Global Counsel

What does it mean for finance to be "open"?

Blog post by Practice Lead Adam Terry, 19 September 2019

We are now 18 months on from the launch of the UK's Open Banking initiative, which empowers consumers to demand that their bank share their financial data with third parties who can provide account aggregation or payment initiation services. The jury's still out on whether this market intervention will provide the intended boost to innovation and competition, but already thoughts are turning to what else might be "opened" in the same way.

Policymakers are convening around the term Open Finance for the next phase of this work, with the Financial Conduct Authority (FCA) having launched an advisory group on the issue and Philip Hammond having committed to making better use of the government's smart data function in the service of it in his final Mansion House speech as Chancellor.

What might this look like? As things stand, the term is up for grabs. Hammond saw it as expanding the scope of data owners to cover SMEs as well as individual consumers. The Open Data Institute and Fingleton, in their state of play report on Open Banking, argued for extending the scope of data pools covered – to include savings accounts, mortgages, pensions and insurance. Incumbent banks would like to see an element of reciprocity in the next iteration so that tech businesses are forced to open their books to financial services firms, as Santander's Ana Botín argued to Huw Van Steenis, the author of an independent report for the Bank of England on the future of finance. The EU, whose second Payment Services Directive (PSD2) was built on the principles of Open Banking, is contemplating an expansion into other sectors such as energy and telecoms.

As the scope of the Open… initiative expands, so does the number of policymakers and regulators with an interest. The next iteration is likely to build on the digital competition work undertaken by Jason Furman for the Treasury and the Department for Business, Enterprise and Industrial Strategy (BEIS). Smart data, which Hammond saw as a building block of Open Finance, is a joint project between BEIS and the Department for Digital, Culture, Media and Sport. The use of personal data, and its potential consolidation into the hands of just one or two firms, will raise the interest of the Information Commissioner's Office and the Competition and Markets Authority alongside the traditional financial regulators like the FCA, the Prudential Regulation Authority and the Payments Systems Regulator. And that's just the institutions in the UK.

Making sense of all of this and ensuring something strategic emerges will require a clear-eyed focus on the one stakeholder too often absent from the debate: the consumer. "Open Finance" as an abstract concept will only get the sector so far. It is in its application that the idea will live or die. Will more consumers switch provider as a result? Will costs come down, and quality of service go up? Will citizens save more or invest more wisely? Will they feel more in control of both their personal data and their finances, the two commodities that sit at the heart of these discussions?

These will be the benchmarks of success for Open Banking and its successor, whatever name is given to it.