The Great Open Banking Crossroads

Grasping the Opportunity

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COADEC

Authors

Dom Hallas
Executive Director

Charlie Mercer
Head of Economic Policy

Luke Kosky
Fintech Policy Lead

About Coadec

Coadec is an independent advocacy group that serves as the policy voice for Britain's technology-led startups and scale ups. 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 fights for a policy environment that enables early-stage British tech companies to grow, scale and compete globally. We have over 2000 startups in our network and have been instrumental in building proactive coalitions of businesses and investors on issues that are integral to the health of the UK's startup ecosystem. Our work has seen many successes, from the establishment of the Future Fund and the expansion of the Tier 1 Exceptional Talent Visa, to the delivery of the UK's Patient Capital Fund.

We have been an ardent supporter of the UK's Open Banking ecosystem for years, and published our first report urging action to accelerate the sector in November 2020. This was followed by a report in September 2021 calling for a Smart Data Right to accelerate data portability across the economy.

Introduction

"UK open banking is at a crossroads", said Bryan Zhang, Independent Chair of the Open Banking Strategic Working Group (SWG) in the Final Report for the Joint Regulatory Oversight Committee (JROC) in February 2023.[1]

A multi-billion pound sector stands on the precipice of taking flight beyond payment account data, to open up a new frontier of innovation and competition… Or alternatively, the darling of the UK's fintech ecosystem could stagnate, condemned to tread water and not fulfil the promise of the last few years, with the best and brightest firms forced to temper their (and their investors') expectations or upsticks across the channel.

This short report aims to capture the urgency of the moment through quantifying the value of the UK's open banking ecosystem, and therefore what is at stake.

The Story So Far...

Consumer data is disparate and underused, guarded by incumbents like dragons hoarding treasure in caves. There is no incentive for large incumbents to proactively enable consumers to share their data in real-time, and the Right to Data Portability under Article 20 of General Data Protection Regulation (GDPR) has the stipulation that firms have up to 30 days to present the data in a machine readable format. An excel spreadsheet 30 days after initiation is not useful to anyone, and there is now technology to enable this exchange securely in real-time.

Open Banking has cut this 30 days to a matter of seconds for transaction data on payment accounts.

How Did We Get Here?

Open Banking was introduced in the UK through two actions:

- The 2017 Retail Banking Competition Order, an intervention by the Competition and Markets Authority (CMA) to inject competition into the retail banking sector by compelling the nine biggest banking groups to take action to make it easier for their account holders to 'port' their data and make account to account payments. This is approaching completion, with the JROC responsible for designing the future governance of the Order. The JROC is due to publish its recommendations for the next stage of Open Banking in Q1 2023.
- The Payments Services Regulations 2017 (PSRs), the UK's transposition of the Second Payment Services Directive (PSD2) from the EU. This is now under complete UK Government responsibility post-Brexit, with the PSRs currently being reviewed by the Treasury, starting with a consultation running to April 2023.

However, while frequently referred to as the world leader, it could be fair to suggest that the UK has sprinted ahead but is starting to flag, whilst other markets, who started later and at a gentler pace, have begun to catch up.

Despite the two vital actions above, the UK Government has never proactively led the way with Open Banking, so far we have the CMA and the EU to thank for our 'world leading ecosystem'. The ill fated Midata initiative doesn't count.

But This Could All Be About to Change...

...as a result of Smart Data legislation. Through the Data Protection and Digital Information Bill (DPDI), the Government will introduce primary legislation to give Secretaries of State the ability to mandate sector specific smart data schemes through Secondary legislation.[2]

The primary legislation will inherently be sector agnostic and principles based, with no firms compelled to do anything in the short term. Whilst there is a balance to be struck, with the Australian experience demonstrating the pitfalls of over prescriptive governance, Coadec believes it would be useful to have a requirement for next steps to be outlined in primary legislation.

Beyond the primary legislation, Coadec wants to see a commitment to a first 'Smart Data Scheme' outlined in the DPDI Bill, and this first scheme should be Open Finance.

Why is a Regulated Approach Necessary?

Consumers will, and want to, share their data if they get value out of doing so safely, securely and where clear limitations of use are articulated: the seven million users of open banking to date demonstrate this.

There are three ways that data could be exchanged:

- Through **credential sharing**, known as "screen-scraping": consumers share their username and password with a third party, who then log-in on their behalf and "scrape" the data they see to then be re-used in the third party app. This dominates in unregulated markets like the US.[3]
- Through a **private Applied Programming Interface (API)**. Instead of sharing credentials, users can consent to connect a data source to a third party data consumer via a direct integration. This direct integration exists because of a pre-existing commercial agreement between the data source and the third party data consumer. Commercial API integrations exist across the economy, but integrations enabling the secure sharing of consumer data (with the consumer's consent) are rarer. Singapore's open banking system relies on this method.
- Through a **regulated API**. Instead of the direct integration existing bilaterally on commercial grounds, it is the result of a regulatory mandate compelling the data source to make the API available to regulated data consumers. This is the "Open Banking" approach seen in the UK, Europe, Brazil, Australia, Bahrain and elsewhere.

The first route leads to consumer credentials being exposed to third parties, jeopardising the security of their data, and leading to high costs of entry for firms as screen scraping can be very costly to maintain. The second relies on the data sources reaching commercial agreements with Fintechs often out to steal their lunch. The third relies on time-consuming and expensive regulation.

In Coadec's view, a mix of options 2 and 3 is preferable. It is aspirational to protect consumers by avoiding them having to share their credentials and lowering the barriers to entry would unleash startups, whilst there must be a recognition of the limits of mandating incumbents to expose data that veers into the commercial. For instance, where a data holder has enriched, labelled or combined data sets, these sit in a precarious grey area where some will suggest it is the user's, whilst others recognise it as commercial intellectual property.

Consequently, a minimum level of free access should be mandated (option 3), with enriched data sets offered on commercial terms (option 2), outside of the regulated mandate.

It will also be critical for the Smart Data regime to progress in tandem with broader data policy. This includes the Digital Identity and Attributes Trust Framework specifically, as increasing portability of consumer data could lead to a concentration of data with entities like data aggregators, which themselves could become sources of digital identity by proxy or explicit design.

Why Does This Matter?

Open Banking is aspirational because it puts people in control of their data.

Open banking has fuelled innovation in the UK Fintech Sector since its launch in 2018. Over seven million consumers and 50% of SMEs have now used open banking services to gain a holistic view of their finances, support applications for credit, and pay securely, quickly and cheaply. However, open banking is the tip of the iceberg in what can be made possible when consumers are able to securely consent to share their data between firms.

"Smart Data" is the application of real-time consent driven data portability across the economy.

In a Smart Data world newcomers to sectors no longer need to compete just on the core products and services of incumbents but can compete on the customer interface, bringing together disparate sets of data, making sense of trends and giving insights that the incumbents have missed.

This is the power of Smart Data - putting consumers in control of their data and opening up a new frontier of innovation and competition for UK startups.

For some naysayers, the costs of this movement are not worth it. Coadec has started to hear grumblings from other sectors suggesting that Smart Data "wouldn't work here", with sector 'x' too complex, and the use cases ambiguous at best.

But this was what the financial sector said five years ago, and the results? Not only have seven million users benefited from open banking, but a new industry has been built. This ecosystem has laid the foundations for the Smart Data economy, and is very valuable indeed.

The Value of Open Banking

Crucially, Open Banking predates the regulatory interventions since 2018, with account aggregation, and other use cases relying on financial data sharing, having been around for over a decade. It is also often the case that Fintechs will do more than just Open Banking, whilst other times they will change their services. To measure the value of the Open Banking ecosystem, however, we have to draw the line somewhere.

Methodology

Methodology in this research: this data comes from the entries for 82 UK based Fintechs active in the open banking sector. All of these firms were selected for offering services that require a licence for either Account Information Service Provision (AISP) or Payment Initiation Service Provision (PISP) and not be a regulated Account Servicing Payment Services Provider (ASPSP) under the PSRs. To be included they needed to have received venture capital funding between 2009 and 2022, and have a tracked entry on Beauhurst. Where companies 'exited' (either were acquired or floated on a stock exchange), they were removed from the data set for subsequent years.

The value of this ecosystem was determined by the post-money valuations available through Beauhurst. Full sourcing of these valuations can be found at https://www.beauhurst.com/data/. The data does not include valuations that are not verified by Beauhurst at the date of publication. All data is correct as of 28th March 2023."

The Firms

Total firms: 82

Minimum employed across firms: 4,864

Fig 1 - Split By Employee Number:

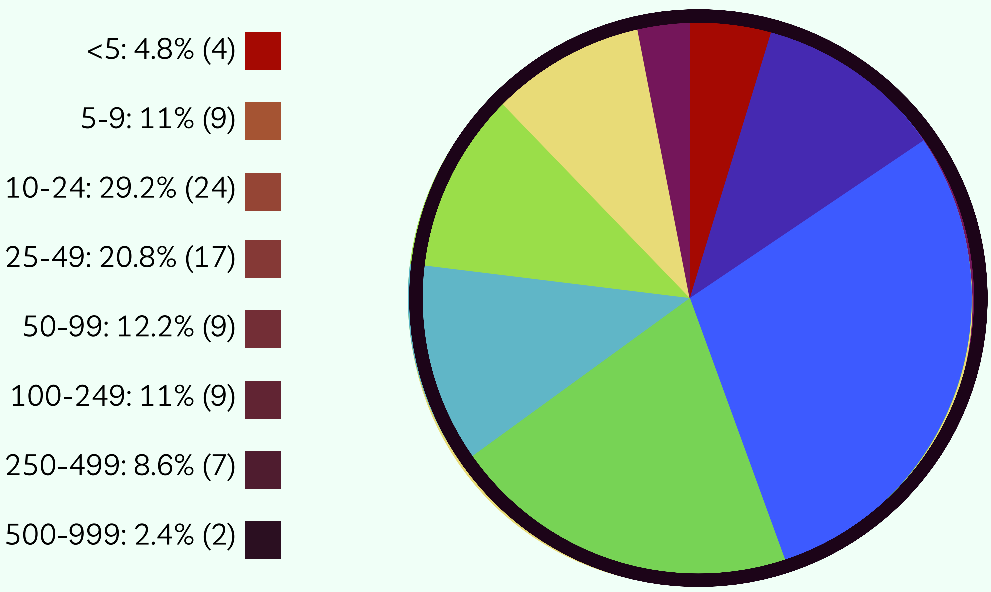


Fig 2 - Split by Geography:

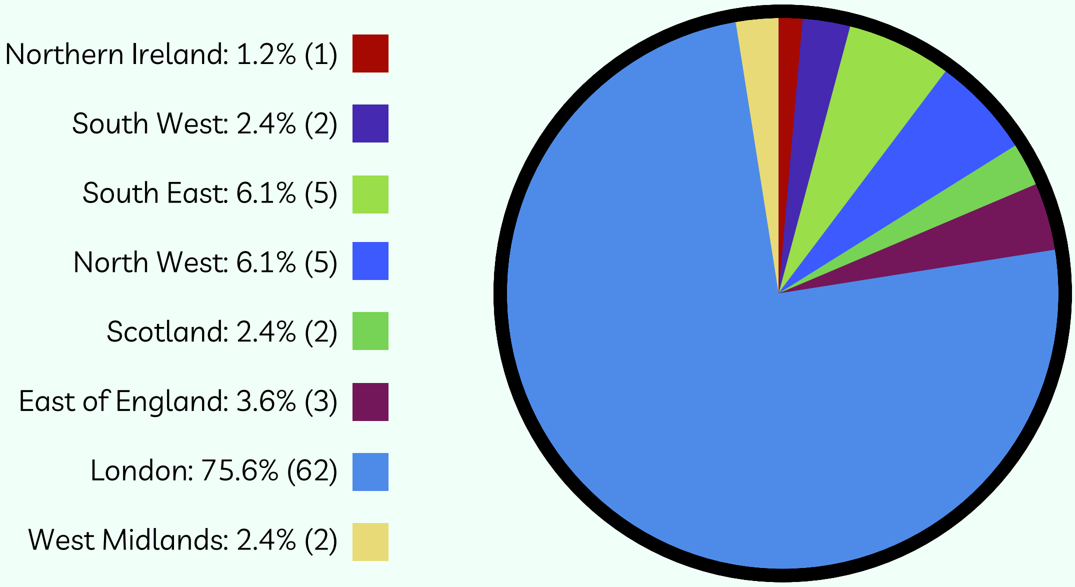


Fig 3 - Split by year founded:

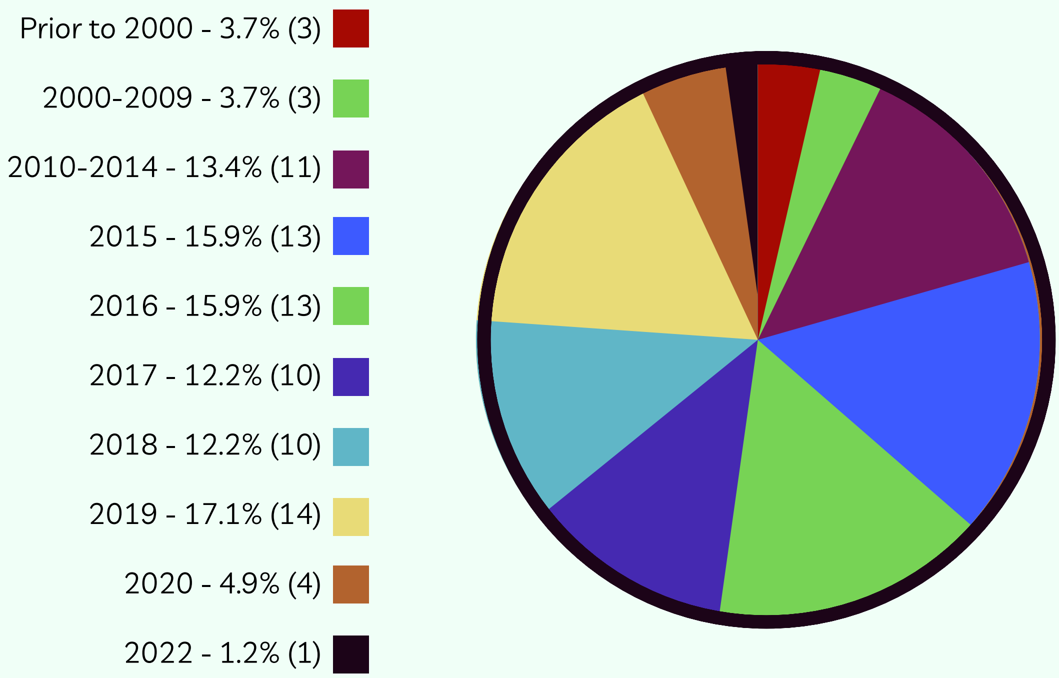
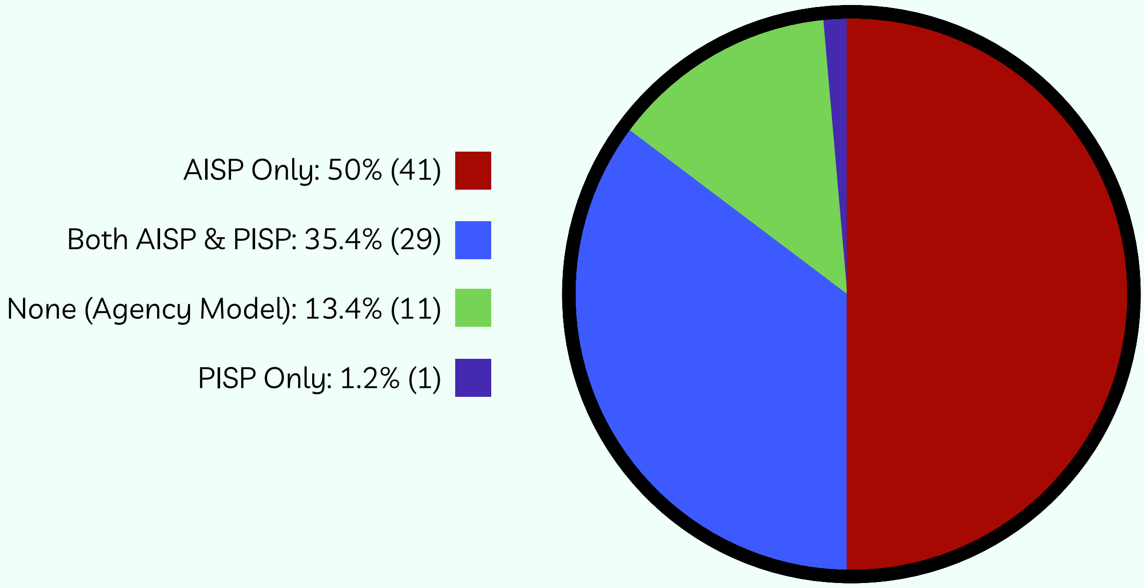


Fig 4 - Licenses



Fundraising

- Total funds raised by the UK Open Banking sector in 2022: £886,272,970
- Mean raise in 2022: £19,694,955
- Median raise in 2022: £4,500,000
- Total funds raised by the UK Open Banking sector between 2009-2022: £2,272,697,730

Fig 5 - Total annual raise

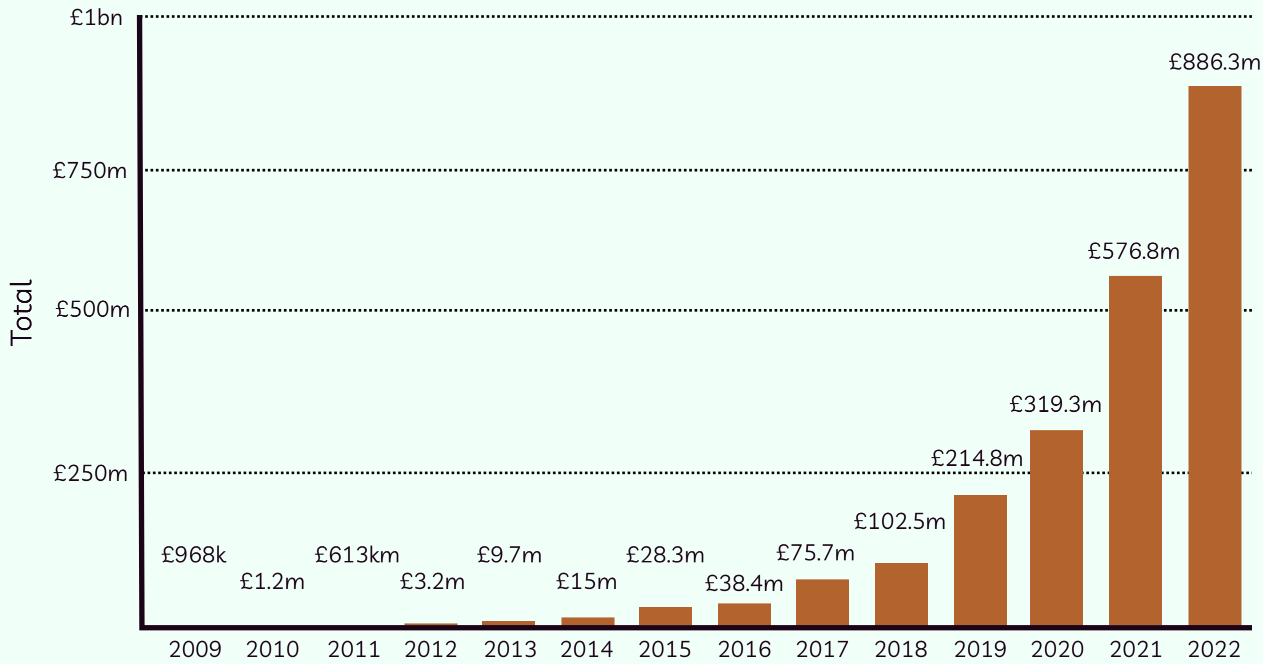
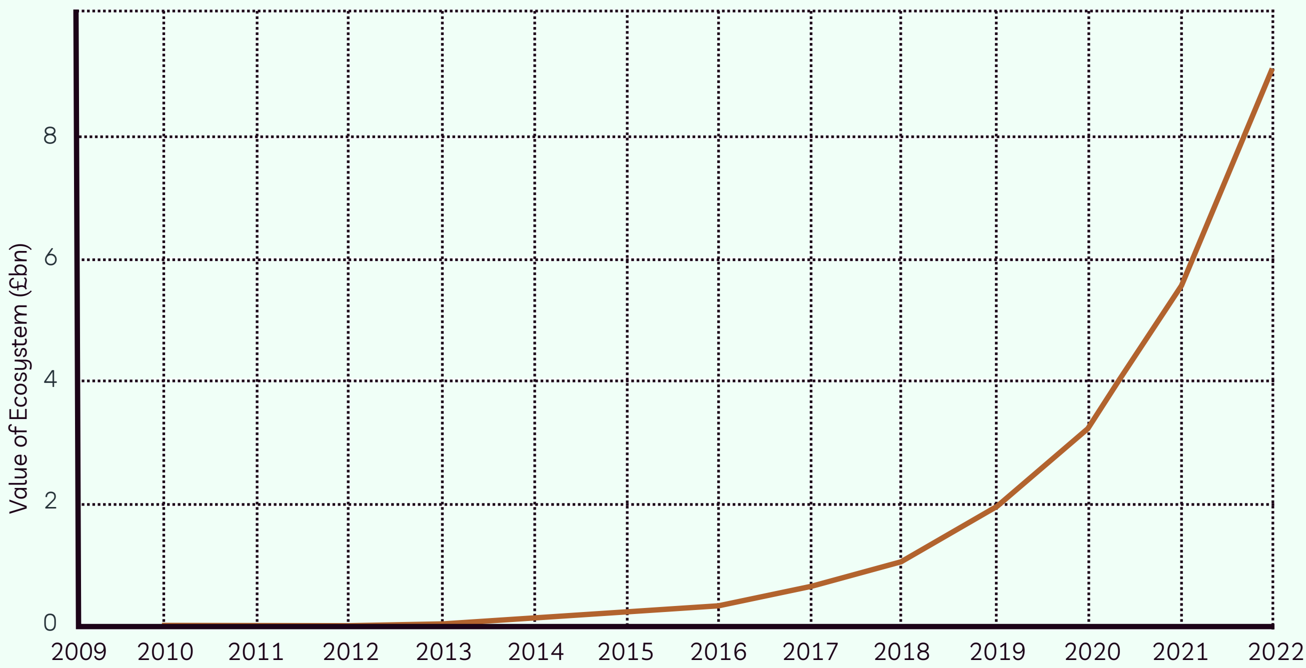


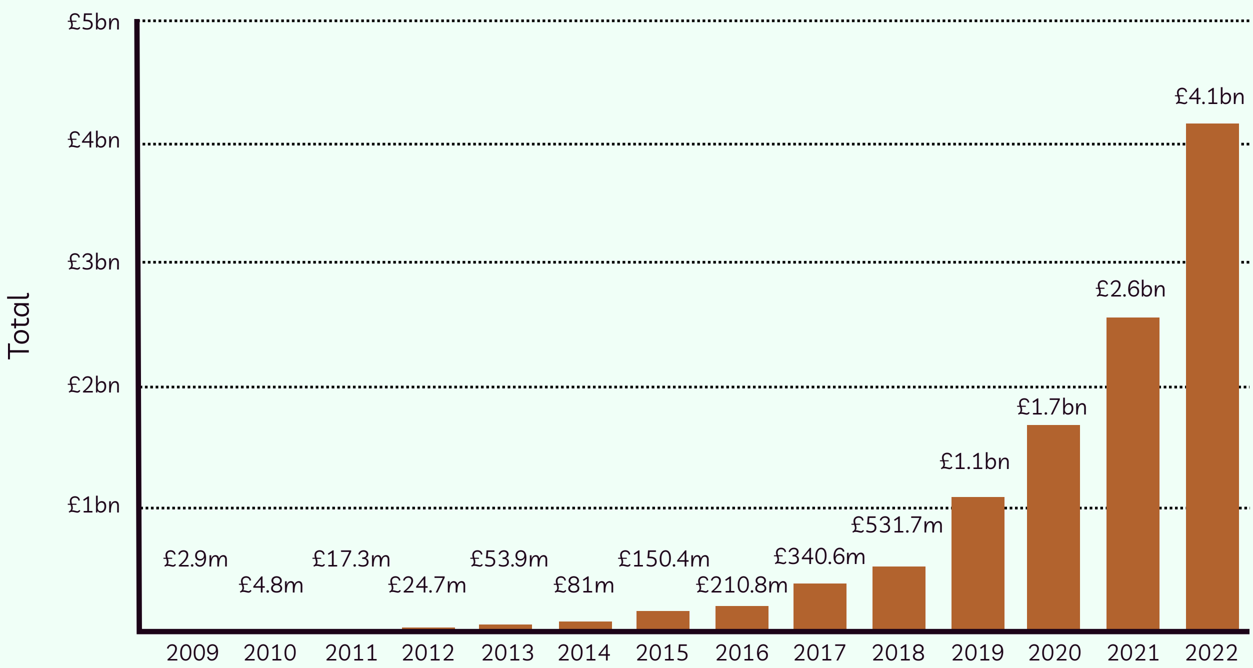
Fig 6 - Cumulative Raise 2009-2022



Valuation

- Total valuation of the UK Open Banking sector in 2022: £4,143,090,000
- Mean valuation in 2022: £54,514,342
- Median valuation in 2022: £16,200,000

Fig 7 - Value of Ecosystem vs Year



We have a £4.4bn asset in the UK that we didn't have before Open Banking became regulated. You only have to look at Figures 5 and 6 to see that the introduction of regulation was a game changer, with a significant growth in both funds raised and the overall value of the ecosystem. Combined, these 82 firms have raised over £2.2bn over 13 years, with 92% of this raised since the introduction of Open Banking regulations in 2018. They have also created over 4,800 skilled jobs, with spillover effects in creating value for the financial services sector and delivering for consumers.

However, this asset is vulnerable. To continue to grow and thrive, Open Banking needs regulatory certainty and political ambition. With a limited runway of funding, our most prized assets will be forced to decide whether they stay in the UK or leave to foreign climes with regulatory regimes that are more conducive to their growth. This difficult decision will have to be made very soon unless there is swift political action. Crucially, if we are to witness the growth of equivalent industries in parallel sectors, we also need the DPDI Bill to pass, and for Smart Data to take off across the economy.

The Next Steps

A core assumption for Coadec is that there is a limit to what can happen next without a political mandate. There are many colleagues who contend there is a mandate for the expansion of Open Banking to Open Finance already. We do not agree: if there are data sets that should have already been exposed under the CMA Order or the PSRs, then they would have been done so already, or else ASPSPs are acting illegally.

There is ambiguity, however, in the potential technical progress. Here there are conflicting opinions on whether further legislation is required, and this is where we hope the forthcoming JROC report will clear things up.

For clarity, below we outline a list of next steps required for the continued growth of the £4bn Open Banking sector, and where the policy lever for progress lies.

Next Step	Regulator Remit?	Legislation Required?
Continuation of the OBIE post-April	Yes	No
Enhanced API Monitoring	Yes	No
Action on PISP Transaction Limits	Yes	No
Enhanced Management Information from ASPSPs and TPPs	Yes	No
E-Commerce Variable Recurring Payments (VRP) and a PISP Scheme	Maybe	Maybe
90 Day Reauthentications	Yes	Yes
Open Finance	No	Yes

Next Steps within the Regulatory Remit

1. **Continuation of the OBIE post April 2023:** We agree with the former OBIE Trustee Charlotte Crosswell that it is absolutely vital that the OBIE continue in its current form in the short term to safeguard the integrity of the Open Banking sector.[4] Crucially, however, its role must be clearly stated as enforcing the CMA Order - until there is a legislative mandate, it cannot enforce Open Finance, whilst the FCA remains responsible for enforcing the PSRs.

2. **Enhanced monitoring of APIs:** Coadec calls for the FCA and CMA to double down on monitoring API standards and issue more fines for non-compliance. HSBC was recently found to have breached the terms of the Open Banking requirements of the CMA Order but no action was taken. Whilst this may

have been appropriate in this case, enforcement action must continue to be an effective deterrent, else the Open Banking sector will be built on sand.

3. **Action to combat PISP transaction limits:** Coadec has heard from multiple PISPs in our ecosystem, and notes feedback from the Open Finance Association, that the banks have inconsistent transaction limits for payment initiation.[5] This is fundamentally unhelpful for a nascent technology that has many first time users. We support efforts to first establish transparency over limits for each ASPSP, and then action to level the playing field, starting with exploring whether some retailers can be whitelisted across the board.

4. **Enhanced MI from both ASPSPs and TPPs:** We also agree with Charlotte Crosswell's recommendation that both ASPSPs and TPPs should be required to provide enhanced MI to the OBIE to "assist regulatory decision-making".

Next Steps that may require legislation

1. **E-commerce VRP and a PISP scheme:** Non-sweeping VRP is held up as a critical part of the continued growth of Open Banking payments in the UK. Indeed, as part of the Axe the Card Tax campaign that Coadec is part of, we believe that VRP could play a key role in the success of Open Banking competing with card payments eventually.[6] Coadec is unconvinced that a mandate for e-commerce VRP exists today. Calls from colleagues across the sector to 'change the definition of sweeping' or simply to 'mandate VRP' would lead to the dangerous precedent of regulatory scope creep. E-commerce VRP is aspirational, but will require regulators and politicians to partner, as a legislative mandate may be required. Further, it is also aspirational to define a rulebook or scheme governing e-commerce VRP. To progress this much speculated about issue, Coadec believes e-commerce VRP should be part of the HMT call for evidence discussed below.

Next Steps that require legislation

1. **90 Day Reauthentication:** despite the changes made by the FCA last year, and what the Treasury wrote in its Call for Evidence on the review of the PSRs, this issue has not been fixed.[7] The 90 day limit must be reviewed, but requires a combination of the FCA and, potentially, changes to the PSRs. Fortunately, with the latter currently under review, now is the time to consult with industry on a desirable future state.

2. **Open Finance:** Open Finance cannot happen without the DPDI. As a consequence, the DPDI Bill must be passed, and soon. Afterwards, this must be quickly followed by an Open Finance Scheme being introduced by the Treasury under Section 62 of the DPDI. However, in parallel, Coadec believes that the Treasury should launch a Call for Evidence on the design of an Open Finance Smart Data scheme. This Call for Evidence should include questions on:

    - In scope data sets
    - The extent of standardisation
    - Regulatory ownership

- Timelines
- Whether data should be read only or include write
- Whether e-commerce VRP could be enabled through an Open Finance Smart Data scheme

It's vital that the framework for an Open Finance Smart Data scheme is ready for industry as soon as possible. A parallel Treasury call for evidence will allow industry to prepare and set the UK up as a world leader in Open Finance.

It is critical that we escape the stasis of the last two years. Not only is the UK's lead in Open Banking now under threat from countries all over the world, but we have a £4bn ecosystem that could either continue to grow and thrive, or will stagnate or relocate abroad.

We are at a crossroads but, as always in UK Open Banking, there is a roadmap to Open Finance. We should make haste.

References and Footnotes

1. Open Banking Strategic Working Group Secretariat, The Future Development of Open Banking in the UK Final report for the Joint Regulatory Oversight Committee:
2. Government Bill, Data Protection and Digital Information Bill
3. The US will be moving towards a regulated regime in 2023
4. Charlotte Crosswell, Trustee End Of Implementation Roadmap Report:: Recommendations for the Future of Open Banking
5. Open Finance Association, OFA Response to JROC SWG: Payments Strategy Sprint
6. Axe the Card Tax, It's Time to Axe the Card Tax: Delivering Better Value for UK Businesses and Unleashing Payments Innovation
7. HM Treasury, Payment Services Regulations Review and Call for Evidence

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