WHITE PAPER

Unlocking the Potential of Open Finance in the UK

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Foreword

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The UK has led the way in Open Banking, working to create a vision for the world to follow. Implementation has been rigorous, with a keen focus on establishing an inclusive Open Banking regime and designing a farsighted roadmap for the future. The result has been a stronger, more vibrant overall UK financial-services industry, with innovation to benefit consumers and businesses alike at its heart.

However, with the advancement of Open Banking globally, models and approaches have emerged that provide inspiration for the next evolutionary phase of this ecosystem in the UK. There is a great deal of positive momentum both for meeting challenges and building a more forward-looking Open Banking framework.

This report, which Boston Consulting Group co-developed with Innovate Finance, concentrates on identifying and understanding market needs and future requirements with regard to Open Banking. We interviewed several of the leading FinTechs in the market, researched the global Open Banking landscape, and delved into practical, impact-driven use cases for consumers and businesses that Open Banking can support.

We also offer a set of recommendations and perspectives aimed at reaching the next level—an Open Finance ecosystem in the UK that meets market demands and provides a well-balanced commercial proposition for all stakeholders. This report is further intended for regulators and policymakers whose support would enable the design and implementation of Open Finance.

We believe the time is right for stakeholders in the UK financial market to work together on advancing the Open Finance vision, putting in place the right tools to achieve the goals outlined in this report. Such collaboration can help unlock significant additional benefits for consumers and businesses, and create a stronger, more innovative UK financial-services industry.

Finally, we would like to extend our deep gratitude to all of the FinTechs and Innovate Finance members who provided their thoughtful views and ideas to the generation of this report.

Janine Hirt
CEO of Innovate Finance

Open Banking has been a catalyst for innovation in the financial services sector. This is especially the case in the UK where competition and market regulation has resulted in more empowered customers supported by a booming FinTech ecosystem. As a result of its efforts, the world has looked to the UK as a pioneer and vanguard in Open Banking. However, the UK's leadership is increasingly being challenged as other countries make advances and threaten to leapfrog the UK's position as an early adopter.

To maintain our global leadership, the UK must put Open Banking implementation systems on a permanent footing: fixing the glitches in the current approach, and building on this to extend Open Banking to other financial services (Open Finance) and beyond to other sectors (creating a digital economy based on portable data).

This report by Innovate Finance and Boston Consulting Group unpacks what is needed for the UK to develop a practicable strategy to unlock the full potential of Open Finance. A crucial component is a regulatory environment that creates the right incentives for industry and recognises the role FinTechs play in building and developing the UK's Open Finance ecosystem. The report also highlights some of the use cases and customer benefits that can be enabled through our collective efforts to evolve the UK's Open Banking framework.

I am grateful to our inspiring members at Innovate Finance whose input helped shape the content of this report, and to our valued partners at Boston Consulting Group. Looking ahead, we at Innovate Finance will continue to engage with industry, regulators and policymakers to enable the UK to fully embrace Open Finance - and in doing so deliver economic and societal gains by creating a more democratic, inclusive, accessible and affordable financial services system for all.

The UK is widely considered the most advanced Open Banking market in the world. As of May 2022, there were 339 regulated firms in the UK ecosystem, comprised of 249 third-party providers (TPPs) and 90 account-servicing payment service providers (ASPSPs), together representing more than 95% of active current accounts in the market.

More than 63 other jurisdictions around the world have followed the UK's lead. Such markets have already explored or implemented Open Banking, and in some cases gone beyond its original scope to include a broader set of financial products and services— a practice known as Open Finance or Open Data.

Nonetheless, potholes have appeared in the road to Open Banking, which was originally set up in 2016 by the UK Competition and Markets Authority (CMA). The CMA's aim, following its study of the UK retail banking market, was to find a regulatory path to increasing competition in the sector, found at the time to be dominated by the country's nine largest banks (the CMA9 group).

As part of the steps imposed by the CMA, the CMA9 banks were required to establish an Open Banking Implementation Entity (OBIE). This organisation was tasked with defining technical standards through which, by 2018, banking customers could securely share their transaction histories with authorised third parties. In January of that year, the European Commission's PSD2 legislation came into effect in the UK, providing a framework for new types of regulated TPPs to operate, and opening a path to integration with CMA9 banks' application programming interfaces (APIs). The UK thus had a mandate from the competition authority, a regulatory framework to underpin Open Banking (PSD2), and a bank-led forum (the OBIE) to enable the UK's largest financial institutions to develop the required technical standards.

These conditions enabled the CMA9 banks to define how Open Banking would be implemented in the UK. In recent years, however, the evolution of the Open Banking ecosystem has come up against some hurdles, particularly concerning governance, commercial incentives, and technical implementation— the latter including areas such as data consistency and API availability.

Moreover, as part of the EU's PSD2 regulation, two new types of entities were introduced: Account Information Service Providers (AISPs), and Payment Initiation Service Providers (PISPs). AISPs have enabled account-data solutions, such as budgeting and personal finance management (PFM) tools that aggregate consumers' balances and transactions and provide a clear view of spending across categories, among various other use cases. PISPs are enabling increasingly practical use cases for "sweeping"— moving funds from one account to another owned by the same person or business— presenting a viable alternative to cards for online commerce.

This report, which BCG prepared in partnership with Innovate Finance, the independent industry body that represents and advances the global FinTech community in the UK, presents key findings on the development of Open Banking and the potential advent of an Open Finance ecosystem in the UK. The latter would be a natural extension of the Open Banking environment that the UK has already established as a key underpinning. Our findings, stemming largely from data gathered during a series of live interviews with representatives of 12 leading UK FinTechs in September 2022, include the following:

- Perspectives on the key hurdles faced by FinTech innovators in developing Open Banking-based products and services;

- A vision for Open Finance, including an exploration of different models by which its promise can be attained using the groundwork provided by Open Banking;

- A view of both existing and emerging use cases for Open Banking that are being leveraged by FinTechs to innovate in the UK;

- A forward-looking perspective on policy and market-structure interventions that Innovate Finance's member FinTechs see as having high potential to propel the UK towards Open Finance; and

- A look at the potential benefits of unlocking Open Finance for all participants in the UK financial-services ecosystem.

Overall, Open Banking has the potential to significantly alter the UK financial-services sector. Open Finance, going a large step further, would elevate Open Banking principles to the next level. Yet in the search for quick wins and solutions that work for all stakeholders, significant challenges await.

The Challenges of Developing Open Banking in the UK

The long-term goal of Open Banking is not just to create a regulatory framework aimed at increasing competition in the marketplace, but to build a structure that acts as an enabler of growth for all participants in the UK financial ecosystem. The UK government has already expressed interest in the next evolutionary step— Open Finance— and is examining exactly what form it would take on. There are indeed multiple challenges facing Open Banking, one of which is making sure that consumers are confident in the security aspects of having their data available to TPPs, not just to their principal financial institution.

Currently, the security framework appears robust amid a fast-growing network of TPPs that use the APIs to offer services to customers. As of January 2022, an estimated 4.5 million users in the UK— 3.9 million retail consumers and 600,000 small- to mid-size enterprises (SMEs)— now benefit from technology and services enabled by Open Banking. Moreover, since the strong customer authentication (SCA) 90-day reauthentication requirement was removed in January 2022, customers no longer need to reauthenticate when they access their account information through a TPP. Instead, TPPs are required to obtain explicit consent from customers every 90 days. This development has removed an important source of friction encountered by TPPs, especially for Open Banking-based payment initiation services.

At the same time, despite significant investment and focus from financial institutions, data retrieval from banks has been mired with issues. These include inconsistent or absent fields, poor availability, unplanned outages, noncommunication of planned outages to TPPs, inconsistent transaction IDs over time, and API request quotas— all of which amount to ecosystem growing pains, but which need attention now.

"The UK led the way on Open Banking, but over the last couple of years we haven't continued to progress. Other jurisdictions are now leapfrogging us— doubling down on Instant Payments and expanding to Open Finance and Open Data.

The UK has to do three things: (i) move quickly to improve performance and broaden the scope of Open Banking to enable new use cases, such as opening up merchant acquiring data to enable small merchants to shop around for tailored acquiring quotes; (ii) begin the shift towards Open Data, operationalising the right to data portability by mandating API-based data sharing across the economy; and (iii) reinforce and expand the regulatory mandate— with a powerful OBIE 2.0 that involves consumer and merchant groups."

Adam Gagen – Global Head of Government Affairs at Revolut

The FinTechs that we interviewed emphasized that the UK's Open Banking implementation has already demonstrated the positive transformative effect that market-wide access to customer data can have on the financial services industry. Moreover, they made clear that the appetite for these services is strong, and that challenges can act as an inspiration for moving towards Open Finance. In order to achieve its full potential, a future Open Finance evolution in the UK will need to remove existing pain points, ensure that the original vision of Open Banking is realized, provide inclusive and transparent governance, and ensure that fair and equitable arrangements exist such that all industry participants benefit from, and work towards, the UK's next-generation Open Finance ecosystem.

"The regulatory uncertainty is a challenge. Up until recently, there was no clear strategy and there still isn't clarity on the implementation of the next stage of the OBIE. It would be helpful to have clear regulation mandating exactly what Open Banking is. That would be in the interest of consumers if it is outcomes-based and is proportionate regulation focusing on what Open Banking can do for consumers. In terms of the transition to Open Finance, there needs to be clear promotion of data mobility, empowering consumers to move their data freely."

Conor Tiernan – Open Banking UK & IE Lead, Klarna Kosma

From Open Banking to Open Finance

Open Banking has clearly delivered tangible benefits to consumers and SMEs. However, as the UK moves towards Open Finance, more work will be needed to ensure not only that the promise of Open Banking is fully realised— by increasing competition in the retail and SME banking market, as originally envisioned— but that additional benefits are attained.

For example, Open Finance can become a tool to help lighten the impact on consumers and SMEs of high inflation and the soaring cost of living in the UK. FinTech solutions based on Open Banking are playing an important role in helping to mitigate the cost of living crisis by enabling individuals and SMEs to take control of their finances through multiple means: providing a complete picture of household income and outgoing payments; forecasting possible future scenarios during a time of volatile prices, energy costs, and interest rates; and potentially providing advice on ways to manage finances. FinTech Open Banking solutions can both provide these tools directly to the end consumer as well as enable other financial institutions to support their own customers. For example, one FinTech player has implemented innovative solutions for consumers to monitor their subscription spend, while another provides a free money-management and budgeting app. Many diverse providers have come up with viable use cases, including managing credit scores and taking steps to improve overall financial health.

"We should not lose sight of how powerful Open Banking and Open Finance can be in terms of getting people saving again. The problem with current savings and investment solutions is that it's hard to sweep small amounts here and there, and the reason why you don't get this ability is that it can cost forty pence for every transaction. For small amounts, less than ten pounds, that has stopped the automated savings world from getting going. I would like to think that when I retire from this industry, we'll have cracked Buy Now, Save Now instead of Buy Now, Pay Later"

Samantha Seaton – CEO and Co-Founder, Moneyhub

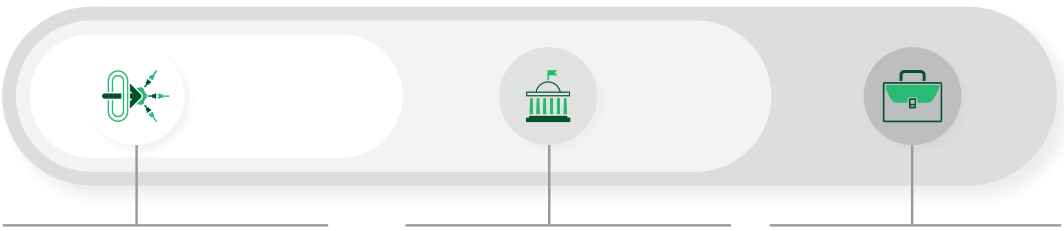
Yet to unlock the full potential of Open Finance, a new set of guiding principles will be needed to transform it from a regulator-driven set of remedies to a principles-led framework that focuses on real-world outcomes. These principles include ensuring the primacy of data ownership and portability, as well as fostering wider social benefits such as financial inclusion. Moreover, removing the challenges that currently exist in Open Banking would result in better customer outcomes— for example, by reducing the rate of failed payment-initiation transactions, thus ensuring that consumers and SMEs grow increasingly comfortable with these services. Open Finance can take things to the next level by opening up additional data and avenues for providing more products and services to customers, such as those involving savings accounts, investments, and insurance.

It is worth noting that retail consumers and SMEs already have more choice than ever in terms of product options and providers. As technology has advanced and the provision of financial services has become more disaggregated, these market participants are well placed to adapt to the nuances of technical implementations. The risk, however, is that their data can become fragmented, preventing them from gaining a clear, comprehensive view of their finances at a time when they need it most. Meanwhile, policymakers, banks, and FinTechs should focus on creating a fair and transparent playing field on which the entire ecosystem can benefit from Open Finance.

What Do We *Really* Mean by Open Finance?

Our analysis and market engagement have revealed three approaches to Open Finance. The first involves ensuring that the original vision for Open Banking is fully realised, while the second concerns principles-led policy outcomes and the third relates to enhancing products and services. (See Exhibit 1).

Exhibit 1: From Open Banking to Open Finance



Rigorous Implementation of Open Banking

An inclusive, transparent, and outcomes-oriented governance structure and an incentive framework that can support economic growth and innovation and that goes far beyond "'account switching"' and competition in the banking sector

A Principles-Led Approach

Basic principles form the basis for policy-making with key elements including Data ownership, Data portability, Reciprocity, Primacy of competition, fair incentives and finally, financial inclusion and empowerment

Expanding the Boundaries of Products and Services

Encompass a broader set of financial products – starting with all savings account, credit and mortgages followed by pensions, investments, insurance and other lending products

A Rigorous Implementation of Open Banking. A key approach to Open Finance is to revisit the initial goal of Open Banking in the UK, which was to ensure that the market dominance of incumbent banks (the CMA9 group) was remedied through enhancing competition in retail and SME banking. As discussed above, this solution has taken the form of compelling the CMA9 banks to form an oversight organisation, the OBIE, tasked with defining the technical standards for Open Banking. This organisation, however, was not set up to ensure compliance from banks with regard to deviations from the letter or spirit of the CMA Order. Moreover, the OBIE's governance function has needed restructuring in order to ensure that various points of view can be heard and incorporated in its decision making—including those originating from nonbanks, privacy advocates, and consumer and business organisations (although there already is some representation from some of these groups in the OBIE).

> *"How to define Open Finance? [Ultimately it is about] putting consumers first.*
> *Open Banking is all about increasing consumer choice, smoothing payment processes and reducing the burden on consumers."*
>
> Jan van Vonno, Head of Industry Strategy at Tink

In this context, the next evolutionary step for Open Banking—and for the path towards Open Finance—is to define a governance and incentive framework that can support economic growth and innovation and that goes far beyond "account switching" and competition in the banking sector. This can happen, for example, by ensuring that a strong governance structure–one that is truly inclusive, transparent, and outcomes-oriented—is put in place. Such a structure would steer priorities for all stakeholders and align incentives, whether they be product, technology, or enforcement-related. Such incentives would link to positive commercial outcomes for all participants as well as equitable funding beyond the current set-up.

An example might be a wider roll-out of Variable Recurring Payments (VRPs), which enable businesses (through TPPs) to collect payments for variable amounts and intervals without consent from users for every new payment. Currently, the CMA requires only the largest banks (the CMA9) to provide VRPs for "sweeping" use cases—transferring funds between two accounts owned by the same person (also called me-to-me payments). VRP for sweeping implementation is optional for non-CMA9 banks. However, VRPs can go far beyond current use-cases and deployment.

Use cases for sweeping include smart saving—monitoring customers' current accounts to identify surplus funds that could be swept into savings accounts at the end of each month—and smart overdrafts, through which customers can instruct TPPs to automatically cover an overdraft with funds from a different account. *(See the Sidebar "Moneyhub and the Power of 'Nudges' in Ensuring Financial Stability").*

A step forward would be for the scope of VRPs to be enhanced and required for all banks, not just the CMA9. Such a move could enable additional use cases, such as those allowing merchants to set up account- or bank-on-file payments for services where users make repeat purchases, offering a frictionless experience at a lower price point. In order for VRPs to constitute a real alternative to existing forms of payments, such as direct debits, there needs to be improvements in customer journeys and overall experience. Such upgrades should ensure that consumers can use VRPs as intended, and that VRPs can deliver benefits at scale.

“Moneyhub and the Power of ‘Nudges’ to Ensure Financial Stability”

Moneyhub is one of two delivery partners in the latest trial stage of research conducted jointly by the UK Department for Work and Pensions (DWP) and Nest Insight (a pension scheme for primarily low- and moderate-income families and the self-employed). Nest Insight is the research arm of the pension scheme.

Moneyhub, an open-data and payments platform, has explored the effectiveness of “nudges” that prompt users (both employed and self-employed) to save any positive difference between their incomes and expenditures and to look at information concerning retirement planning, all within a given month. During the trial, data on people’s incomes and expenditures across any linked accounts were analysed to identify the amount of excess income the person might be able to save.

Moneyhub sent over 32,000 nudges to around 8,000 users over a period of six months from December 2021 to May 2022. Users may have received both types of nudges, depending on their financial situation. An identification strategy was developed to allow segmenting by employment status, using data markers to identify a subset of 887 people likely to be self-employed. Moneyhub analysed users’ behaviour on the app, including which nudges they viewed and clicked, as well as their savings transactions. The trial’s conclusions were eye-opening:

- There were relatively high levels of interest in both types of nudges, as measured by view and click rates. This result suggests that nudges have value in getting self-employed people to think more about saving.
- For income/saving nudges, there were moderate view rates. But these were correlated with a low payment-completion rate (1.5%), with friction/user experience given as an explanation for low take-up of the nudge. However, 34% of those who were prompted to save said they chose to make a saving payment directly in the app provided by their bank, showing the positive effect of the nudge.
- For pension savings, view rates were high, 79% on average, with 13% clicking a link to retirement planning information, tools, or external guidance sites.

A Principles-Led Approach. With this approach, basic principles form the basis for policy-making, and everything flows backward from the targeted goals. Key elements include:

Data ownership. Data is owned by the end consumers and businesses themselves; those who generate that data, own it.

Data portability. Since consumers and businesses own their data, they should be free to move, share, and transfer it to any other provider that offers value.

Reciprocity. APSPSs (mostly banks) should get data back from TPPs in return for sharing their customers’ data.

Primacy of competition. Any policy intervention to change the scope of Open Banking should ensure that competition in the market can be maximised, ensuring access to TPPs that can deliver beneficial financial products to consumers and businesses.

Fair incentives. The aim is to create a solution that combines the best features of both regulatory intervention and free-market innovation by developing incentives that benefit all participants in the market—including banks, TPPs, consumers, and businesses. Also key is to develop a commercial model for Open Banking/Open Finance that reflects the interests and motivations of all stakeholders.

Financial inclusion and empowerment. Ultimately, Open Banking/Open Finance should be a force for good in the UK, helping consumers and businesses—especially those most vulnerable to economic cycles—to navigate financial challenges. *(See the Sidebar "The FCA's 'Hackathon' Confirms Foundation for Building Open Finance").*

"The FCA's 'Hackathon' Confirms Foundation for Building Open Finance"

In November 2022, the UK Financial Conduct Authority (FCA) organised an Open Finance policy hackathon. There were 18 teams exploring how to expand Open Banking to Open Finance, and how then to move beyond to Open Data in the UK. The different teams shared many common conclusions.

First, it became clear that there is infinite potential for use cases and benefits across all financial services and transactions—including mortgages, pensions, insurance, energy, and telecoms—by combining data sets and enabling people and businesses to better manage their finances and assets. The largest initial gains will come from aligning incentives so that all parties benefit, and through high value/low complexity solutions.

In addition, when hackathon participants discussed the critical building blocks of any Open Finance ecosystem, a few common ideas emerged—such as the necessity for digital IDs, consent mechanisms and dashboards, B2C and B2B redress mechanisms, high security standards, a consumer trust Kitemark, and TPP authorisations.

It also became clear that a consistent experience for consumers will be essential. They must be able to give and review consent, seek redress, and manage their data in a user-friendly, familiar manner, not be required to face multiple, varied user journeys. And there must be clear accountability and responsibility—especially from the government and regulators—to drive the overall process.

Within this context, merchants are seeing increasing churn and card abandonment amid the current UK cost-of-living crisis. They are also seeing lower average order values and fewer repeat customers. Reducing payments-related costs is therefore a top priority. Moreover, in unsecured consumer lending (such as credit cards and Buy Now Pay Later), the ability to make real-time affordability decisions that consider credit held with other providers would allow better credit decisioning, as well as protect some consumers from accumulating unaffordable debt. Open Banking would enable the usage of real-time, accurate and relevant data that both protects the consumer and minimizes the risks of non-performing loans.

Finally, Open-Banking-powered payment initiation services, which have strong customer authentication (SCA) implemented into the payment journey, are considered a secure alternative to other payment methods. They also have the benefit of being fast and lower-cost than cards for merchants.

Under a principles-led approach to Open Finance, the needs of both consumers and businesses would be front and centre as part of the dynamics that would drive technology and propositional outcomes. A principles-led approach would also ensure that a wide net can be cast to create the right, innovation-focused ecosystem that truly drives Open Banking further into Open Finance in the UK.

Expanding the Boundaries of Products and Services. Currently, only payment accounts (Personal/Business Current Accounts) and SME lending products such as commercial credit cards and unsecured loans up to a value of £25,000 are included within the scope of Open Banking in the UK. To bring Open Finance to fruition, UK regulators need to enhance the scope of Open Banking to encompass a broader set of financial products—starting with all savings accounts and gradually including products such as pensions, investment accounts, insurance, and other lending products (such as unsecured lending, car loans, and mortgages). In the context of cost of living, Innovate Finance members have identified all savings, credit, and mortgages as top priorities where Open Finance could unlock additional tools to help consumers manage their finances.

"Because the scope of Open Banking is limited to certain types of accounts, imagine if the scope were enhanced to other usage data. That data can then drive real-time analytics on risk, etcetera. Open Finance is an expansion of any financial relationship in which you have to be scoped in the same way that payment products currently are: savings, pension, mortgage, investments, and any other vehicle where you have money, brought together in one place.
Any product that impacts financial life would be part of Open Finance."

John Natalizia, Co-Founder & CEO and Ken Donald, Co-Founder & COO at Snoop

Most important, the UK must set a transparent framework around data ownership, including clear rules and definitions concerning who owns Open Banking data. Ultimately, data belongs to the retail consumers and SMEs, and they should be able to freely choose the entities with which they share their data—including how it may or may not be used. This view is aligned with other countries that have defined ambitious goals related to data ownership. For example, Australia's Consumer Data Right (CDR) legislation extends data ownership and portability principles to non-financial data (initially the energy sector, followed by telecommunications). Meanwhile, countries such as Brazil and India consider Open Banking essential to achieving financial inclusion, competitiveness, and innovation, and have achieved significant results over the past two years.

Fortunately, UK policymakers are laying the groundwork for the development of an Open Finance structure that addresses data issues. For example, although the UK's implementation of GDPR created the right to data portability, a detailed regulatory framework establishing the standards and strong security required to enable secure data sharing in sectors beyond banking (such as insurance) is needed to unlock the potential of Open Finance. Legislative proposals for data and digital information were introduced by the UK government in July 2022, and are still being examined.

The financial dashboard is not the end game, but rather one of many elements enabled by this expansion, with potential use cases that include such areas as: smart sweeping to savings, pensions, and investment accounts; smart insurance underwriting, where the insurer sees users' financial behaviour and is able to assess insurance risk more rapidly; and carbon impact assessment, via combining financial data with carbon footprint estimations to help consumers and businesses achieve net zero emissions.

Beyond an expansion of the product scope of Open Banking into Open Finance, there is also the possibility of expanding the scope into Open Data—driven by some of the same principles. If consumers and businesses own their data, the principles of ownership and portability should be applied to other types of data beyond financial services, including that related to telco, utilities, and healthcare.

In the next section, we examine in greater detail the building blocks necessary both to truly unlock the promise of Open Banking in the UK and help the country remain a global leader in this space.

What Would It Take to Create an Open Finance Ecosystem in the UK?

Currently, the UK Government and regulators—the Financial Conduct Authority, the Payments Service Regulator, the Treasury, and the CMA—are deciding on the next phase for Open Banking through the Joint Regulatory Oversight Committee (JROC), launched in March 2022. The JROC, which will design a new entity to supersede OBIE, has announced recently that the proposals will be submitted in the coming weeks.

As prelude, in August 2022, JROC announced the creation of a Strategic Working Group (SWG) to oversee the roadmap for Open Banking in the UK. As part of the project, the SWG identified three key areas of focus: unlocking the potential of open-banking payments (e.g. through account-to-account retail transactions), enabling end-users to share data and manage access, and developing further data-sharing propositions. The SWG has recently published its final report to JROC, which provides a comprehensive gap analysis of the UK Open Banking landscape and issues raised by the different players and points to some possible ways forward.

Any future Open Banking oversight entity in the UK should have real power to enforce PSD2 violations and impose penalties on non-compliant firms—or, at the very least, have authority to escalate disputes to the CMA. Moreover, a future governance body should include not only incumbent banks, but an array of stakeholders. These could include regulators, consumer groups, privacy advocates, SME trade bodies, FinTechs, big tech, and technical experts who understand areas such as API implementation, cybersecurity, and banking-as-a-service (BaaS). Some of our FinTech interviewees suggested it would be beneficial to develop an independent private-sector agency that both creates standards and manages the practicalities of Open Finance implementation within the UK's legal framework.

Furthermore, a diverse and inclusive set of voices in the governance of Open Finance would help address the asymmetry of power that is perceived by many FinTechs and other data consumers. Such oversight could also ensure that incumbent banks treat open-finance data access not as a mere compliance exercise but as a cost-reducing, potentially revenue-generating activity. An appropriate incentive structure for Open Finance would reduce frictions among market participants.

At present, incumbent banks have no intrinsic incentives to reveal Open Banking customer data to TPPs. Understandably, banks see such data as both proprietary and valuable, not to mention expensive to acquire and securely store. Most FinTech respondents in our interviews agreed that commercial incentives are essential to developing the Open Finance ecosystem, increasing the number of viable use cases, and enhancing API availability and data quality.

No governing body or market-level solution that defines an incentives framework currently exists, although some bilateral agreements for ad-hoc incentives among banks and TPPs are under discussion. Those remain inconsistent, however.

Some of our interviewees pointed to examples of increased regulatory intervention in other markets as potential models for the UK. Moreover, countries such as South Korea, Singapore, and the US are grappling in different ways with the issues surrounding policy goals and the commercial incentives needed to ensure that their financial-services ecosystems remain innovative, highly competitive, and ultimately beneficial to consumers and SMEs.

Looking ahead, the future evolution of Open Banking into Open Finance could benefit from a scheme-like structure—driven either centrally or through the private market—to ensure that any deficiencies regarding customer protection, dispute management and liability, and broader rules of engagement are addressed. A similar initiative is being undertaken in Europe with the SEPA Payment Account Access (SPAA) scheme, which is setting up the framework for an EU-wide incentive model enabling premium services provided by ASPSPs to TPPs. The UK could define an approach that fosters the Open Finance ecosystem even further and establishes leadership in this crucial gap in the Open Banking set-up.

A thoughtful approach to developing the right incentives will help ensure the achievement of policy goals as part of a principles-based and outcomes-oriented framework. Such a structure must respond to the challenges faced by consumers and SMEs as they navigate an increasingly difficult macroeconomic environment. Further, existing incentive models need to be redesigned from the ground up to ensure that ASPSPs (primarily the largest banks) fully engage with the spirit of Open Finance beyond mere compliance.

Ideally, future incentive models should reward innovation and unblock avenues for revenue generation. For example, tiered access to different levels of data granularity would give data holders the opportunity to provide enhanced capabilities and enable cost incentives. Premium APIs could include enhanced data and analytics solutions (such as credit scoring or enhanced identity verification solutions).

Similarly, potential incentive models should include explicitly defined limits on how much data an aggregator can obtain and resell to ASPSPs. Indeed, a frequent concern of banks is that their data will be repackaged and sold back to them at a premium. Moreover, there is a need for clear and consistent incentive agreements among banks and TPPs, rather than ad hoc bilateral agreements that are negotiated piecemeal.

Finally, the future Open Banking governance body should include technical experts versed in the nuances of deploying secure banking APIs at scale. Such experts should have the authority to escalate API access and delivery violations to the CMA. API standardisation across banks would help address some of the issues currently plaguing Open Banking APIs.

How Would the UK Market Benefit from Open Finance?

Open Banking in the UK has served as a catalyst for many other markets around the world to review their financial services ecosystems. But those markets are now going further and beyond the remit defined by the UK.

In order for the UK to remain competitive globally and introduce the next generation of financial services, it needs to ensure that Open Banking evolves in a way that is broader, richer in its offering, and commercially viable. The UK must also encourage investment in innovative products and services for both retail customers and SMEs. The latter, in particular, would benefit from such investment, which would further advance the offerings that are now being delivered through embedded finance and BaaS providers. Open Finance represents an opportunity for the UK to extend its lead in financial services innovation in a way that addresses the original limitations of Open Banking. Policymakers and regulators need to engage fully in this process so that an accelerated path can be agreed upon, potentially involving a joint initiative between various bodies that represent different segments of the market.

As matters of scope, governance, and incentives are gradually addressed, we foresee three ways in which the evolution towards Open Finance in the UK can unlock value for consumers, SMEs, banks, and FinTechs: an advanced product perimeter, beneficial use cases, and barrier-free adoption.

An enhanced product perimeter that increases competition

An enhanced product perimeter will bring more of consumers' and SMEs' financial activity under the scope of Open Finance. As a consequence, more-sophisticated products can emerge, supported by data-driven insights into the financial behaviour of consumers and small businesses, enabling them to gain a holistic view of their financial activity. This view will help them understand how their money is spent, and how to make the most of it—enabling, for example, price comparisons for new products such as insurance or investments, real-time affordability and credit assessments, and smooth, fully-digital onboarding.

Moreover, a fully API-enabled ecosystem could foster the emergence of financial-services platforms that bring together best-in-class offerings from multiple providers, integrating them into a unified interface. The OBIE is exploring such a platform though its "Open Banking App Store" where consumers and SMEs can discover and compare Open Banking-powered mobile applications and online products.

Further, as per the OBIE's Open Banking Impact Report (June 2022), Open Banking is playing a crucial role in cloud accounting for SMEs. Open Banking was incorporated into cloud accounting products as of April 2019, and the UK tax authority's "Making Tax Digital" initiative, also launched that year, is believed to have provided an additional boost. The combination of being able to connect bank accounts with real-time payment initiation provides a significant value-add. According to an OBIE survey of banking customers, 72% of respondents rated the ability to connect to a bank account as an important feature of cloud accounting services, while 58% of respondents said the same with regard to the availability of real-time transactions.

Ultimately, a broader set of products connected through more-resilient technical implementations, thanks to standardised APIs, can help to accelerate time-to-market for financial-product innovators. They can also help level the playing field of financial services distribution for a wider set of players, benefiting both consumers and SMEs through enhanced product choices and affordability stemming partly from increased competition among providers.

Use cases that benefit consumers and SMEs

With increased competition and smoother technical integrations, FinTechs and banks will be able to test product-market fit for new propositions quicker than ever before. This ability will accelerate the emergence of new use cases that combine features from multiple products, hone the capabilities of different players in the ecosystem, and help provide a granular view of consumer and SME financial data. (See Exhibit 2). It will also enable the development of highly-personalised products and services tailored to specific segments, age groups (such as seniors), and target groups (such as single parents).

Exhibit 2: Current and Potential Open Banking Use Cases

	Removing barriers to the adoption of Open Banking	A Principles-Led Approach	Expanding the Boundaries of Products and Services
Who would benefit	Savings and Investment Sweep **Consumers**—sweeping roundings on purchases or excess funds after monthly expenses into savings or investment accounts to automatically build up balances	Price and Product Comparison **Consumers**—extending data parameters to include e.g., interest rates (including, for example, 0% credit card offers) and end dates for fixed terms (e.g., savings, mortgages), to enable better comparison and relevant offers	Comprehensive Financial Dashboard **Consumers**—single view of all savings, investments, borrowing, pensions, and insurance to provide a full view of users current and projected financial position
Current Barriers	Requirement to facilitate VRPs limited to CMA9 only, optional for other banks; investments and pension contributions currently outside scope of the Retail Banking Market Investigation (RBMI) order.	Data parameters currently limited to very basic account information preventing accurate comparisons and timely interventions	Non-transactional accounts currently outside the scope of RBMI order
Who would benefit	Extended VRP coverage **Consumers**—enabling recurring payments for non-sweeping scenarios (e.g., monthly contract or subscription payments, variable in-app payments) as lower cost alternative to Direct Debits and card-on-file transactions	Financial Literacy Nudges **Consumers**—insights and guidance based on spending behavior and account balances to encourage better financial inclusion and outcomes (e.g., transfers into interest-bearing accounts, utilisation of ISA allowances)	Digital identity verification **Consumers and Businesses**—verification of identity (name, age, address, etc.) and proof of consent based on bank-held data to facilitate (e.g.,) new account opening, digital signing of electronic documents
Current Barriers	VRPs for C2B payments not currently mandated by the RBMI order (i.e. optional for all banks); consent process unwieldy compared to alternative methods	Limited access to consumer's holdings (e.g., savings, investments, mortgages) limits ability to provide accurate insights	Availability of extended customer attributes via OB APIs; legal and liability framework to underpin development of digital ID in UK
Who would benefit	SME financing **Small Businesses**—enabling financing for companies unserved by large banks via quicker and more accurate loan decision-making based on transaction data	Fast & accurate loan decisions **Small Businesses**—enabling real-time affordability decisions, protecting from unaffordable debt and businesses from likelihood of default	Carbon footprint measurement **Consumers and Businesses**—Combining transaction and investment data to measure carbon footprint, enabling real-time tracking and informed decision-making
Current Barriers	Requires higher quality and standardisation of APIs and transaction data	Completeness and consistency of data shared by banks; ability for customers to conceal or withhold relevant data points	Lack of consistency of transaction data; investments currently outside the OB perimeter

By allowing expanded data access to a customer's financial history, Open Finance facilitates faster financial decision-making as well as more accurate and suitable financial offerings, thereby de-risking the lending process. Enabling lenders to simplify the loan process creates a more reliable underwriting procedure for the lender and a user-friendly and inclusive application process for the borrower. Amid the current environment of high financial uncertainty, providing an overview of outstanding debt, including that involving BNPL providers, could also encourage more mindful consumption.

Enhancing the scope of what is currently included in the arena of UK Open Banking, and expanding to a broader set of financial products—such as investment and pension accounts, insurance, telco and healthcare data—will clearly benefit consumers. We've also witnessed similar expansions in other markets. These include Brazil's approach to gradually expanding the product scope in phases, currently introducing investment, pension, insurance data, and foreign exchange; South Korea's centralised API repository, operated by a public entity, the Korea Fair Trade Commission; and Australia's Consumer Data Right that extends sharing to non-financial areas such as energy and telco data.

"Open Banking opened up the finance market, and we can help businesses that otherwise would not have received financing before through speed. We get all data very quickly, and eighty-five percent of deals had a decision within a minute. Granular data enables more consistent, less subjective credit decisions."

Chirag Shah – Founder and CEO, Nucleus

Removing barriers to the adoption of Open Banking

A lack of awareness has constituted a major barrier to the adoption of Open Banking in the UK, and ensuring broader adoption from consumers, SMEs, and other market participants should be a primary goal of future Open Finance initiatives. Indeed, attractive use cases along with a smoother and more transparent user experience—in which all accounts, not just those held at CMA9 banks, can benefit through direct API connectivity—will make consumers and small businesses more willing to engage. Similarly, higher-quality data and more predictable connectivity will further improve the user experience, which is still a challenge when it comes to payments initiation.

At the end of the day, in order for the vision of Open Finance to be realised, incentives must exist for all participants. Banks should be able to share their customers' data in a way that generates value, either through explicit commercial mechanisms or through the ability to meet the costs of implementing Open Finance and sharing APIs with third parties. Likewise, a framework for FinTechs and non-incumbent financial institutions to access Open Finance data—at a cost that is reasonable and commensurate with the quality of the data that is provided by banks—is vital.

At the same time, consumers and SMEs should retain control and ownership of their data and benefit from any enhancement or value-add derived by any third parties.

The exact rules of the game to enable this vision will need to be developed through a consultative process that is open to voices from all potential stakeholders. But one thing is clear: Now is the right moment to engage with the future of Open Finance in the UK. The stakes are high, and so are the opportunities.

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INNOVATE FINANCE

Innovate Finance is the independent industry body for UK FinTech.

Its mission is to accelerate the UK's leading role in the financial services sector by directly supporting the next generation of technology-led innovators to create a more inclusive, more democratic and more effective financial services sector that works better for everyone.

Innovate Finance's membership and partnership community ranges from seed stage startups to scale up and high growth FinTechs; from multinational financial institutions to big tech firms; and from investors to global FinTech hubs. Innovate Finance supports its members and the wider financial innovation ecosystem by promoting policy and regulation that allows innovation to thrive, encouraging talent, diversity and skills into the sector, facilitating the scaling journey, fostering business opportunity, partnerships and domestic and international growth, and driving capital into UK FinTech.

By bringing together and connecting the most forward-thinking participants in financial services, Innovate Finance is helping create a financial services sector that is more transparent, more sustainable and more inclusive.