Open finance

Feedback Statement

FS21/7

March 2021

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1 Summary

Our vision for open finance

1.1 Data and technology are increasingly driving changes in financial markets, producing new business models, products and ways for firms to engage with their customers.

1.2 The Covid-19 pandemic accelerated some of these changes. More firms are bringing forward digital transformation to respond to new operational challenges and support their customers.

1.3 As a regulator, we need to understand how this change will shape markets in the future and determine what role we should play in making this happen. Our aim is to ensure this innovation works in the interests of consumers.

Open banking – paving the way

1.4 The UK has led the way internationally in the development of open banking. Open banking was designed to increase innovation and competition in banking and payment services. Along with the revised Payment Services Directive (PSD2), it introduced a secure environment that enables customers to consent to third parties accessing their payment account information or making payments on their behalf.

1.5 We expect it to take several years to see the full extent of market development and innovation but open banking has already led to the launch of new products and services that help consumers and businesses make the most of their money, understand their finances and make payments. Today more than 3 million people and businesses are using open banking-enabled apps and services in their daily lives.

1.6 We have seen open banking used to provide account aggregation services, personal finance advice, accountancy and credit rating services and charitable donations. We have also seen growth in the use of payment initiation services.

1.7 Many of the recent applications to our Regulatory Sandbox are from firms using innovative alternatives to traditional credit scoring and affordability models. They can now build a more accurate picture of an individual's current financial standing and potentially widen access to finance.

1.8 In 2020 the Open Banking Implementation Entity (OBIE) published the final roadmap for open banking which runs into 2021. This roadmap sets out work on a number of areas that will support the further development of open banking. This includes refunds standards for the CMA9 banks and standards for variable recurring payments.

Open finance

1.9 Given the success of open banking, as well as UK and international developments, we, the Government and industry have been considering the potentially transformative benefits that could come from open finance.

1.10 Open finance is an opportunity to build on the concept of open banking and allow consumers and SMEs to access and share their data with third party providers (TPPs). These TPPs can then use that data to develop innovative products and services which meet consumers' current and future needs.

1.11 Open finance involves extending open banking-like data sharing and third-party access to a wider range of financial sectors and products. It is based on the principle that financial services customers own and control both the data they supply and which is created on their behalf.

1.12 Re-use of this data by other providers would take place in a safe and ethical environment with informed consumer consent. This would mean that a financial services customer who consents to a third party accessing their financial data, could be offered tailored products and services as a result. Access would be provided by that customer's current financial services provider under a clear framework of consent.

1.13 Open finance has the potential to transform the way consumers and businesses use financial services. It could:

- Increase access to a wider range of more individually tailored products.
- Empower consumers and businesses to make more informed financial decisions.
- Make it easier for consumers and businesses to compare price and product features and switch product or provider. This could boost shopping around in those markets where we have concerns about the impact of price discrimination on longstanding consumers.
- Support greater personal financial management.
- Help widen access to advice and support in decision making.
- Improve competition among financial services providers, spurring innovation, development of new services and increased demand.
- Boost access to commercial lending and increase business productivity – contributing to the health of the UK economy.

1.14 As one part of a wider drive for open data in other sectors, open finance can also support cross-sector innovation and help unlock the value of data across the economy.

1.15 Our vision for open finance is one in which:

- consumers and businesses:
  - can grant access to their data to trusted third-party providers (TPPs) and in return gain access to a wider range of financial services/products
  - have greater control over their data
  - engage with their finances, and are empowered to make better financial decisions
- increased use of open finance services spurs greater innovation, benefiting consumers by providing a broader range of products and services that better suits their needs
- widespread use of new services improves the financial health of consumers and businesses in the UK

Background

1.16 In our 2019/20 business plan we committed to leading the debate on open finance.

1.17 We published a Call for Input (CFI) in December 2019 to help identify what more we could do to support open banking and to inform our regulatory strategy towards open finance, given its potential benefits and risks.

1.18 We had 169 responses to the CFI. Inevitably with such a broad topic and large number of responses, there was a significant range of views. There was however a degree of consensus around the key building blocks that would be needed for open finance to develop.

1.19 In this Feedback Statement, we have summarised the overall key themes from these responses and set out our next steps.

Who should read this Feedback Statement?

1.20 This Feedback Statement will be of interest to:

- consumers
- banks
- building societies and credit unions
- consumer credit firms
- electronic money and payment institutions
- financial advisers
- fintech and innovative businesses
- general insurers and insurance intermediaries
- investment managers
- life insurers and pension providers
- mortgage lenders and intermediaries

Wider context

1.21 Since we published our CFI there has been progress on several open finance and open data-related initiatives from both the Government and industry. From industry we have seen initiatives to develop Application Programming Interface (API) standards for savings, investments and pensions as well as moves to develop digital identity offerings. We have set out progress on Government-related initiatives below.

BEIS Smart Data

1.22 In 2020, the Department for Business, Energy and Industrial Strategy (BEIS) said that it will legislate to make it possible to require industry involvement in Smart Data initiatives, including open finance. It will introduce primary legislation when Parliamentary time allows.

1.23 The mandating of specific Smart Data initiatives, and aspects of their design, will be done through secondary legislation and taking into account impact assessments and consultation. For open finance, any secondary legislation would be led by the Treasury.

Pensions Dashboards

1.24 The Department for Work and Pensions (DWP) is also taking forward work to deliver pensions dashboards. These will enable consumers to access data about all their pensions (occupational, workplace, personal and state) in one place.

1.25 The Pension Schemes Act recently achieved Royal Assent, marking the first key milestone in the legislative framework for making dashboards a reality. We continue to work closely with Government, the Pensions Dashboards Programme (stewarded by the Money and Pensions Service (MaPS)) and the Pensions Regulator (TPR) in taking the initiative forward.

1.26 In due course, we will make rules requiring personal pension providers to supply information to the pensions dashboards framework. The Government will make corresponding regulations for schemes regulated by the TPR.

1.27 The Government has also committed to make provision of pensions dashboards a regulated activity. This means that, subject to the necessary legislative changes, we will in future also be responsible for authorising dashboard providers and making rules about their conduct.

Digital Identity

1.28 The Government established a Digital Identity Unit (DIU) in June 2019. This is a collaboration between the Cabinet Office and the Department for Digital, Culture, Media and Sport (DCMS). Its aim is to bring together policy, legislative, regulatory and technical expertise to develop the right conditions for a digital identity market in the UK. In September 2020, following a Call for Evidence, the Government published its vision for a digital identity policy framework.

1.29 In February 2021, the Government published draft rules governing the future use of digital identities. The new 'trust framework' laid out the principles, policies, procedures and standards governing the use of digital identities to allow for the sharing of information to check people's identities or personal details in a trusted and consistent way. Once finalised, the framework is expected to be brought into law.

1.30 On 10 January 2020, the Government amended the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLRs) to make targeted changes to the UK's Anti-Money Laundering (AML) regime. The regulations now permit the use of electronic identification processes, such as digital identity, where they meet certain standards. Guidance from the Joint Money Laundering Steering Group (JMSLG) sets out how firms can meet this new requirement.

Next steps

1.31 As open finance develops, we want to help ensure that:

- the needs of consumers are considered from the outset, including vulnerable and digitally excluded consumers
- systems and standards are designed with the consumer in mind
- the right incentives and conditions exist for open finance to develop sustainably

1.32 The Government has said it will legislate to require participation in Smart Data. But more work will be needed to confirm the timing, scope and nature of that legislation.

We have a clear role to play in supporting these considerations as the regulator of those firms that would be required to share data under any future legislation.

1.33 We will do this through:

- sharing our lessons from the implementation and supervision of open banking and the development of Pensions Dashboards, including as part of BEIS's Smart Data Working Group
- working with the Government and industry stakeholders to identify what industry roadmaps are needed to support legislation
- helping convene industry-led efforts to develop common standards to support open finance
- assessing the regulatory framework that would be needed to support open finance
- supporting discussions on the future operating model for the Open Banking Implementation Entity (OBIE)

1.34 The responses to our CFI have provided a significant evidence base on the key questions of open finance. This will help inform our future work and the work of the Government. By sharing these conclusions through this Feedback Statement and our engagement with industry, we hope this can support industry efforts as well.

2 Maximising the potential of open banking

2.1 Open banking enables customers to consent to TPPs accessing their payment account information or making payments on their behalf. It is the first data sharing initiative of this scale to be underpinned by legislation that requires firms to provide access to other providers. It offers significant opportunities for consumers, financial services and - through retail businesses - for the UK economy.

2.2 Respondents to our CFI generally agreed that open banking has developed significantly. There have been high levels of interest from technology firms, incumbents and innovators in and outside the UK. Some of the services that were envisaged at the outset have been developed, as well as some new ones.

2.3 Since the introduction of PSD2 in January 2018 we have registered or authorised over 139 new providers offering Account Information or Payment Initiation Services.

2.4 Through our Innovation project, we have supported dozens of start-ups and established firms in using open banking to introduce innovative products and services. These have helped improve competition, better serve vulnerable consumers, and enable consumers to better manage and understand their finances.

2.5 In our CFI, we asked what more we could do to help ensure the full potential of open banking is realised.

2.6 Respondents highlighted several areas where they thought we could do more to help support its development. In our recent consultation paper CP21/3, published in January 2021, we proposed changes to address several of these points.

90-day re-authentication

2.7 Strong Customer Authentication (SCA) was introduced in 2019 to make payments more secure and reduce the risks of fraud. SCA aims to make sure that the person trying to access an account or make a payment is the account holder or authorised by the account holder to do so. The Payment Services Regulations 2017 (PSRs 2017) require SCA to be performed each time a customer accesses their account online.

2.8 The Regulatory Technical Standards on SCA and common and secure communication (SCA-RTS) provide an exemption from this requirement where customers access certain, limited payment account information. SCA must still be applied when the customer accesses their data for the first time, and at least every 90 days after that.

2.9 Respondents highlighted that the requirement to apply SCA every 90 days is burdensome for customers, creating friction for users, and hindering uptake of open banking services. Various respondents asked us to change the 90-day re-authentication requirement.

2.10 We have recently consulted on an amendment to the SCA-RTS so that customers do not need to reauthenticate every 90 days when accessing account information through an Account Information Service Provider (AISP). SCA would still be required when customers first decide to connect their account to a third-party provider (TPP) service. These proposals aim to remove the barrier respondents highlighted, while maintaining appropriate consumer protections.

APIs

API coverage

2.11 Under the SCA-RTS, Account Servicing Payment Service Providers (ASPSPs) can give access to TPPs, either through a dedicated interface (eg an API) or a modified customer interface. Firms which provide access through a dedicated interface are required to have a contingency mechanism in place unless we have given them an exemption. The contingency mechanism allows TPPs to access payments account data when dedicated interfaces are unavailable.

2.12 Several respondents suggested that we should mandate the use of APIs for ASPSPs with a significant retail presence. They also suggested that the contingency mechanism was burdensome for ASPSPs.

2.13 In CP21/3, we proposed to require certain ASPSPs to put in place dedicated interfaces for a range of payment accounts where we think there is a reasonable prospect of TPP demand. This includes personal and SME 'current accounts' and credit card accounts. We also propose that the contingency mechanism requirement should only take effect 18 months after launch of the new account offering. This would allow account providers time to request an exemption to the requirement to get one, and so make it easier for firms to put an API in place.

API performance

2.14 Certain TPP respondents and their representatives said that some firms can take a long time to address performance issues with their APIs. This can mean customers can be locked out of open banking for extended periods. These respondents asked us to take enforcement action where API availability and performance are below the required standard for an extended period.

2.15 These respondents also suggested that we:

- publish a list of firms with the greatest number of notifications made against their API availability and performance
- consider ways to make it easier for firms to report problems of API availability as part of our RegTech work

2.16 We consider use of all our powers to monitor compliance, including enforcement. When we identify an issue with API performance and availability at a firm, we use supervisory engagement first to address our concerns. These discussions are confidential.

2.17 Under SCA-RTS Article 33(3), firms are required to report problems with APIs without undue delay through the NOT005 notification. We are currently considering whether we could share the data we collect through the NOT005 notification. We are also reviewing our reporting process, including exploring ways to improve efficiency for firms.

Period of stability

2.18 Many respondents agreed that the full benefits of open banking are not likely to be realised for another few years. Many, particularly from the banking sector, thought we should allow for a period of stability where both ASPSPs and TPPs can develop customer-focused propositions based on existing functionality.

2.19 Several respondents also said that this would allow those TPPs that were authorised to come to market, and for firms to invest with confidence in, and test, consumer propositions.

2.20 We understand firms' concerns and note that the current open banking roadmap should provide clarity on all further changes, allowing all firms to plan with confidence.

Confirmation of payee and the contingent reimbursement model

2.21 TPP respondents said that the FCA or the Payment Systems Regulator (PSR) should consult on how confirmation of payee (CoP) and the contingent reimbursement model (CRM) risk screens should be treated in open banking customer journeys. Their concern was that these could add significant friction to the open banking customer journey.

2.22 The PSR leads this work. It is currently assessing the impact that the introduction of CoP by the UK's 6 largest banking groups has had on accidentally misdirected payments and certain types of Authorised Push Payment (APP) scams. The PSR is also engaging with Pay.UK, which sets the rules and standards for CoP, and with industry on the Phase 2 roll out of CoP to smaller Payment Service Providers (PSPs). Based on this it will consider what further action needs to be taken later in the year to enable further PSP participation in CoP.

2.23 The Open Banking Implementation Entity (OBIE) has recently issued a consultation on a roadmap to embed CoP and the CRM into Payment Initiation Service Provider (PISP) payments with the aim of issuing recommendations to Pay.UK and the Lending Standards Board. The work also touches on how to shape warnings in a way that ensures these are effective. The PSR is following this work as part of its work to deter and reduce APP scams.

Wider concerns

2.24 Some TPP respondents said that the Treasury should amend the Money Laundering and Terrorist Financing (Amendment) Regulations 2019 to remove account information services providers (AISPs) and payment initiation services providers (PISP) from its scope, as soon as the opportunity arises. We have shared this point with the Treasury.

Lessons for open finance

2.25 In our CFI, we asked what open banking teaches us about the potential development of open finance.

2.26 Respondents highlighted several factors that they felt were critical to the success of open banking and which they felt would also be needed to deliver the full benefits of open finance. These are set out below, along with the section of the Feedback Statement where we discuss them:

- some form of compulsion (see Chapter 3 'Incentives and compulsion')
- a legislative and regulatory framework (see Chapter 3 'Regulatory framework')
- common standards (see Chapter 3 'Common standards and infrastructure')
- an implementation entity (see Chapter 3 'Common standards and infrastructure')

2.27 One trade body respondent said that a full post-implementation review of open banking would be helpful. Respondents also highlighted several lessons from the implementation of open banking. These are set out below.

Consumer sentiment and awareness

2.28 Many respondents said that open banking had shown the need to make sure initiatives deliver tangible benefits for consumers while overcoming their concerns about sharing financial data.

2.29 Respondents felt that the biggest single barrier to customer uptake was consumer sentiment and awareness. Two Which? surveys in 2019 found that only 25% of people had heard of open banking and those that had saw a lack of perceived benefits and concerns about data security and privacy as barriers to consumer engagement.

2.30 These respondents said that regulation alone is unlikely to be a useful tool in changing consumer preferences or behaviours. Many called for, and are working on, building compelling use cases to help with continued uptake. Several respondents suggested that, to raise awareness, we or the Government should run a consumer education campaign setting out a customer's rights to share data.

2.31 Several respondents felt that the implementation of open banking had been technology-led rather than user-led. They suggested that effective market and consumer research was needed to understand what services people are likely to use.

Delivery

2.32 Many respondents highlighted the need for a phased delivery with a transparent approach to understanding industry costs and clear governance. These respondents felt that realistic timelines were essential where cross-industry collaboration is required, such as the development of API standards.

2.33 These respondents stressed the need for broad industry consultation to support the development of any roadmap for open finance and its accompanying ecosystem, including API standards and specifications.

2.34 Respondents also said it was important there was a period of testing and use-case development before rules and guidelines were made. Several were keen that the FCA Sandbox, and potentially other cross-sector sandboxes, should be used to test use case and digital identity propositions for open finance. They noted that our Sandbox has played an important role in open banking.

Cost

2.35 Several respondents said that the cost of delivering open banking had exceeded what was originally expected. They felt that, given this, further work would be needed to demonstrate both that open finance could be delivered at lower cost, and that there was demand for open finance.

2.36 Respondents also highlighted that, given the potential costs involved, it was important to consider how the costs of open finance could be shared equitably. Respondents highlighted the extent to which costs could be disproportionate for smaller firms.

2.37 Some respondents called for the use of additional and more cost-efficient architectural options that use federated services, such as a federated digital identity, to support open finance.

Overlapping legislation

2.38 Several respondents said that a confusing regulatory picture, created by the overlap between the CMA Order, the PSRs 2017 and the SCA-RTS, as well as related legislation such as GDPR (now UK GDPR), and related clarifications of EBA Technical Standards, had made things difficult for firms. They urged that this be considered as part of open finance.

3 Open finance

3.1 In this chapter, we summarise the feedback to our Call for Input. We set out our key conclusions, and next steps, in Chapter 5.

3.2 The feedback is presented under the following themes:

- Definition of open finance
- Benefits of open finance
- Risks of open finance
- Regulatory framework
- Feasibility and cost
- Incentives and compulsion
- Sequencing
- Common standards and infrastructure

Definition of open finance

3.3 As set out in Chapter 1, open finance is based on the principle that the data supplied by and created on behalf of financial services customers is owned and controlled by those customers.

3.4 Re-use of this data by other providers would take place in a safe and ethical environment with informed consumer consent. This would mean that a financial services customer who consents to a third party accessing their financial data, could be offered tailored products and services.

3.5 Respondents generally agreed with our definition of open finance. Key suggestions to improve it were that it should:

- Be more focused on the consumer and the rights and benefits the consumer would receive.
- Set out what success looks like, including the desired outcomes and societal benefits of open finance and by what metrics we could measure success.
- Frame open finance within an overall open data context.
- Distinguish between data supplied by customers (over which the customer has control) and proprietary data created on behalf of customers (over which the firm has control). Respondents felt that including this in the definition could be helpful for both consumers and firms. It could help consumer understanding of and control over how their data is used.

3.6 It is important to note that our definition of open finance covered open finance services based on both 'read' and 'write' access to customer data:

- read access: third party access to information about product features, consumer circumstances, and consumer use of products
- write access: ability of a third party to make transfers, to switch and open or close products, make purchases, sales, or redemptions

3.7 All respondents agreed that this distinction was central to several issues, including ease of implementation, risks and benefits, sequencing and data ethics. We have highlighted this in the relevant sections of this Feedback Statement.

Benefits of open finance

3.8 In our CFI we set out that we think open finance could transform the way consumers and businesses use financial services. We think it would allow firms to develop services that benefit consumers and businesses, improve competition, financial capability and inclusion, including:

- personal financial management dashboards that enable the customer to understand and optimise their overall financial position (cash flow, savings, investments, spending, goals)
- automating switching and renewals that remove friction and encourage shopping around
- new advice and financial support services for mass market consumers making financial decisions, making it easier to share comprehensive information with advisers
- more accurate creditworthiness assessments and increasing access to credit by enabling third parties to review cash flow holistically and identify suitable credit products for businesses and consumers

3.9 Respondents agreed with the potential benefits we set out – highlighting in particular:

- Increased competition – innovation to offer compelling customer services would flourish, driving competition between firms.
- Improved advice – open finance would make it easier for an adviser to quickly get a financial picture of a new or existing customer.
- Product innovation – including greater tailoring of products to suit individual circumstances and needs. Several respondents saw a future where tailoring could then work across sectors by combining modular products to build up a portfolio of products that worked best for a customer.
- Improved access – greater transparency around people's finances would improve access both to a wider range of financial products and services for all. It would also be likely to lead to basic financial services for some currently excluded consumers.

3.10 One trade body noted that, if open finance were developed as part of a wider Smart Data initiative, there could be wider benefits from cross-sectoral use cases in any market where consumers cannot easily access useful data about themselves and where this data can be used to help inform choice and enable innovation. This respondent also noted the potential for wider firm benefits, such as cross-selling, switching and payment fees, charges for use or advertising.

3.11 Some respondents highlighted that, by driving digitisation and updating of legacy systems by firms, open finance would lead to overall modernisation among firms, benefitting them and their customers. These respondents highlighted how much the pandemic has driven an increase in customers engaging with their finances digitally.

3.12 Several respondents said that open finance could deliver benefits from regulatory efficiencies. For example, if the processes involved in decisions being made or advice being offered are in some way digitised, then subsequent auditing, incident investigation and compliance checking could become easier and cheaper.

3.13 Respondents from the small and medium sized enterprises (SME) sector were keen for SME-related benefits to be more expressly acknowledged. SMEs have been key users and beneficiaries of open banking. An OBIE survey of small businesses found that 50% of respondents were already using and benefitting from open banking. Respondents suggested that SMEs could also significantly benefit from open finance, with potentially reduced costs across a range of services or increased access to credit.

3.14 Several respondents cautioned that setting out new use-cases did not in itself demonstrate customer benefit. They said that a full assessment would need to consider the consumer benefits that would result against the potentially considerable costs of implementation. Several respondents endorsed the point we made in our CFI that, for these benefits to materialise, consumers must know about and be willing to use open finance services.

3.15 Respondents also suggested some additional potential use cases to those listed in the CFI.

Sector	Additional use cases/benefits
Insurance	• Proof of no claims bonus being made available digitally • On-demand insurance – learner driver or 'single item outside home' insurance that is 'switched on' when needed • Bespoke insurance – innovative products based on real time picture of a customer's situation • Premium financing available at better rates if a loan is not linked to the insurance policy
Pensions	• Pensions switches and consolidation • Tailored drawdown products • Fiduciary reporting
Investments	• Improved risk management across personal portfolios at portfolio, wrapper and asset level • Tax optimisation – eg improved understanding and use of tax wrappers
Credit	• Improved predictive models of repayment capacity and more accurate creditworthiness assessments

Risks of open finance

3.16 A key part of our regulatory strategy for open finance is understanding:

- what, if any, risks it poses to our objectives of consumer protection, increased competition and market integrity
- how far the current regulatory framework would be sufficient to manage these risks

3.17 In our CFI we highlighted a number of risks that open finance could create or exacerbate.

3.18 Respondents generally agreed that open finance would create or increase risk. They did not generally think any of these risks were impossible to manage but agreed that appropriate regulation would be essential to managing them and giving consumers the confidence to use open finance services.

3.19 In the table below we have set out a few of the key points respondents made about these risks.

Exclusion	• All consumers need to be considered – those who participate but pay more, those who are excluded from a market because of certain characteristics, and those who choose not to participate in data sharing • Any data-driven increase in exclusion could go wider than financial services – eg housing access for lower income consumers could be negatively affected • The risk-pooling nature of insurance provision could be threatened, potentially resulting in uninsurable groups and higher prices for many
Misuse of data	• The risk of data misuse, financial crime, fraud or scams could be increased by the greater value and quantity of shared financial and non-financial data and the complexity of the 'sharing' chains • The sharing of out-of-date data or incomplete data sets would increase this risk • Inappropriate use of social, racial or ethnic information could lead to or exacerbate prejudicial biases
Poor consumer outcomes	• Low levels of financial literacy increase this risk – particularly when complex decisions, where consumers would benefit from 'support' to understand the long-term, tax or welfare implications of the decisions, are being made • Over-simplification of products for comparison purposes, both the products themselves and how they are presented to customers, could increase this risk • Product comparisons focused on price mean scope and other value factors are not displayed which could result in consumers choosing unsuitable products – eg risk of underinsurance • 'Write' functionality increases this risk as TPPs have greater control which exposes consumers to loss, particularly if ongoing authority is delegated to a TPP • Increased transparency and engagement could lead to additional demand for unavailable customer-facing services
Competition	• High regulatory compliance burden and cost could lead some firms to stop providing certain services • Asymmetrical information access requirements could tip the market in favour of 'big tech' • Product similarity resulting from a focus on price could strengthen large incumbents' positions, reduce consumers' choice and potentially decrease overall product quality
Operational	• Increased interconnectedness and complexity of relationships increases this risk • Weak security at data collection and data analysis providers increases this risk • Limited pool of appropriately and adequately skilled resources for development and implementation of new systems, technologies and processes, together with extensive legacy systems, could mean risks are poorly understood and poorly managed

3.20 Respondents also raised concerns about potential systemic risk. They noted that services that allowed customers to move more of their money in real time could make it harder for firms to understand their liquidity position. Several respondents mentioned that the effects of deposit volatility on firm liquidity are not well understood and this could threaten the stability of the overall system.

Regulatory framework

3.21 A key enabler of open banking has been the regulatory framework provided by the CMA Order and the PSRs 2017. In our draft principles of open finance, we set out that regulation would probably be needed to ensure that consumers are protected, data is used ethically, and that liability was clear if things went wrong.

3.22 In our CFI, we asked:

- whether the current regulatory framework would be adequate to capture these risks
- whether any elements of the current regulatory framework would constrain the development of open finance
- whether GDPR (now UK GDPR) alone would provide a sufficient framework for the development of open finance and, if not, what other rights and protections are needed
- what ethical issues we need to consider as part of open finance

3.23 Overall, respondents felt that an appropriate regulatory framework was essential for open finance to develop successfully. It would need to protect consumers, give them the right to redress and give them confidence that their data will only be used ethically and in a way that they have consented to and expect.

Regulatory framework

3.24 Almost all respondents agreed that TPPs should be authorised and held to appropriate standards. Respondents generally felt that TPPs should be subject to appropriate threshold conditions on financial resources, appropriate systems and controls, operational resilience requirements and security architecture. They saw this as important both to ensure consumers are protected and to help build confidence in open finance.

3.25 Consumer representatives and firms also felt that regulation of TPPs and their activities would ensure consumers did not face a patchwork of regulated and unregulated activities. This would help ensure consumers had access to the Financial Ombudsman Service if something went wrong.

3.26 Several TPP respondents supported an extension to the current regulated activities for TPPs. This would allow new entrants to seek authorisation to access both payment account and wider open finance data. Most respondents thought that existing FCA permissions would apply to any 'write' functions or transactional activities a TPP could undertake. These could include, for example, credit broking, or arranging, dealing or managing investments.

3.27 It is important to note that most calls for TPP authorisation focused on how to support the safe development of open finance in the future, rather than in response to specific concerns about harm occurring outside our regulatory perimeter today. However, several respondents noted that screen scraping was widespread in other sectors and that regulating these activities could be a significant undertaking, particularly if accompanied by a requirement to use APIs.

3.28 Several respondents felt that the task of regulating open finance was necessarily larger, or more complex, than other incremental changes to our regulatory perimeter and could strain our expertise or resource. These respondents said the pace and scale of change in the financial and data sectors poses significant challenges for regulators.

3.29 Several trade body respondents recommended that we work with Government on a review to establish any gaps and ensure that they are filled with appropriate legislation.

3.30 Respondents highlighted 2 areas where the current regulatory framework could limit the development of open finance:

- definitions of guidance and advice and rules on personal recommendations - a greater use of personal information could blur the line between whether an activity constitutes the provision of regulated advice
- product detail and risks disclosure requirements – complexity and volume of these could make digital onboarding journeys difficult and could overwhelm customers

UK GDPR

3.31 Respondents generally agreed that UK GDPR was not designed to, and therefore would not be adequate to, support a full open finance framework, and that any new rules or legislation needed to work with UK GDPR.

3.32 The Information Commissioner's Office (ICO) agreed that UK GDPR applies to the general process of personal data rather than providing for any specific sector and that, if UK GDPR proves insufficient, any additional regulation or law should be focused on the specific mechanisms of open finance.

3.33 One major bank said that the scope of UK GDPR did not in itself mean that new regulation was needed, as any other areas of concern could be resolved through bilateral contracts between data providers and TPPs. One trade body said that, rather than new legislation, further guidance from the FCA and ICO along with industry standards could be sufficient.

3.34 All respondents were keen that the FCA and ICO work together closely on any further legislation or guidance. One trade body suggested that a helpful starting point to build customer trust and engagement would be agreement by firms and further joint work by the FCA or ICO on:

- the information consumers need to see prominently for different types of onward transfer to make informed decisions
- what the most appropriate UK GDPR 'basis for processing' would be for different types of 'onward sharing'
- what level of control UK GDPR gives individuals over specific processing or onward transfers, as a function of the applicable 'basis for processing'
- a gap analysis of whether this picture provides the right level of consumer control

Consumer protections

3.35 Respondents' general starting point was that a consumer using open finance should have at least the same protections as one using open banking. However, a general theme was that, while the open banking framework (CMA, PSRs 2017) was a good starting point in terms of liability, data rights, standards and ethics, we should not assume it would be sufficient. Respondents felt we would need to consider the specific risks in each sector.

3.36 Respondents generally highlighted the following consumer protections as needed - whether from an industry code, implementation entity, regulator or legislation. These align with the recommendations of the data rights sub-group of our advisory group on open finance:

- a common liability model across all participants, including to cover harms from inaccurate data, misuse of data, stolen identity or harms to third parties
- a common route to complaints – redress and compensation should be easy, accessible, timely, individual and free
- a clear framework of data rights around the giving and withdrawing of consent including the appropriate duration of, and the information needed to provide, informed consent
- simple and transparent ways for the consumer to give, track and withdraw consent
- rules around data accuracy – inaccurate data risks increase with 'write' transactional functionality
- clear and transparent rules on the legitimate use of data, and restrictions on onward sharing, eg to vendors, providers of services to TPPs or commercial partners

Data ethics

3.37 Several areas highlighted in the previous section have an ethical element. Respondents also agreed that open finance could create new or exacerbate existing data ethics issues. Respondents generally agreed that a transparent approach to data ethics that recognises the benefits and costs to consumers of sharing their data would support the growth of open finance.

3.38 We have summarised the main ethical issues raised below. BEIS has also highlighted a number of these in its work on Smart Data.

Area of data ethics	Key themes from responses
AI, machine learning and data bias	The risk that aggregated data, even where used safely and benignly for the individual who provides it, exposes sensitive patterns in data about groups (including vulnerable groups) that can be used for exclusionary or discriminatory purposes The risk of consumers being priced out completely from insurance products The FCA should coordinate work around transparency and AI explicability with the ICO
Discrimination in favour of open finance customers (pricing, treatment)	Customer desirability assessments could result in some customers losing services completely The risk that the benefits of innovative tech are limited to the tech-savvy with others losing out Consumer difficulties could be entrenched if data on their behaviour in one context is used in other contexts
Equitable distribution of risks and benefits	The potential for disparities in the distribution of benefits and risks from open finance – risks may primarily accrue to those unlikely to substantially benefit from open finance rather than to the expected beneficiaries What will the advantages be (financial, accessibility, informational, health, etc) and to whom will they accrue (demographically and socially)? Vulnerable consumers could benefit from open finance but may not consent to using it

Feasibility and costs

3.39 We know that open finance, though transformative, could be a significant undertaking for firms. Open finance requires data to be digital and sufficiently standardised. However, not all firms provide digital channels for their own customers. Developing APIs, new security and legal arrangements takes time and can involve significant cost.

3.40 In our CFI, we asked:

- what barriers established firms face in providing access to customer data and what barriers TPPs face in accessing that data
- whether respondents had views on the feasibility of different types of firms opening up access to customer data to third parties
- what costs would be involved in doing so, and whether respondents had views on the feasibility of developing APIs

Feasibility and barriers

3.41 We have set out the key challenges faced by TPP respondents in Chapter 2.

3.42 Respondents agreed that the experience of open banking had illustrated the key challenges faced by firms in sharing data. These would need to be addressed for open finance:

- the technical challenge of upgrading legacy platforms and maintaining API infrastructure
- security and legal concerns for both parties, particularly in the absence of a liability framework
- challenges with verification of identity in the absence of a portable digital identity
- the lack of standardised data formats and the technical challenge of managing inconsistently defined data sets
- the lack of API standards can mean that TPPs must integrate with multiple provider APIs and data is not shared in a consistent manner
- competing internal priorities for investment or change projects

Costs

3.43 Respondents felt that the costs faced, and the extent of investment required, will depend on:

- the scope and implementation of open finance
- a firm's size and product offering
- a firm's technology platform and the extent of its legacy systems
- whether 'read' only or 'read' and 'write' functionality is required
- whether back book products or live products only are included

3.44 Respondents outlined the different types of cost involved for a firm sharing data through open finance. Costs broadly fell into the following categories:

- technology costs
- business costs
- regulatory costs

Technology costs

3.45 Respondents generally thought that the costs of developing and implementing a technology strategy to deliver open finance could be significant. Standardising and digitising data could be a considerable undertaking for certain firms, as could upgrading legacy technology and security systems. This could particularly affect those with large back books or extensive legacy systems.

3.46 Some respondents thought that the development, implementation and maintenance of APIs could be complex and resource intensive. Others thought that, while a firm can buy an API from a third party, connecting the APIs to legacy platforms could still lead to significant costs. In our recent CP21/3, we have set out estimates for the costs to firms of setting up and running a dedicated interface, based on data from the OBIE.

3.47 Respondents also highlighted the technology costs of improving cyber security, operational resilience, vulnerability and fraud detection, and additional change and risk management.

3.48 Some respondents thought that the establishment of open banking in the UK would mean the costs to implement open finance would be cheaper overall. This would be because:

- technology developed by technology vendors to conform to open banking standards can be used in other sectors
- firms can use the open banking implementation journey and milestones
- Technical Service Providers (TSPs) have already provided a range of services which could help firms implement further data sharing

3.49 Some respondents also highlighted that it was the need for payment functionality, with the associated levels of security and performance, which was a key driver of the costs of open banking. They said these may be lower where only 'read' access was required.

Business costs

3.50 Respondents highlighted a range of business costs involved in a firm's potential open finance journey. These would vary depending on whether the firm was purely sharing data, or also offering TPP services.

3.51 Respondents mentioned the following areas:

- strategy development and implementation
- customer research, customer journey design and customer education
- proposition design and, where necessary, third party partnering
- third party risk management
- reputation and liability management strategy and processes

Regulatory costs

3.52 Regulatory costs include:

- the cost of complying with new policies – investing in technology to meet data sharing requirements, conformance testing and then maintaining compliance
- one-off costs - taking legal advice and initial staff training when adapting to new ways of working or new products

- regular financial costs – fees payable to regulators, compensation schemes and, if applicable, an implementation entity
- administrative costs – record keeping and reporting, maintaining information flows to regulatory bodies

3.53 These could be significant depending on all the factors mentioned at the start of this section.

Incentives and compulsion

3.54 In some cases, firms may identify the benefits of actively sharing data. However, there are a range of reasons why firms may not share consumer data with other firms, despite their customers' consent and demand. These barriers could prevent the full range of products and services envisaged by open finance.

3.55 In our CFI, we asked:

- whether the right incentives exist for open finance to develop or whether FCA rules or other changes would be needed
- how the market might develop if some but not all firms opened up access to customer data to third parties

3.56 In general, respondents said that commercial incentives do exist for open finance-type arrangements between firms to emerge, and that this was already happening. But they also pointed out that coverage of such initiatives will inevitably be partial, limiting the potential benefits. Even if it becomes mandated, respondents felt open finance would best flourish if firms have the right commercial incentives to invest and participate on a sustainable, and probably reciprocal, basis.

3.57 Several respondents said that there were incentives for open finance arrangements to develop commercially, based on customer demand and competition to provide improved services. These respondents highlighted existing commercial offerings, the number of start-ups operating in this area, and existing industry-led work on standards and codes as evidence of this.

3.58 Other respondents felt that there would only be adequate incentive for firms to participate if the necessary infrastructure, agreed data sets and standards were in place. One trade body stated that open finance would require investment in a common data infrastructure across the sector, and that this was unlikely to happen without compulsion and coordination.

3.59 Many respondents, including consumer groups, stated that legislative compulsion had been the driver of open banking and open data schemes in other jurisdictions. They thought that some form of legislation or regulation could act as a catalyst for industry-led arrangements. They generally felt that the full benefits of open finance would require full participation, and that this would ultimately require legislation or regulation.

3.60 Respondents highlighted that cost could discourage smaller firms with investment constraints. Concerns over loss of market share or revenue, or operational risk, could also discourage some established firms from participating.

3.61 Other respondents said that the right incentives did not exist for open finance to develop on its own in a way which promotes consumer choice and competition, or which ensures security and consumer protection.

3.62 Many respondents highlighted the importance of a viable commercial model underpinning open finance, even if compulsion was required as a catalyst. These respondents noted that commercial incentives for firms would deliver the best outcomes and products for customers. They emphasised that open finance would flourish if firms were incentivised to invest, take part and share data on a reciprocal basis.

3.63 Other respondents, including several trade bodies, said that regulatory intervention could help in establishing the key foundational pieces of open finance. A self-supporting system could then develop from these foundations through industry-led and voluntary initiatives. These respondents said that experience from other jurisdictions suggests that customers benefit when sector participants collectively develop open finance standards to fit with their strategies and business models, but the regulator ensures participation, reciprocation and appropriate incentives.

3.64 Two trade bodies said that the FCA should not play a role in incentivising open finance. These respondents said that the development of open finance should be driven by consumer demand. Rather than trying to maximise the benefits, these respondents said that we should play a supportive role while leaving industry and new entrants to innovate.

Sequencing

3.65 Some markets (savings, consumer credit, mortgages) have obvious synergies with open banking. Payment account data is already available, which covers some savings accounts. Extending this to all other savings accounts would be an obvious next step. Firms are already using transactional payment account data to assess creditworthiness. Sharing non-payment account information, mortgage and consumer credit finance data could complement this.

3.66 Features of other markets (insurance, pensions, investments) may make open finance more challenging to implement, such as the type and range of data that could be shared.

3.67 In our CFI, we asked whether there was a natural sequence by which open finance would or should develop among sectors.

3.68 In general, responses did not indicate that a 'big bang' approach to open finance was feasible or desirable. Respondents felt that implementing open finance should be proportionate, phased and ideally driven by consideration of credible consumer propositions and use-cases.

3.69 Those respondents who said that open finance would or should develop without intervention felt that sequencing would be driven by customer demand and commercial opportunity. They highlighted the development by firms of premium APIs, as well as industry-wide initiatives on savings, investments and pensions, as evidence of this.

3.70 Respondents generally agreed that, if open finance were to be mandated, a phased approach to implementation was preferable to a 'big bang' approach. Respondents' opinions on the preferred sequence varied, with suggestions of the following, not necessarily distinct, pathways:

- extension of open banking first, before other sectors
- start with products that have the best balance of cost and complexity of implementation to consumer benefit
- read followed by write

Extend open banking first

3.71 Many respondents agree that it could potentially be quicker to widen open banking to cover non-PSD2 accounts and other banking products than for other financial products.

3.72 Respondents also highlighted certain products as a more natural next step to open banking. Savings, mortgages and loans were frequently cited as the best places to start. They also noted that these products' more homogenous features could make building standardised data presentation standards more straightforward.

3.73 Respondents generally felt that pensions, leveraging the work done to develop the Pensions Dashboards, investments and insurance could then follow. Several respondents suggested that insurance should be the last sector to open up given the complexity and risks involved. Some, however, suggested that investments should be last, both because of the lack of homogeneity and because investment products are held by only a small proportion of the population.

Cost and complexity against benefits

3.74 Many respondents said that open finance should develop based on balancing the cost and complexity of implementation with the potential consumer benefit from clear use-cases.

3.75 Respondents suggested the following factors to consider when thinking about consumer benefits:

- where there will be most socio-economic benefits, eg debt management
- where there will be most reduction in high-friction journeys, eg where complaints volume is greatest
- where there is a high potential for automation, eg fulfilling Know Your Customer (KYC) or Anti-Money Laundering (AML) controls and processes
- where cross-sector customer journeys can be simplified, eg paying utility bills

3.76 Some respondents who favoured this approach, notably several from the insurance industry, suggested that only live products should be included at first, with back books included later. This reflected the fact that, as set out in the previous section, digitising all customer data could be a significant undertaking for some firms and sectors.

3.77 Some respondents favouring this approach also suggested that there could be a natural sequence by product type within sectors. For example, in banking, access could first be expanded to savings accounts and then into retail lending products. In the investment sector, it could start with stocks and shares Individual Savings Accounts

(ISAs) and other investments, and then pensions and retirement income. Finally, for the insurance sector, it could start with home and motor insurance and then develop into other pure protection products.

Read followed by write

3.78 Many respondents thought that open finance should be focused on read access with write access being introduced once certain criteria have been met, such as clear customer demand and widespread industry participation.

Common standards and infrastructure

3.79 We think the benefits of open finance are maximised where a consumer (and TPPs acting on their behalf) can access information on the broadest range of financial products in the same way and with minimal friction. We refer to this as a system which is interoperable (exchanging information across sectors) and cohesive (as a customer journey).

3.80 In our CFI we set out that a model of open finance that was interoperable and cohesive would require a range of common and agreed standards. These could maximise competition and efficiency, drive up rates of adoption and inclusion and minimise friction and confusion for the end-customer. This model would ensure the whole system is based around the customer and their journey.

3.81 In our CFI, we asked:

- what functions and standards were needed to support open finance and how they could be delivered
- to what extent the standards and infrastructure developed by the OBIE should be used to support open finance
- what role BEIS's Smart Data Function could play to ensure interoperability and cohesion

3.82 Most respondents agreed that an interoperable and cohesive system would allow open finance to flourish and succeed. For it to deliver all its potential benefits as widely as possible, they agreed the following are necessary:

- common standards
- an implementation entity
- a portable digital identity
- interaction with open data initiatives in other industries

Common standards

3.83 Nearly all respondents agreed that common standards would be needed to support open finance, and that:

- for customers, common journeys create familiarity and convenience and build trust
- for firms, they reduce implementation and maintenance costs, allow for more participants to enter the market and for new, innovative services to come to market more quickly

3.84 Respondents recommend that standards would be needed for:

- API specifications
- data sets and definitions
- operating principles, processes and practices – including authentication and identity management, consent management, service availability and performance and regulatory reporting and notifications
- security protocols
- user experience

3.85 Respondents across sectors note that conforming with standards is important, particularly security standards. Many mentioned the OBIE's conformance testing tools which allow firms to check and prove they have met the standards. There was widespread agreement that there should be a similar testing tool for open finance.

3.86 Most respondents thought that the development of standards should be industry-led rather than through regulatory prescription. Consumer group respondents underlined, however, that the consumer needed to be considered at the outset. Several respondents highlighted work by Fair by Design and the Money Advice Trust on Inclusive Design, which promotes the practice of designing products and services to ensure they are accessible to, and usable by, as many people as possible.

Implementation entity

3.87 Respondents agreed that a very important factor in the success of open banking in the UK has been the OBIE and its role in driving standards and implementation. Most agreed that open finance would require an equivalent entity. Respondents' opinions vary on who should be the central governing body for open finance or, if a new body is needed, how it should be constituted and funded.

3.88 Respondents highlighted the following elements of the OBIE that could be used for open finance:

- common standards
- consent and trust frameworks
- TPP verification
- conformance testing and industry support
- directory of accredited firms

3.89 Many respondents suggested that an open finance entity could sit under an overarching central entity, alongside entities for other sectors (eg utilities, telecoms). All agreed that, however it is constituted, it needs wide representation and participation from industry and consumer groups.

Portable digital identity

3.90 A range of respondents said that a portable digital identity that could be used across financial and non-financial sectors was crucial for open finance, and to ensuring interoperability and cohesion across sectors.

3.91 Respondents said that a digital identity could speed up adoption of open finance considerably as it would reduce the need to enrol each institution or provider. It could also support identity verification processes to meet customer due diligence and Know

Your Customer (KYC) requirements as part of Anti-Money Laundering and Financial Crime obligations.

3.92 Some respondents suggested that a digital identity could allow for a variety of authentication types which might allow providers to enter the market where they are accessing lower level security data. This could promote competition and innovation.

3.93 Some respondents suggested that open banking could be the basis of a reliable identity data source. This would depend on the extent of coverage as open banking progresses, but it could offer a financial services digital identity if a more universal digital identity is too slow to develop. Others suggested that the introduction of the pensions dashboards could help create a digital identity framework.

3.94 Several respondents also highlighted The Investments and Savings Alliance (TISA) industry initiative to develop a federated digital identity for financial services. The initiative's goal is to enable consumers to create a single digital identity for use across UK financial services and that is interoperable with the Gov.UK Verify scheme and its prevailing standards.

3.95 Several respondents mentioned that there are many digital identity systems in the private sector already.

BEIS Smart Data initiative

3.96 Respondents felt that the cross-sector entity being worked on by BEIS (previously referred to as the Smart Data Function) should play a central role. Most respondents felt it has a role to play in coordination and potentially oversight of industries, regulators and bodies to ensure consistency of standards and approaches across all sector initiatives. Respondents said that it could:

- establish an appropriate and proportionate TPP accreditation/certification system that works across sectors and monitor their performance
- be the delivery arm of the Digital Markets Unit (DMU) with different industry implementation entities under it (OBIE, OFIE, etc)
- define industry independent standards
- be responsible for centralised oversight of the wider data system
- be responsible for co-ordinating timelines across markets

4 Our draft principles for open finance

4.1 In our CFI, we asked:

- whether respondents thought our draft principles for open finance would help achieve our aim of an effective and interoperable ecosystem
- how these principles should be developed

4.2 We said that a final set of principles could be developed in partnership with the Government, following consultation with a broad cross-section of industry and, if appropriate, recognised by us. These should allow and support development of a sustainable open finance system in the interests of consumers characterised by:

- increased competition
- improved advice
- product innovation
- improved access to a wider range of financial products and services for all

4.3 Respondents generally agreed that the draft principles set out in the CFI were a good starting point to underpin an open finance ecosystem. Several felt that principles would need to be flexible to allow different models to develop. Most thought that they would need to be developed further and that this should be done in collaboration with Government and industry.

4.4 Respondents from across all sectors noted that they would need to apply equally to financial services providers and TPPs. Some respondents also asked how to ensure unregulated firms play their part in delivering good outcomes.

4.5 Many respondents noted that further work will be required to translate the principles into actionable change and associated regulation. They noted too that firms would want clarity on the interplay between these and the existing FCA Principles for Business, any new Consumer Duty and any potential overlap with the ICO's responsibilities.

4.6 Respondents made the following key points about the draft principles.

	Draft Principle	Commentary
1	**Users' right to share their data**	'Real time' data access may be unachievable – 'appropriate time frame' should be used instead The principle should acknowledge different levels of data sharing, eg minimal, selective or full
2	**Users' right to instruct a TPP to act on their behalf ('write functions')**	This could be better expressed as a 'user's right to have an instruction issued by a TPP on their behalf actioned as though it were issued by the user' This could be expanded to cover the user's right to delegate to a trusted person (other than the TPP) – this is particularly important in the case of vulnerable consumers Some felt that write functions should be a 'second phase' principle

	Draft Principle	Commentary
3	**Users' right to be in control of their data and transact and share data securely**	'Consumers should be able to keep track of who they have granted consent/ access to at the data source' stems directly from PSD2 and could give data controllers a gateway role that could discredit or discourage the use of TPPs - 'at the data source' should be dropped A distinction between consent to share data across firms and consent as a lawful basis for processing personal information needs to be clear This should encompass the customer's right to revoke consent Onward sharing of user data by TPPs needs to be covered and adequately regulated Reference to periodic renewal of consent should refer to dormant users and consider the difference in frequency of interaction with or use of different financial products
4	**Cohesion across open finance**	Cohesion should extend to cover other industries, where applicable, as not all transactions will only be between financial services providers
5	**Provision of a minimum set of standardised data via standard and open APIs**	A maximum available dataset should be supported rather than a minimum dataset The creation of a common digital identity could be incorporated here
6	**TPP right of access**	The wording should acknowledge that TPP right of access is only where a user has instructed the TPP to act on its behalf Access being offered on a commercial basis could exclude small TPPs from the market and lead to high prices – commercial access should be offered 'within parameters set by the central organising body' Establishing schemes should be done cautiously as these would require very strict anti-trust obligations
7	**Accessibility of key product information**	Standardised comparison data could inadvertently lead to reduced innovation or to products being developed to meet a comparison framework rather than to deliver the best consumer outcomes Standardising generic product data could be burdensome - customer specific data is more valuable It is important to ensure that customers' attention is not drawn exclusively to price It is important that underlying calculations used for comparison data are also standardised

4.7 Respondents also suggested additional principles:

- **Reciprocity of data provision** – many respondents felt that any firm that wants to access data under an open finance framework should have to share equivalent designated data that they hold.
- **Right to redress and dispute resolution** – a few respondents suggested making clear a consumer's right to seek redress.
- **Right not to share** – some respondents thought that there should be a principle on there being no disadvantage to consumers who choose not to share their data digitally.
- **Data quality** – there should be a central principle of data quality to place an obligation on firms to ensure that all data is current, complete and accurate.
- **Commercial sustainability** – a few respondents suggested that there should be a principle around a sustainable commercial model in which there is value for all participants in the wider system. For instance, firms that have invested in innovative mechanisms to collect, process or analyse data should be able to realise a return on their investment.

5 Our role and next steps

5.1 Our CFI asked for views to inform our regulatory strategy toward open finance and to help us ensure that it develops in the interests of consumers.

5.2 We think that:

- Open finance could potentially offer significant benefits to consumers and competition and help tackle some long-standing harms. These benefits will only materialise if firms offer compelling services and consumers that would benefit from open finance use those services.
- Open finance would create or increase risks and raise new questions of data ethics. These need to be considered from the start as part of any system design. Appropriate regulation would be essential to managing those risks and giving consumers the confidence to use open finance services.
- Commercial incentives do exist for open finance-type arrangements between firms to emerge. This is already happening. But coverage of such initiatives will inevitably be partial, limiting the potential benefits.
- A legislative framework would be needed for open finance to develop fully – both to provide any statutory right to data access and to support a regulatory framework.
- Even if mandated by legislation, open finance will best flourish if the right commercial incentives exist for firms to invest and participate on a sustainable, and probably reciprocal basis.
- The implementation of open finance should be proportionate, phased and ideally driven by consideration of credible consumer propositions and use-cases. A widening of open banking to cover non-payment accounts and other banking products could potentially be done relatively more quickly than other financial products. We do not think a 'big bang' approach to open finance is feasible or desirable.
- In addition to a regulatory framework, several key building blocks would be needed for a sustainable open finance ecosystem to develop – either to support voluntary adoption or support future legislation. These are:
  - consumer protections informed by an ethical framework
  - a liability model
  - common standards (for APIs and user experience)
  - an implementation entity that is funded and governed equitably
  - a digital identity

5.3 It is also clear that open finance would be a significant undertaking for firms. This would vary among firms and by sector. This is particularly important given the operating environment for firms has changed considerably since we first published our CFI. Firms have had to deploy resources to support their customers through the pandemic while also implementing other essential regulatory changes.

Our role

5.4 We want to help ensure that open finance develops in a way that maximises its benefits and reduces risks, both to consumers and firms. We want to ensure that the needs of consumers, including vulnerable and digitally excluded consumers, are considered from the start.

5.5 We have a clear role to play in supporting the considerations of the Government, as the current supervisor of open banking TPPs, the regulator of those financial services firms that would be required to share data under any future legislation, and the likely regulator of open finance TPPs under any future legislation.

5.6 We will support the Government by sharing our expertise from the implementation and supervision of open banking and from our part in the development of the Pensions Dashboards, and through helping assess the feasibility, design and timing of any future legislation.

5.7 We will also support initiatives that are already underway and can help support new industry initiatives where they are needed.

Next steps

Coordination

5.8 Responses to the CFI have underlined the significant range of relevant activity and initiatives that are already underway. Firms and their trade bodies all felt that greater coordination was needed. They also said that the FCA and the Government should work with industry to consider a roadmap for open finance.

5.9 We will work closely with BEIS and the Treasury in the coming months to form a view of what work is needed to inform judgments on the feasibility, timing and design of any secondary legislation relating to open finance.

5.10 As part of this, we can see the benefit of industry-led roadmaps, and we plan to discuss this further with industry. This will require wide-ranging stakeholder engagement. We will work with the Government and industry stakeholders to identify which forums already exist and what, if any, new working groups are needed.

5.11 We will also continue to work with the Pensions Dashboards Programme. While we are happy to support any work toward open pensions, we recognise that delivering the dashboards is a significant undertaking for the pensions sector and that this will be the immediate focus for pension schemes and providers.

5.12 We will also continue to engage with the DIU and industry to support the development of a secure and reliable digital identity ecosystem.

Common standards

5.13 Most firms felt that there was an opportunity for voluntary and industry-led initiatives to drive the development of open finance in a way that is closely tied to customer and industry needs. A key message from respondents to the CFI was that standards should be developed with the consumer and ultimate use case in mind, rather than through regulatory prescription at the start.

5.14 Given this, and the direction of Government policy, we think there is a strong incentive for firms, TPPs and their representatives to work together on common standards that could support open finance. This work is already underway in several sectors.

5.15 As a first step, we encourage industry to identify a minimal set of data that could be shared on a 'read' API basis. These data sets should be informed by credible consumer propositions and use cases. This can be informed by the sector level analysis we published alongside the CFI.

5.16 Agreeing these data sets would also allow us and the Government to undertake a more detailed assessment of the feasibility and proportionality of firms in different sectors sharing that data. This would help inform assumptions on the feasibility, scope and cost of future legislation.

5.17 We see this work as being industry-led. However, it is vital that there is a strong consumer and SME voice involved from the outset. We can therefore play a role in working with industry to convene initial working groups to ensure sufficient and appropriate participation.

Regulatory framework

5.18 The nature of any legislative framework for open finance, and any new regulated activities, is a matter for the Government to consider in the first instance. This needs to be considered in the round, as part of any other legislation relating to open finance. We will support the Government in assessing the regulatory framework that would be needed to support open finance, including in identifying what if any gaps would require further legislation.

5.19 We will also continue to work closely with the ICO to ensure that we consider the need for any further guidance.

Implementation entity

5.20 As set out in Chapter 4, all respondents agreed that open finance would require an implementation entity to coordinate development of a directory, authentication protocols and API tech standards. Respondents also broadly supported using key elements of the OBIE to support this.

5.21 The funding and governance of such an entity will be critical. The OBIE was set up under the CMA Order to manage the implementation of open banking and funded by those banks the CMA Order applied to. It has a wide range of stakeholder representatives, including consumer representatives. This approach has been effective at bringing together the views of the wide range of stakeholders involved.

5.22 As the implementation phase of open banking ends, the CMA is consulting on arrangements for the oversight of the future system. We will work closely with the CMA and the Treasury as they consider the results of this consultation. It will be important that the entity is flexible and able to respond to any future legislative requirements. We are keen that any entity be open in terms of participation and funded equitably and sustainably.

Regulatory sandbox

5.23 As we set out in Chapter 2, our Regulatory Sandbox has been, and continues to be, supportive of genuine innovation to promote competition for the interest of consumers.

5.24 We have already supported 17 open banking and 14 digital identity propositions through our regulatory sandbox. We have also had 15 applications for Direct Support to the FCA Innovation Hub and 6 of these are now receiving that support.

5.25 We have engaged with many other digital identity providers through various channels including the Anti-Money Laundering TechSprints. Our next TechSprint on Women's Economic Empowerment also has a strong focus on digital identity.

5.26 We have also recently completed a pilot 'Digital Sandbox' in collaboration with the City of London. This provides data access and a digital testing environment to help innovative businesses develop proof of concept. Two digital identity propositions participated in the pilot. Digital identity propositions tested so far have demonstrated how they have placed the consumer at the heart of innovation.

5.27 We are keen to see open finance and digital identity propositions applying for sandbox and direct support.

Annex 1
Abbreviations used in this paper

AISP	Account Information Service Provider
AML	Anti-Money Laundering
API	Application Programming Interface
APP	Authorised Push Payment
ASPSP	Account Servicing Payment Service Providers
BEIS	Department for Business, Energy and Industrial Strategy
CFI	Call for Input
CoP	Confirmation of Payee
CMA	Competition and Markets Authority
CRM	Contingent Reimbursement Model
DCMS	Department of Digital, Culture, Media and Sport
DIU	Digital Identity Unit
DMU	Digital Markets Unit
DWP	Department for Work and Pensions
GDPR	General Data Protection Regulation
ICO	Information Commissioner's Office
JMSLG	Joint Money Laundering Steering Group
KYC	Know Your Customer
MaPS	Money and Pensions Service
MLR	Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017
OBIE	Open Banking Implementation Entity
PISP	Payment Initiation Services Provider
PSD2	Payment Services Directive 2
PSP	Payment Service Providers
PSR	Payment Systems Regulator
PSRs 2017	Payment Services Regulations 2017
SCA	Strong Customer Authentication
SCA-RTS	Strong Customer Authentication – Regulatory Technical Standards
SME	Small and Medium Sized Enterprises
TISA	The Investment and Savings Alliance
TPP	Third Party Provider

TPR	The Pensions Regulator
TSP	Technical Service Provider

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