year!

Open Finance would allow Plum to extend this service to areas like insurance, where standard products offered in the market do not align with the needs of many consumers, especially younger people, and the costs are often high.

Financial advice and support

Financial advice should be easy to understand and accessible at any time. But cost means that just 10% of British adults have taken paid-for financial advice in the last two years and 79% of those who hadn't are also unlikely to do so in future.

Harnessing the data that open finance could provide, would mean more individually tailored advice can be given to help consumers manage their financial responsibilities at a much cheaper cost through robo-advice. The possibility is an adviser in every individual's pocket.

Tully has used Open Banking to create an AI-powered system that builds an accurate and realistic picture of peoples' financial position in minutes.

Then, the free online service gives every user a personalised financial plan, tailored advice and for those in more severe difficulty, the option to choose a flexible debt repayment plan that adjusts to the user's situation every month.

Enabling access to credit, insurance and mortgage data would enable Tully to provide even better financial advice and tailored support to customers.

**More
accurate
credit
worthiness
assessments**

Third parties could review the customer's financial situation holistically and identify suitable credit products, resulting in access to cheaper finance, innovative options for customers struggling to access credit, restricting access to those who should not take on more debt, and tailored and more readily available debt advice.

Credit Kudos uses Open Banking to allow customers to prove their suitability when applying for financial products. Instead of relying on outdated and unfair credit scoring systems, Credit Kudos has developed a financial health score – just as a fitness tracker counts steps, they count sensible spending and, in return, give creditors the opportunity to offer a better deal.

Recommendation 1:

Put Customers

First

Breaking the hold of the banks

There is a massive public trust deficit in banks and financial institutions. The scars of the global financial crisis run deep and, even twelve years on, 66 percent of the British public don't trust banks to operate in the interests of society as a whole^[4]. This figure is even higher for SME owners.

Despite changes to the regulatory environment, and the imposition of huge fines, bad practices have continued. The mistreatment of SMEs by the Royal Bank of Scotland's Global Restructuring Group, manipulation of LIBOR and foreign exchange markets, opaque fee structures, and countless mis-selling scandals such as those involving pensions, endowments and payment protection insurance. All are emblematic of predatory behaviour towards vulnerable consumers.

Many people like to group these old world financial institutions and high-street banks as "traditional banks." It's understandable, but this would suggest that fintechs offer a completely different suite of products to their incumbent counterparts. On the whole, they do not. But they are completely different when it comes to their customer centric culture, as we shall see. Labelling them as "heritage banks" is much more fitting. They represent the old self-interested culture of financial services.

Heritage banks are now seen as a functional necessity, but don't have an emotional connection with customers. They are functional utilities, trusted to hold money safely and transfer it accurately – and that's about it. Consumers don't trust them to tell the truth, and they don't trust them to put their customers' interests ahead of the interests of the bank.

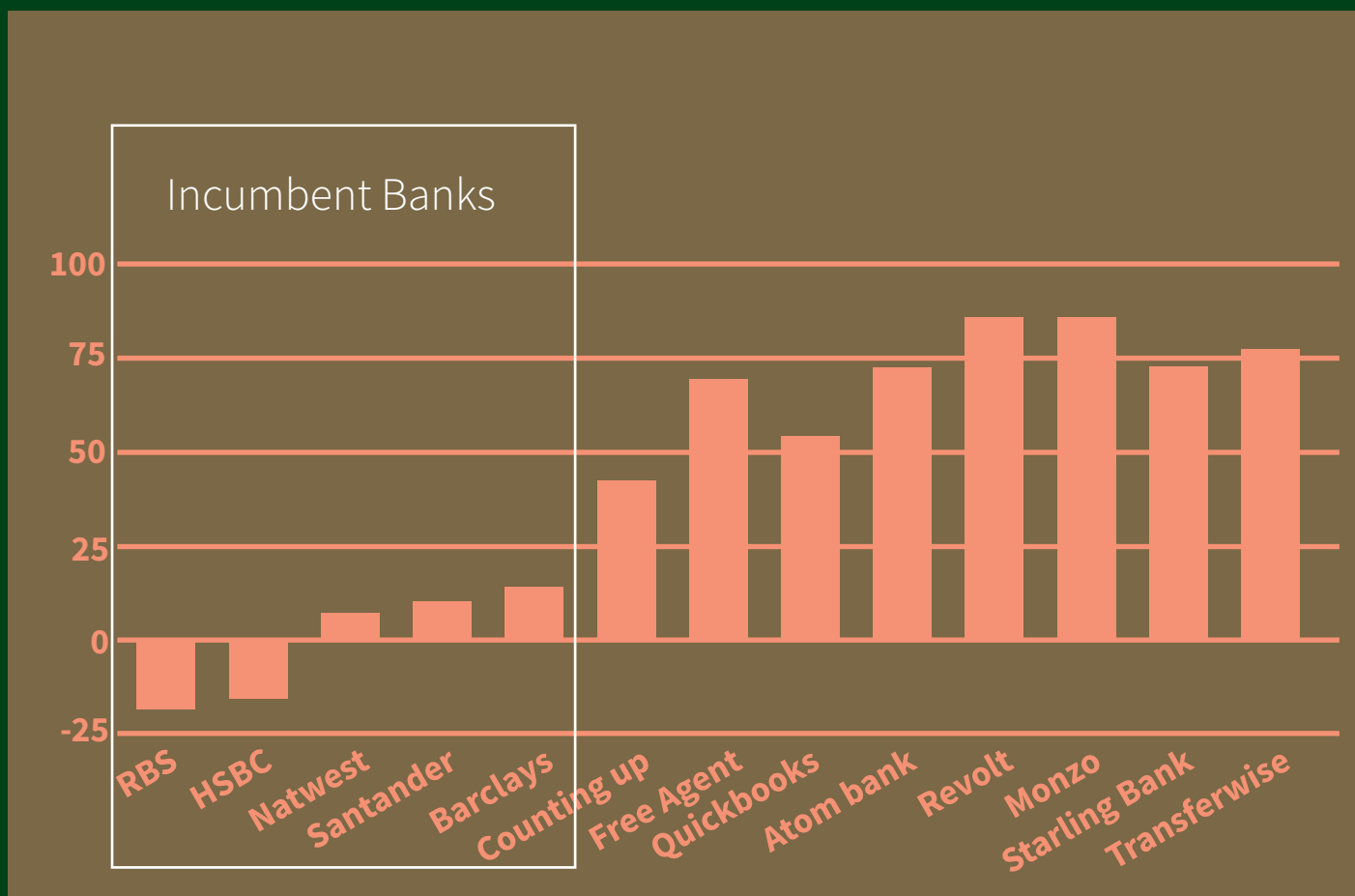
The boom in fintech innovation over the past decade is a direct result of this. Not only were many of our more mature fintech startups born out of the wreckage of the 2008 financial crisis, they have deliberately filled the void left by heritage banks by embedding customers at the heart of their products and services, building solutions for traditionally underserved segments, and investing heavily to ensure they have the best possible user experience (UX).

Thanks to their pioneering business models and the cost-efficiencies that emerge from the use of new technology, fintech startups are also able to provide their services at a fraction of the cost of heritage banks. This means that they have a commercial incentive to serve customers from whom heritage banks have traditionally struggled to generate revenue.

By using advanced algorithms and new data sources, fintechs can provide alternative credit scores for the poorest, potentially bringing down the cost of lending to millions. Innovations around payroll systems can also allow customers to access their wages before payday, preventing those in need of short-term credit from resorting to high-cost loans.

At Coadec, we're lucky enough to see first-hand just how they do this. Whether it's Transferwise who have smashed open the previously opaque fee-structure used by banks and payment providers for international transfers - dramatically reducing the cost for customers to send money around the world; Funding Circle, who provide lending to SMEs - a segment that has been ripped off and poorly served by banks for decades; or Pockit, who provide current accounts for the UK's one million 'unbanked' - i.e. those who have been ignored or rejected by high street banks. Customer-centricity drives their innovations and it is their greatest asset.

Trust also takes on a different complexion: it is the digital insurgents, not heritage banks, that can be trusted to propose the best financial deals. The stark cultural difference between old and new is displayed by the vast disparity in 'Net Promoter Scores'. These scores not only signify customer satisfaction, but also represent customers' willingness to actively advocate for a particular brand. Monzo, Atom Bank, Transferwise, Starling and Revolut all have a net promoter score between +70 and +85. The UK's largest heritage banks, by contrast, have scores between -18 and +14... Yikes^[5]!



This is why the EU Payment Services Directive II (PSD2), implemented in the UK through the Payment Service Regulations 2017 (PSRs), is nothing short of revolutionary.

For the first time, consumers were given the legal right to use third-party providers (i.e. fintechs - from now on referred to as TPPs) to access account information services and initiate payments. This right also forces banks to share a level of customer data to third party providers (TPPs) that they had previously succeeded in monopolising for their own benefit.

Customers are now able to access a wider range of individually tailored financial products and services offered by TPPs, rather than being limited to the heritage banks' off-the-shelf products. TPPs have also been able to leverage their access to richer financial data by building new products and services that were not initially envisaged by Open Banking - adding extra value to individuals (e.g. financial inclusion, legal aid and welfare support advice). What has been shown is that when the customer is in control of their data and who they share it with, this can build trust, drive financial engagement and empower activity.

But despite all of this, the banks have used the dark arts to build extra barriers to PSD2's customer empowerment rights, in order to maintain their gatekeeper roles. First, they sent armies of slick lobbyists and magic circle lawyers to Brussels to carve out a requirement on Strong Customer Authentication (SCA). This forces customers of TPPs to re-authenticate their consent, at their bank's interface, every 90 days.

Imagine having to send your accountant, bookkeeper or financial adviser a new letter of authority every 90 days just so they can continue to work on your behalf. The chances of forgetting to do so would be high - potentially missing filing deadlines, payroll or important insights on your financial health. But this is precisely the situation that customers of accountancy software and financial adviser platforms face. Obviously this is designed to undermine Open Banking services operated by anyone but the individual's own bank.

Then the banks embarked on a campaign of classic regulatory capture. Due to the limitations of the CMA Order, the Open Banking Implementation Entity (OBIE), the organisation tasked with overseeing the project, has been unable to issue fines to poor performers and missed deadlines. Despite being staffed with exceptional talent, who believe wholeheartedly in the project, the only powers they have is to name and shame. And reminiscent of the FSA in 2009 - these powers have been too light touch to be effective.

It has allowed heritage banks to drag their heels and get away with unreliable APIs that are not at a required level for TPPs to build products and services on top that perform to a required standard. But it can be done. A quick review of the API Performance page that OBIE publishes shows that Monzo and Starling have 100% uptime on their APIs^[6]. Again, this reinforces the cultural difference between old and new.

But now, to top it all off, the heritage banks are seeking to level charges on TPPs for accessing this data, via so-called Premium APIs. If anyone owns this data it must be the customer, so why should banks be able to charge for it?

Reading the FCA's Call for Input on Open Finance, it is clear that the regulator recognises that both Premium APIs and the 90-day re-authentication process are constraints in the Open Finance process that allow banks to continue to exploit their quasi-monopoly position to the detriment of customers. These views have also been echoed by BEIS, in their Smart Data Review, where they raised concerns over the need to "reauthenticate at regular intervals", acknowledging that it provides unnecessary friction for customers.

We must empower the customer once again and take inspiration from other initiatives from across the globe. Left to their own devices, banks and insurers will lobby to put themselves at a commercial advantage to our nation's startups. The Australian Competition and Consumer Commission (ACCC) is introducing arguably the most expansive open data regulatory initiative in the world. The Australian Consumer Data Right (CDR) will give consumers the right to access not just their financial data but also, utility and telecom data.

The speed at which they hope to roll this out is breathtaking - especially when you compare it to the cumbersome efforts to get Open Banking off the ground. The key to their success has been a mixture of a government-led approach, providing a legislative driver that gives customers the right to share their financial data with other providers, and a market-led approach, by enabling intermediaries to compete and act as service providers that simplify the connections between banks and TPPs.

Without having to set up a standard setting body, and go through the protracted wranglings over technical standards, the Australians aim to make customer utility data available in 2021^[7].

The Government must break the hold of self-serving heritage banks, and empower customers once again. For Open Finance to take off, it will be necessary to put in place new data sharing legislation that builds on existing GDPR rules and takes its focus from the perspective of the customer.

Not only will this ensure that the right to data portability is fulfilled by Open Finance data holders through the use of APIs, and that data requests must be fulfilled in real-time, it will also lay the foundations for the opening up of data in sectors wider than finance. This is something that has already been taken into consideration by the EU's new Data Strategy.

HM Treasury must also remove the 90-day re-authentication rule, since it is an unnecessary barrier that is preventing customers from accessing new financial services.

Recommendation 2:

Complete the

payments

landscape

The vast majority of services that have emerged from the Open Banking regime so far have been account information services (AIS), and the consumer side of the market has seen less activity than the SME side. Of all the Open Banking activity so far, less than 0.5% is payments-related^[8]. This is because the take up, and development, of Payment Initiation Services (PIS) has been thwarted by a number of barriers raised by incumbents.

Although it is clear that PIS use-cases offer a more flexible, potentially smoother, and definitely cheaper, route for customers; the payments landscape remains incomplete. Currently the only really viable functionality is for single payments and, to an extent, standing orders. The ability to create Variable Recurring Payments, (VRP) that don't need to be continually re-authorized by the user, was originally a key part of the mandated roadmap, but the banks have been successful in dragging their heels and delaying this functionality.

VRP use-cases can do powerful things to help people - especially in relation to high-cost credit. Let's take overdrafts, for example. Both the FCA and CMA have raised "significant concerns" on the wide use of unarranged overdraft facilities by customers (20% of all current account holders), and the generation of substantial revenue (£2.4bn in 2017) by banks on these^[9]. Now, say, people were able to use a TPP that automatically "swept" funds between customers' accounts in order to prevent them from incurring an overdraft fee. This is just one simple use-case that would help millions of customers to save money in extortionate fees, especially since banks intend to increase their interest rates on overdrafts to 40-50% APR^[10].

The problem is that this service relies heavily on the automatic nature of the payment execution, not requiring customer intervention. As such, the Open Banking payment model, where every payment must be authorised (and for a specific amount) using strong customer authentication, does not enable this type of service.

The account sweeping use-case (where a customer sweeps money from one account to another in order to create some benefit like avoiding an overdraft fee), is explicitly mentioned at least three times in the original CMA report - so it is therefore impossible to see how Open Banking can be deemed to be complete without variable recurring payments.

The FCA must publish the findings of the VRP testing that is currently being done in the FCA's Regulatory Sandbox. Those findings should then be shared with the Government and the CMA who should then confirm that variable recurring payments are a mandatory element of the roadmap. Otherwise, the variable recurring payments standard, even once developed by OBIE, will not be implemented by the banks. Why would they? They make too much money from customers' debt. Mandating this would be cheaper for merchants and more secure for customers who currently have to hand over their card details to merchants to hold on file.

But more generally, the development and uptake of Open Banking services has been slower than optimum. With a little over two million registered customers to date, we are still some way off reaching critical mass^[11]. This is due to a number of procedural, user experience (UX) and process issues which banks have once again put in place that impedes open banking's wider adoption.

It is a well known fact that over half of mobile internet users will leave a site that takes longer than three seconds to load. This is precisely why UX matters so much, and why tech startups invest so much on constant improvements. In our previous work on R&D Tax Credits, 80% of startups consider UX to be so important that they wouldn't even market their products if it was substandard^[12].

However, the current redirect consent procedure put in place by banks is often extremely involved, adding unnecessary friction and confusing customers - resulting in a high number of customer drop-offs and a lack of PISP players in the market. A robust but minimal friction Strong Customer Authentication (SCA)

experience is critical to the success of Open Banking and should be developed to deliver the best user experience.

TPP-side re-authentication would provide an improvement on the status-quo, since it would allow users to provide TPPs with continued access to their data without having to revisit their bank's website or app. Currently, customers are forced to re-authenticate with each TPP through their bank, which is an unnecessary inconvenience and (surprise, surprise) encourages customers to stay with their incumbent bank.

But HM Treasury must work with the FCA to enable TPPs to operate continuous, unattended access, without the need to provide authentication to the bank every 90 days. Now that the UK has left the EU, the Government has greater flexibility to find a better solution. Allowing longer consent periods for at least a year would make reauthorisation much easier, and it would facilitate the migration to Open Banking.

Similarly API reliability and performance is not at a required level for products and services to be built on top and performed to a required standard. Speed is absolutely critical for payments - It has to happen reliably in a critical moment so there's very little room for failure. Inconsistent product performance and reliability has been a key barrier to both PIS development and user adoption of new Open Banking services. Newer fintech players, such as Monzo and Starling, have shown that this is achievable so there is no excuse.

The FCA should put in place a clear set of Service Level Agreements around API performance and latency in line with industry standards (i.e. Open Banking Customer Experience Guidelines) to monitor ASPSPs.

Case study 1: GoCardless

Payment Initiation Services (PIS) are still in their infancy in Open Banking and GoCardless is among those who have acquired a license to provide such a service – meaning they are able to initiate instant bank to bank 'push' payments for their small business customers.

"We haven't seen a huge amount of activity going through these rails in Open banking. It's possible at the moment for limited, one-off transactions, but we're hoping to apply it to recurring transactions in the future," said Hiroki Takeuchi, CEO of GoCardless.

Direct Debit is the most common means of collecting bank-to-bank payments. It was devised in 1964 by a Unilever executive, as an automated way to collect recurring, variable payments from ice cream vendors, without having to ask permission each time.

But for global subscription businesses, Direct Debit presents a costly challenge. Since bank schemes are globally fragmented, a business wanting to collect by

Direct Debit in multiple geographies would have to forge local banking relationships in each one. This is why many are forced to use recurring card payments as a back-up.

But cards weren't really designed for recurring payments and the costs are high: card payments typically cost more (2-4% per transaction compared to <1%)^[13] and fail more often, since they can expire or get lost or stolen, hitting businesses where it really hurts - involuntary customer churn.

"We're reinventing the way people take recurring payments and there are lots of different ways we can use Open Banking and the related permissions to improve our services," said Hiroki. "We don't really care about Direct Debit as a mechanism, we care about facilitating recurring payments – it's about finding the best way possible to do that."

The advantage that Variable Recurring Payments (VRP) holds over other payment methods is the lower costs. With PIS, businesses bypass the high fees which come when a customer pays via credit card or via mobile point of sale solutions. As such, over time, PIS can help companies save money on every transaction, adding up to thousands of pounds over time, which could potentially be crucial at a time of such great financial uncertainty.

Enhanced security is another clear advantage. With VRP, retailers never collect consumers' confidential information, such as card numbers, account details and expiry dates, for financial transactions. Instead, the customer is passed securely to their bank's website or app for the payment and the business making the sale never collects this personal information.

Greater adoption of PIS will only come once API reliability and user experience processes are improved, suggested Hiroki: "friction in the user experience needs to come down before people will use it."

Sector	Customer Benefit	Feasibility
<p>Savings</p>	<p>On average, low-income families in the UK have £95 in savings, while the high-income families have an average of £62,885 in savings. Open Finance can help people budget, understand their spending and spot opportunities to make savings; or enable people to use ‘autosave’ features.</p>	<ul style="list-style-type: none"> >> Standardised and digital data >> Banks already have APIs >> Key consumer account <p style="text-align: right;">Quick win</p>
<p>Mortgages</p>	<p>Paper-based processes are a hassle for customers, brokers and lenders but they remain a part of the industry. Open Finance provides a seamless, digital alternative which can provide faster and more secure mortgage applications, improving customer outcomes.</p>	<ul style="list-style-type: none"> >> Standardised and digital data >> Banks already have APIs >> Key consumer account <p style="text-align: right;">Quick win</p>
<p>Consumer Credit</p>	<p>Many consumers hold significant amounts of debt on credit cards, which carry rates of interest much higher than a standard loan. Opening up this data would make access to credit through loans and other products more available to consumers which would alleviate much of this problem.</p> <p>More accurate creditworthiness assessments – third parties could review the customer’s financial situation holistically and identify suitable credit products, resulting in access to cheaper finance, options for customers struggling to access credit, restricting access to those who cannot afford credit, and tailored and more readily available debt advice.</p>	<ul style="list-style-type: none"> >> Standardised and digital data >> Banks already have APIs >> Key consumer account <p style="text-align: right;">Quick win</p>
<p>Pensions</p>	<p>their pension plans. Opening this data will enable TPPs to make enrolment, consolidation and switching simpler; provide tailored options to encourage citizens to start saving earlier in a planned way; and encourage individuals to actively engage with longer term financial planning, from an ethical or asset allocation standpoint and how much they’re paying. It would also enable automatic top-ups into a pension, which would help with the chronic under-provisioning in pensions.</p>	<ul style="list-style-type: none"> >> The 12 largest providers already hold digital records >> Data from smaller providers is not standardised or digital >> Key consumer account <p style="text-align: right;">Quick win</p>
<p>Investments</p>	<p>With the responsibility of saving for one’s future moving from the employer to the individual, it’s becoming critical that people have the necessary advice to make the right decisions so that they save enough for their retirement. Just 10% of British adults seek financial advice because of complexity and cost, and many FS firms are reluctant to provide simple advice and guidance which will serve the needs of large numbers of consumers.</p>	<ul style="list-style-type: none"> >> Different data to payment accounts but not significantly different >> Mix of regulatory frameworks <p style="text-align: right;">Medium Term</p>

Sector

General Insurance

Customer Benefit

The standard products offered in the insurance market do not align with the needs of many consumers, especially younger people, and the costs are often high. This means many do not take out insurance, except where it is mandatory. Opening up this market to TPPs who could provide more agile, personalized products through combining data from a number of sources could greatly encourage take-up and reduce costs for consumers.

Feasibility

>> Data from smaller providers is not standardised or digital
>> Different data to payment accounts but not significantly different

Longer Term

Recommendation 3:

Maximise

opportunity

through smart

regulation

Using regulation to unblock bottlenecks

There are clear opportunities for innovation in an open finance landscape, with greater transparency on price, performance and choice all supporting greater competition for the benefit of consumers. It will also help to rebuild trust in financial services through enhanced transparency, and better customer outcomes.

The majority of these opportunities (set out above) work best when a TPP can look across the full range of financial products available, rather than limited to a sector specific view. These sets of data combined, will greatly increase the scope of services which TPPs could offer consumers. Improving mortgage renewals, moving savings, anything that is essentially a rate driven process are obvious candidates, where customers can either make their own decisions, be nudged or guided in the right direction or be advised.

But we must also be realistic. Some FS verticals are archaic, with data not ready to be shared across the ecosystem. In the pension and insurance markets for example, there are a lot of smaller players with limited resources.

Early success stories for Open Finance will be the sectors that are adjacent to payment accounts data, such as non-invested savings, credit and mortgages. Data is already standardised and digital for these products, and many PSD2 mandated banks already offer this suite of products and services, so they can easily level up their offering.

Yet, it is in the area of pensions and insurance that most people need products which are simpler and where wider understanding and engagement would bring the greatest benefit to the majority. In these verticals, there are a large number of small firms (many of which are using legacy and outsourced systems) with specialised products or small customer bases. The smallest players do not have digital data, let alone data that is machine readable, in a standard format. Without the data being online, there is no way for TPPs to access or build APIs to retrieve that data.

This is not to suggest that Open Finance needs to undergo a phased roll-out though. Customer expectations around smartphone usage and access to data, along with advances in security via biometrics, means that medium to large firms in these verticals are already investing in API based approaches to application design. Indeed, data shows that twelve providers own circa 80% of the defined contribution pension data in the ecosystem^[14]. These twelve providers already hold digital records and should be compelled by the FCA to open up pension data now to consumers via open source APIs.

There is already a burgeoning market of Technology Service Providers and aggregators that can work with these providers to develop the APIs required to provide access to the data. The platforms they provide are able to sit on top of underlying legacy systems. They already bridge the tech gap for many FS institutions, including Building Societies as a good example, delivering the ability to strengthen interactions with their customers without the need for an expensive and lengthy IT overhaul.

In order to maximise Open Finance opportunities HM Treasury and the FCA must work with TPPs and the FS industry to define use cases. The FCA's new Digital Sandbox should be leveraged as a proving ground to test and develop use cases for Open Finance, and to identify where rules, guidance and further legislation might be needed.

This exercise will help TPPs to provide feedback on the data they require for their use-cases and the barriers they might be facing accessing customer data, which will enable the FCA to evaluate which FS verticals may need further regulatory intervention to remove blockages to data access and mandate the digitisation of records. Transparency in this process will also be key, so the FCA must publicly publish clear timelines and roadmaps.

But to avoid the delays and pitfalls of Open Banking and PSD2, it is vital that the FCA's approach to Open Finance remains technologically neutral. We have already witnessed how overly prescriptive standards have essentially frozen the development and innovation of PIS in the Open Banking ecosystem. We can expect quite astonishing innovation in the interface arena (audio, video, VR, AR, etc.), both for customers and machines, but these developments will be lost to over-standardisation.

For example, prescriptive technical rules on redirection alone are damaging innovation. Let's say you have an Amazon Alexa virtual assistant. And you say "Alexa, please transfer £100 into my kid's savings account." She can't help you. Because Alexa doesn't have a web browser. Or imagine that you're paying for petrol, and you want to directly initiate a payment for it from your bank account. You can't. Because point of sale systems don't have web browsers.

There are innumerable examples like these about how redirection could kill any possibility for TPPs to offer a new and exciting generation of financial services – or to innovate and design new types of customer interfaces. Forget 'the internet of things'. Forget smooth checkout. Forget smartwatch payments. In these cases, redirection alone is not just an obstacle – it kills the innovation by creating a total roadblock.

Even at a more rudimentary level - Open APIs are only a best in class approach to move data in a more secure way, end to end, at this current moment in time. The technology is actually pretty old-fashioned, it's over 20 years old to be precise - ancient in tech terms! Blockchain is set to drive the next phase of API development, giving individuals a way to take back control of their data by moving it directly between themselves and data buyers.

It makes little sense spending years agonising over highly prescriptive technical standards, just to gut them out again in a few years' time. As we will see in the next section, there is an important role for market participants in this.

It is vital that the FCA remains technologically neutral and only develops a high-level set of principles that governs the development of Open Finance, to ensure a level playing field. It is positive that the FCA has already avoided contemplating prescriptive rules and guidelines in it's Call for Input. HM Treasury must ensure that this continues.

Case study 2: PensionBee

The power of Open Finance for pensions is enormous. There are about 40 million people in the UK who have at least some sort of pension provision^[15]. The use-cases for pensions in Open Finance go from the moment you get your first job until the moment you die.

"It can help people to see all their pensions in one place, 80% of which get left behind when people change jobs^[16]. It will help people to forecast their retirement, because if your pensions are scattered everywhere, you don't know how much you've saved in total or how much income that could mean. Most importantly, you don't know how much you need to add early enough to make a difference in retirement," said Clare Reilly, Head of Corporate Development at PensionBee.

“The fact that pensions can become ‘lost’ is a well-recognised concept in the pensions industry, the Association of British insurers estimates to be a £20 billion problem.” It is also precisely the problem that PensionBee is addressing by enabling customers to combine their legacy pension pots in a new plan on their platform.

The Government is also hoping to solve the lost pensions problem through the Pensions Dashboard project, a digital interface that will enable people to see all their pension pots in one place. But as a similarly tech heavy project to Open Banking, the functionality of the dashboard has been scaled back over time to being a ‘pension finder’ service - with limited functionality to show a balance and some contact details for your provider^[17]. Costs, charges, or performance are not included in the scope, nor is there any provision for real-time data. It will likely take many years to connect with all the UK’s 40,000+ pension schemes, since these schemes have wildly differing levels of data preparedness and access to resources.

“It was first mentioned in the early 2000s as a voluntary initiative. The ambition of the dashboard is to focus on maximum coverage, providing the minimum amount of data in order to reconnect people with their lost pots. This will likely take many years to achieve, since many of these schemes won’t even have digital records. It’s a mammoth task. Clare said. “So with one very limited use-case, it’s critical that Open Finance develops alongside the dashboard to fully capture the opportunities.”

Open Finance seeks to offer deep, rich data from a limited number of schemes, similar to Open Banking began by working with the CMA9. In pensions, just twelve providers own around 80% of the defined contribution pension data in the ecosystem¹⁸^[18]. Since all twelve of these providers already hold digital records, the FCA (who regulates nine of them) could quite easily compel them to open up customer data via APIs.

These providers have historically argued it’s too much work for them to open this data, and that the costs of overhauling old systems are too great. But as we have seen, these arguments do not wash. There is now a plethora of Technology Service Providers and aggregators that can help them to develop the plumbing for the APIs required to provide access to the data. The plat-

forms they provide are able to sit on top of underlying legacy systems. This will enable Open Finance in pensions to be operational in very little time.

“The benefits would be huge”, said Clare. “By combining banking data with pension data you can analyse an individual's bank statement and if they have surplus income or savings each month they could set up a rule to auto-top up into their pension, which would help with the chronic under-provisioning in pensions.”

“You would also be able to help people make better drawdown decisions. Once someone starts accessing their pension and putting it into a bank account, they would be able to see what they spend their money on and help them improve the way that they withdraw their entitlements. Often you will find they were better off leaving the money invested, as we see too many people withdrawing down their pension to their current account, just to feel a sense of control.^[19]”

So, does more regulation need to happen? Yes, it is not going to happen as a voluntary initiative, Clare says – which is evidenced by the slow progress in 20 years for the Pensions Dashboard project.

Ultimately, if the Government follows the approach laid out in this paper, ‘Open Pensions’ could be operational well before the Pensions Dashboard.

This would be a huge win for consumers. Once people get to the ages of 50 or 60, the money they have in their pension is a much bigger component of total aggregate wealth than their bank account. Pensions are usually, if you own a home, your second largest asset. If you don't own a home, they're probably your largest asset.

Please note: PensionBee's CEO, Romi Savova, sits on the Industry Delivery Steering Group for Pensions Dashboards and these are PensionBee's views, not the views of the Money and Pensions Service.

Recommendation 4:

Better

Architecture

A cost-efficient market-led approach

Without legislative and regulatory compulsion, Open Banking would not have happened. This is why the Government must take a “rights first” approach and develop a regulatory mandate for Open Finance that ensures TPPs have access to customer data. It should build on existing GDPR rules and take its focus from the perspective of the customer.

But Open Banking’s overly prescriptive and point-to-point approach to integration is not the most efficient way to tackle a wider Open Finance agenda. The governance function alone for Open Banking in the UK (OBIE) has cost in excess of £100m since October 2016^[20]. OBIE has responsibility for creating the technical and business standards for Open Banking in the UK, underpinning the ecosystem via the open banking directory, supporting the TPP ecosystem, customer experience guidelines, dispute resolution processes, promoting open banking, and aligning with PSD2 regulations.

Implementing Open Banking APIs to highly prescriptive technical standards has been an extremely costly process involving new technologies and customer journeys. Total manpower costs of implementing open banking to date across the CMA9 and other ASPSPs has been in excess of £2bn. It’s important to remember that the CMA9 and other bank account providers have larger IT budgets than many other FS sector participants.

Not only will the wider FS sector (especially in verticals with many smaller players - e.g. pensions and insurance) balk at the cost of the technology and development of APIs, it would be similarly unrealistic to expect cash-strapped startups to help fund this continued approach. For Open Finance to succeed, it will be necessary to utilise more cost-effective architectural solutions than a single standard setting body.

Technical Service Providers (TSPs) and aggregators can help on this front, and they will need to play a central role in developing Open Finance. They essentially provide the plumbing, helping to connect TPPs to Bank APIs. Their value cannot be understated and their pivotal role has led to many becoming unicorns in their own right.

Due to the disparate and diverse sectors that encompass Open Finance, it will be extremely difficult to coalesce around a particular technology or governance standard. Not only do aggregators and TSPs have over a decades worth of expertise and experience in building API connections, they can greatly ease the cost of integration without the need for an expensive and lengthy IT overhaul, support version compatibility, and reduce integration test costs between regulated providers.

In fact the vast majority of startups that we represent at Coade use aggregators and TSPs to connect to Bank APIs since they lack the scale to do so in-house. But PSD2 did not envisage the key role that TSPs and aggregators could play as integration service providers, due its preoccupation with stopping screen scraping at all costs.

HM Treasury must convene a working group of TSPs and aggregators to understand their value proposition for Open Finance and beyond. It must also work with the FCA to consider the role that TSPs and aggregators can play in Open Finance. Is there a clear and approved role for such service providers and if so how is that market encouraged?

This must be a priority, as their role will be key to the incentive model that will drive Open Finance’s development, and speeds up its market readiness. By setting a clear legislative requirement on Providers they will have the incentive, albeit a compliance exercise, to provide access and allow TPPs to use that consumers data to provide them with innovative products and services. Any burden that Providers may be subject to as a result of compliance requirements relating to mandated open access can be alleviated by such Providers partnering with aggregators.

It also allows the concept of monetised “Premium APIs” to be developed, incentivising incumbents to invest further in their APIs to improve the depth and quality of data available. If incumbents were solely allowed to pursue this approach, the risk of monopolistic pricing would greatly increase. This would result in a ‘slow to grow’ model where smaller TPPs would be prevented from competing - leading to uneven outcomes which would also be uncertain for consumers.

The benefits of embedding TSPs into the Open Finance architecture would therefore be threefold:

1. TSPs facilitate mandatory data access requests from almost day one - significantly reducing the time for Open Finance to be market ready.

Even after PSD2 gave customers the legal right to use TPPs, we’ve seen how banks have dragged their feet and frustrated the development of Open Banking at every turn. Mandating access and encouraging a market of TSPs to compete will give them little room for maneuver. It also entirely removes the possibility of regulatory capture taking place again.

Aggregator specialists can build integrations to a variety of data sources, standardise customer data and deliver it to TPP Providers in the format best suited for customers’ desired use cases. This lets businesses across the ecosystem focus on their core services, while giving customers the benefits of data access and portability across the entire ecosystem. The beauty is that their platforms can sit on top of underlying legacy systems and they already bridge the tech gap for many FS institutions in the Open Banking space and beyond.

TPPs would then be able to choose which TSP they would like to serve as their plumber to FS providers, whilst market forces would ensure that TSPs compete against one another on both the quality of APIs and price.

2. Mandatory data access provides incentives for incumbents to invest in their own “Premium APIs.”

There is very little incentive for incumbents to invest in APIs due to the perceived threat to their business models, particularly where they have large assets under management from a disengaged base of customers.

Encouraging a layer of “Premium APIs” which sit above mandatory data access, similar to those envisaged by OBIE for Open Banking, would enable incumbents to monetise their own in-house APIs. This would provide them with a commercial incentive to improve the depth in functionality and performance of their APIs, and to grow the Open Finance ecosystem.

There are already a few “Premium API” initiatives underway in other FS verticals, such as Open Pensions and Open Savings and Investments. Although their standards are still being defined, they offer pensions and savings providers opportunities to be rewarded from their API investments.

TPPs will then be able to choose whether they would prefer to use the Premium APIs offered by incumbents, or the integration services offered by TSPs. Those with the scale to build their own connections in-house will likely plump for the “Premium APIs”, as they will give them greater control over their integrations. But as the price-points, and level of quality, between the two layers will also compete, the smaller startups that we represent will always have some sort of access available to them at a competitive rate.

3. It lays the groundwork for a wider Open Data ecosystem

BEIS’ Smart Data initiative, which goes beyond finance, will play an even bigger role by enabling data services across whole industries that are completely beyond imagination today. The impact of increased competition and innovation will be most profound in more oligopolistic markets - such as utilities and telecoms.

But this will only happen if the infrastructure for data portability is there, and customers are empowered to share their data with third parties. Similar to their role in Open Finance, the plumbing supplied by TSPs will be central to unlocking the opportunities of Open Data more broadly.

This is precisely how Australian regulators are hoping to achieve customer data portability through the Consumer Data Right - arguably the most expansive open data regulation in the world. It will give consumers the right to access not just their financial data but also, utility and telecom data. The regulators are specifically looking at how “accredited intermediaries” (i.e. TSPs) can facilitate data access across these sectors in order to encourage new products and services.

But there are also other areas that could improve the overall architecture which require bold decisions, and would have a positive effect for open finance and a wider open data regime.

There could be more emphasis on support for a federated digital identity approach for consumers, based on government-backed standards. At the moment, customers are forced to go through often cumbersome identification processes with each new provider. This creates high levels of friction which restricts user engagement and adoption.

Some countries have already implemented digital identity systems (e.g. BankID in Sweden or Aadhaar India are both based on centralised forms of identity) which have significantly improved their tech stack - improving authentication and consent journeys, but also helping to reduce KYC and AML costs for customer onboarding.

Whilst there are concerns around centralised identity management with one entity (e.g. national identity database), other potential solutions such as federated identity models should be considered. A recent example of this in action can be seen in Canada with large FS providers acting as identity providers for verified.me. It may be in its embryonic stage, but it is a good example of private sector use of a federated identity scheme.

Although this is more of a low-to-medium priority for Open Finance, there should be closer collaboration between FCA, Digital Identity Unit (at DCMS) and the Information Commissioner’s Office (ICO) on this.

Case study 3: Plaid

Since 2013, Plaid has been enabling open finance globally with secure and reliable connections to financial apps and services like Coinbase, Monzo, and Transfer-Wise. Many of the largest retail banks in the US use Plaid to make it easy for their customers to securely access their financial data when and how they choose.

Plaid builds the open finance infrastructure that powers modern, digital financial services and builds the technical API infrastructure that connects consumers, financial institutions, and fintech developers - giving consumers power over their own financial data. Plaid acts as a data aggregator which in Europe can take the shape of an additional enabling TPP or a Technical Service Provider.

Today, Plaid services over 3,000 customers and connects to 11,000 financial institutions in the US, Canada and

Europe. Over one in four US consumers with a bank account have connected to their favorite fintech application via Plaid.

Plaid came to the UK in 2019 and allows developers to easily build PSD2 compliant solutions on top of open banking infrastructure, ensuring the success of the principles underpinning open banking.

One current example of Plaid supporting the bank connections and powering digital financial services in the UK is Canopy. Based in London, Canopy is a digital rental marketplace that helps renters make better rental decisions, with personalised insights and recommendations based on the user's unique income and spending habits. It's a concept Canopy is calling "rental health," and it's built on the Open Banking data that Plaid provides. Canopy uses Plaid data to help users track their monthly rental expenses and save on household bills, as well as showing them what their future can look like, based on different rental decisions they might make.

Canopy partnered with Plaid in October 2019 allowing them to instantly connect a user's financial accounts, verify their identity, and categorise their transactions. The result has been a better user experience and a 25% reduction in cost. By using Plaid, Canopy has seen its account linking success rate more than triple, from 20% to 65% which has led to a lower customer acquisition cost and an increased customer LTV. Finally, their overall conversion rate for all products has reached 27%—a new high. "It used to take 5 days to verify a renter," "With Plaid, we can do it in 60 seconds."

Plaid enables innovators in the fintech ecosystem to focus on product innovation by providing secure, clear and simple access to banking infrastructure. For open Finance this could be extended well beyond payments data to include a wider range of financial service providers.

With or without industry standard APIs, competition will allow firms that specialise in API development and integrations to build the infrastructure needed to make open finance a success.

Recommendation 5:

Coherent

Governance

Too Many Cooks...

The FCA's commitment to lead the Open Finance debate, the proposed Digital Markets Unit (DMU) within the CMA, the Treasury's review of the payment landscape and the BEIS Smart Data Review provide vehicles through which Open Finance could be set on the right path to securing better financial health for all consumers in the UK. But it has become abundantly clear that a joined-up strategy and governance structure is much needed. After all, too many cooks spoil the broth.

There needs to be a top-level of commonly agreed principles which underpin data sharing, as there are a number of common issues, to do with security and the ethical use of data, which arise no matter what the sector. These general principles should govern the activities of players across the board and protect the interests of consumers. This would give clarity to consumers, generate trust and provide certainty for industry. Companies cannot be faced with multiple different regimes overseen by different sector-based regulatory bodies.

This is not to say that one regulatory body should be in charge of all aspects of this ecosystem - far from it. But the current system of collaboration among government and regulators does not appear to be adequate.

A tiered level of oversight will be required to ensure the success of Open Banking, Open Finance, Smart Data – and any other initiative towards 'Open Data', which may come in the future. At the apex should be a body which formulates and oversees the aims, high-level principles and forward planning of the UK's data strategy.

The DMU, sitting within the CMA, would be well placed to take on this function. It's remit would be to provide consistency for key cross-cutting policy areas relating both to consumer protection (e.g. vulnerability, redress, competition issues etc.) and data portability (e.g. data access, consistent authentication, interoperability, etc), doing so in a way which maximises the use of Regtech. Much of this is already in its remit, but it is vital that it remains technologically neutral in its approach in order to promote innovation.

Sitting within the CMA, the DMU would possess a high degree of independence and it would be focussed on competition issues, this will be key to it successfully fulfilling its role. As part of the UK's competition watchdog, the DMU must ensure mandatory data access is fulfilled otherwise FS providers will be able to selectively choose which TPPs they integrate with using "Premium APIs."

But the Government must ensure that the DMU is transparent and representative, involving aggregator specialists (who have the expertise in building integrations to a variety of data sources in different sectors), TPP stakeholders, regulated providers from across different market sectors, as well as government and market sector regulators.

Underneath this body, different sectors will require specific sector-based rules and a body to devise and enforce these – as exists at present. For Open Finance, the FCA will play the leading role. It is already positive that in their Call for Input, the regulator has suggested a set of high-level principles that will govern the Open Finance regime. Over time, these will be a subset of the higher-level set of principles that align with the DMU's. Under this structure, it is important that the DMU liaises with the FCA to ensure that more specific finance-related policy issues are addressed.

Similarly, the DMU would work to support other sector regulators in order for a coherent set of high-level Open Data principles. We envisage BEIS' Smart Data Function as the delivery arm for the DMU which would deliver the requirements of various regulated industry "Premium API" initiatives. Within the Smart Data Function, different implementation directors could host their initiatives but with common tech teams supporting them to facilitate agile and ever-improving infrastructure.

With OBIE set to wind down its operations over the coming year or so, it would be a mistake to not leverage their experience in developing a standard API. The Smart Data Function should become the home for the OBIE's knowledge assets and the continuation of its work to develop Open Banking "Premium APIs" under direction from the CMA and the FCA. It should then begin to work with other industry level initiatives - such as, Open Pensions and Open Savings and Investments - consulting on what is mandatory and what is optional for firms, and identify enabling technologies which will help them to improve the effectiveness of these regimes. Without an organisation performing this function, industry-initiated activity may be stymied or give rise to a competing body for industry to commission.

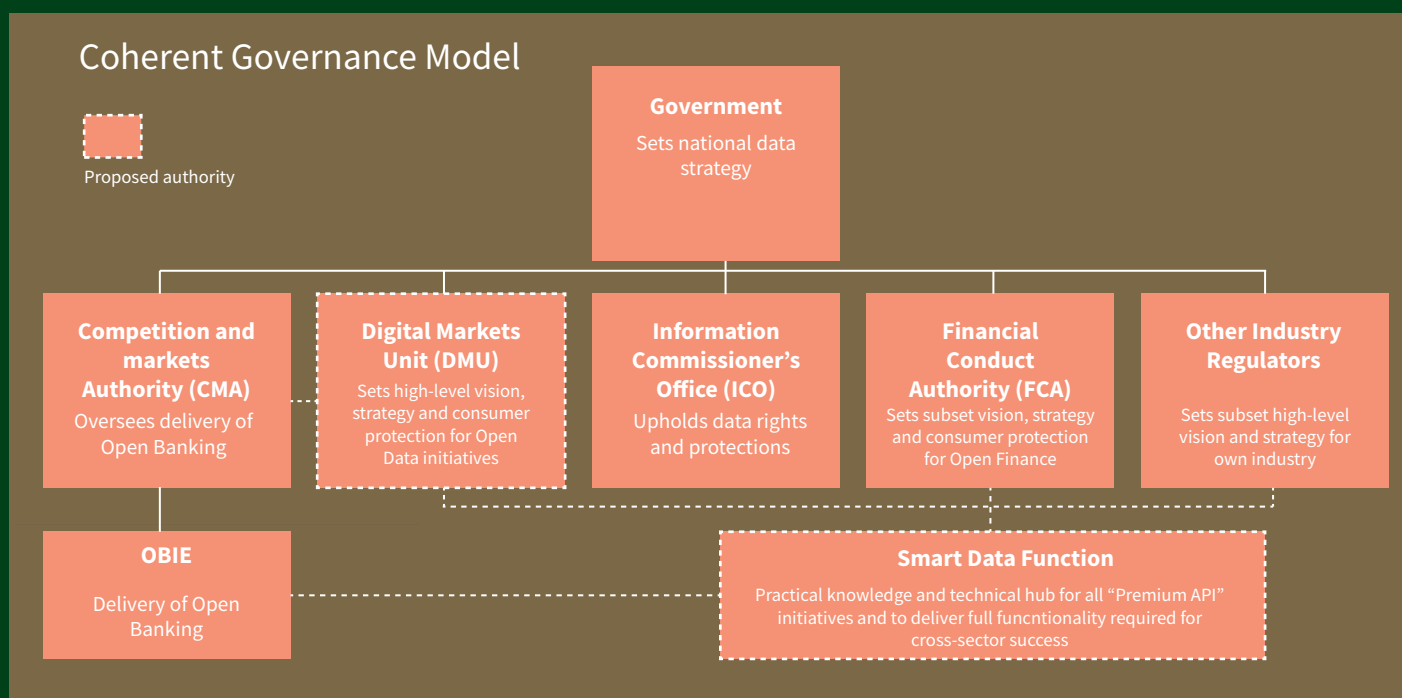
We've already seen how important it is, from an incentive dynamic, to provide industry with a choice between investing in "Premium APIs" - which are optional for them to adopt and commercially monetise - and providing mandatory access as a compliance exercise, if they do not have the resources themselves. Mandatory data access, through new legislation that secures the right for customers to access their wider financial data via TPPs, can be facilitated by TSPs and aggregators who can greatly ease the compliance burden on FS providers.

As we see it, the Smart Data Function would become the practical knowledge and technical hub for all "Premium API" initiatives. For Open Finance, over a 2+ year period we can envisage a structure where it sits above FS sector initiatives or verticals, and ensures that best practices and interoperability is developed and shared.

Each initiative then progresses at its own pace, whether that be regulatory driven (i.e. FCA using smart regulation to remove blockages to data access and mandate the digitisation of records in some FS verticals), or market driven (i.e. "Premium APIs", or TSP market participants competing on the quality of their APIs). This same structure could then be replicated for wider industry initiatives, such as those for energy companies (e.g. Midata) and digital platforms (e.g. Data Transfer Project).

The Government must ensure that the Smart Data Function is governed by independently chaired boards. Both boards should include an equal balance of industry, consumer representatives. There should also be people within the organisations whose only purpose is to consider the technology through the consumer lens, advocate for the consumer and facilitate the engagement of consumer organisations within governance across the organisation as a whole.

Nevertheless, deliberations on governance structures should not impact the timescale for Open Finance to get underway. The FCA has already drawn up its set of high-level principles, and it has the enforcement powers necessary to oversee their implementation.



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