OPEN FOR BUSINESS

Open banking presents new opportunities for the financial services sector beyond retail banking, but customers could be slow on the uptake

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The US is a runaway leader in the use of banking data for wealth management products and advice. Personal financial management (PFM) tools are used by over 30% of US consumers. These draw data from banks and other financial institutions to offer a view of credit card, bank, mortgage, investment and pension data within a single app. Budget tracking, expense analysis and overspending alerts are common features. Advisers use these tools to obtain an up-to-date picture of a client's financial situation and spending patterns.

Yodlee provides the technology for many of these apps, drawing data from over 16,000 institutions. Jason O'Shaughnessy, senior vice president EMEA/Australia at Yodlee, explains why US banks embrace data sharing: "It's a very competitive landscape. You've got thousands of banks. It's not like the UK, where eight banks and one building society make up 90% of the market.[US banks are] more innovative about sharing their data."

In the UK, the Competition and Markets Authority (CMA) has led an initiative to play catch-up, intensify banking competition and trigger a boom in financial services innovation.

It has compelled banks to make data available to third parties and to adopt a common technical standard for this data to be drawn through automated feeds. The initiative is called the Open Banking Standard.

WHAT IS OPEN BANKING?

A customer researching loans through a comparison site provides an example of how open banking works. They would be given an option to share relevant transactional banking data, directed to their bank site to grant the comparison site access, and then redirected back to the comparison site to receive their loan quotes.

These quotes should reflect a level of sophistication well beyond what is available today. The comparison site can interrogate eligibility criteria and exclude unsuitable loan providers. Loan providers can refine their offering, such as automatically conducting affordability checks and pricing more accurately.

The interface between the computers of the comparison site and the bank is called an application programming interface (API). This is not new technology. The most familiar application is the use of Facebook credentials to log in to another website.

STATE OF PLAY IN THE UK

The EU initiated the move towards open banking. The revised Payment Services Directive (PSD2) was transposed into member states' law in January 2018. It requires that all payment services providers allow authorised third parties to access customers' accounts to extract data or initiate payments, without having to use the banks' online services. It also sets standards for security measures. But the UK, through the CMA, has gone well beyond minimum requirements, demanding that the largest banks collaborate in their implementation process through an Open Banking Standard. PSD2 stops short of requiring common technical standards.

Momentum in the UK started to build in 2014 when the government commissioned the Open Data Institute and Fingleton Associates to investigate open banking. In the same year, the CMA launched an investigation into the supply of retail banking services to consumers and smaller businesses. Both investigations concluded that greater access to data should result in increased competition and innovation in banking and that banks should create standardised APIs, accessible by authorised third parties.

HM Treasury asked the Open Data Institute to outline a plan for the initiative. To do this, it set up the Open Banking Working Group (OBWG), comprising industry experts, and consumer and business representatives. Its mandate was "to explore how data could be used to help people transact, save, borrow, lend and invest their money, and to ensure a standard was put in place to protect privacy and ensure the data is secure." The result of this work is the Open Banking Standard that guides how open banking data should be created, shared and used.

The *CMA Retail banking market investigation: final report* of 2016 dictates the way forward. To manage the technical and governance aspects of the initiative, a new organisation called the Open Banking Implementation Entity was created. This is funded by eight UK banks and one building society and overseen by the CMA, FCA and HM Treasury. To kick-start innovation, Nesta, an innovation foundation, was mandated to identify and support 20 small technology companies to develop new services, apps and tools, using open banking functionality, that help UK small businesses.

> *"Where this logically ends is not just payment products, but savings, pensions and mortgages"*

Chris Gorst, fintech challenge prize lead at Nesta, says: "The UK version of open banking is really a progressive one. A risk with PSD2 is that you get fragmented solutions, with individual banks coming up with their own different ways of complying. With open banking in the UK, the banks have to agree a common standard. For developers wanting to develop new services, and ultimately for banking customers, that's really good news."

Banks are also playing their part to help new fintechs bring their innovations to market. A preferred route is to invite them to 'hackathons' – events where working prototypes of new apps and services can be built that interface with actual bank APIs in a 'test' environment.

And the scope of open banking is expanding. Since January 2018, consumer and small and medium enterprise current account transactional data has been accessible by authorised third parties. In his Autumn Budget 2017, Chancellor Philip Hammond announced that payment accounts such as credit cards and ewallets were also to be included in the initiative. Chris suggests: "Where this logically ends is not just payment products, but savings products, pensions, mortgages – an open ecosystem for all financial products. That would revolutionise people's ability to take control of their financial lives."

The CMA seems to be in agreement and has alluded to an expansion even further than the Chancellor's recent

OPEN BANKING PROGRESS IN THE UK

2007
EC publishes PSD1, introducing the concept of third-party participation in the payments sector

2012
Open Data Institute founded by Sirs Tim Berners-Lee and Nigel Shadbolt

2013
EC issues a proposal for PSD2 with timeline for transposition into national laws

2014
Open Data Institute and Fingleton publish report recommending open banking to stimulate banking competition

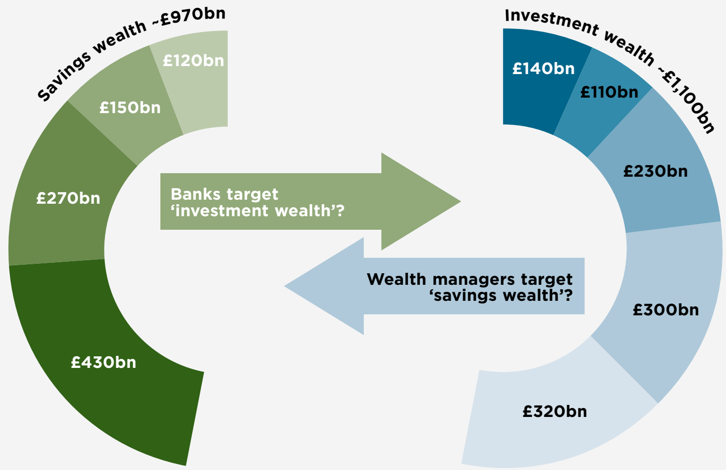
2014
CMA launches market investigation into the supply of retail banking services

2015
In the budget, HM Treasury commits to delivering open banking

2015
HM Treasury launches consultation with sector, consumer and business groups – many support open banking

2015
Open Banking Working Group (OBWG) formed to produce framework for design and delivery

WILL OPEN BANKING TRIGGER NEW BATTLES FOR 'SHARE OF WALLET'?



- Current accounts
- Fixed term bonds
- Cash ISAs
- Savings accounts

- Other*
- Unit/investment trusts
- SIPPs
- Shares
- S&S ISAs

Source: ONS, HMRC, BBA
**including 'insurance' investment products, bonds and gilts*

announcement: "The applicability of these tools to savings products such as mortgages and other financial products like insurance – there are many who see this as a natural development. We did not express a view on this in our report, but we did say that we had tried to design these arrangements so that they could be reused for developing standards in other areas."

OPPORTUNITY FOR THE INVESTMENT SECTOR

Samantha Seaton, CEO of PFM company Moneyhub, says open banking will give wealth managers an entire view of clients' wallets, helping to clarify whether they should service their current client base further, or focus on attracting new clients. The prize is large for the investment sector if open banking can be used to switch a proportion of 'customer wallet' from banks' control (see infographic).

Tessa Lee, managing director of moneyinfo, sees another advantage: "Children of clients are not necessarily going to go to their mum and dad's regional adviser or wealth manager, but if that wealth manager connects with them on an ongoing basis and starts to build a relationship using technology, then when that wealth is passed on to the next generation, they've captured that audience already."

Financial advisers using moneyinfo cite additional benefits of improved client satisfaction from having access to their financial information at any time; more precise lifetime cashflow analysis from having accurate, not 'guesstimated' expenses; savings in staff time from a reduced paper reporting workload; and reduced costs of reports and postage.

However, Samantha says that the early adopters, and biggest beneficiaries to date, have been smaller advisers. Larger incumbents have been slow to seize this opportunity: "Most of the larger wealth businesses, until very recently, have not understood how PSD2 will be of benefit to them, but I think it is about to change due to PSD2 implementation in January 2018. I'm guessing that the workload from MiFID II, the General Data Protection Regulation and the impact of the recent FCA Asset Management Survey report has resulted in major league distraction as most of them have held the view that 'this is something for the banks, rather than the fund manager', yet this couldn't be further from the truth."

PACE OF ADOPTION UNCERTAIN

The OBWG sees big potential for investment products: it estimates that, should UK consumer uptake of PFMs reach US levels of circa 32%, it would suggest a £10–15m potential.

But Chris at Nesta cautions against expecting too much too soon: "If uptake is low, there will be some that say people don't want it because they are happy with the way things are. Others may say consumers haven't been using it because there hasn't been any education process. I think we are going to have that debate going on next year." ●

2015
EC publishes the requirements of PSD2 – transposition at national level to occur by Jan 2018

FEB 2016
CMA publishes final report, introducing open banking as a remedy to address lack of competition and innovation

FEB 2016
OBWG report recommends creating an open banking standard using an API

SEP 2016
Open Banking Implementation Entity (OBIE) formed to manage technical aspects and governance of the initiative

FEB 2017
Nesta introduces the Open-Up Challenge, a competition and support initiative

MAR 2017
Implementation of stage 1 of CMA remedies (APIs for branches, ATMs, personal and business current accounts, SME lending)

NOV 2017
Chancellor expands the scope of open banking

JAN 2018
PSD2 transposed into national law

JAN 2018
Implementation of stage 2 of CMA remedies (current account transactional data)

JAN 2018
NESTA Open-Up Challenge stage 2 applications open