

BRIEFING:

OPEN BANKING AND FINANCIAL HEALTH

IN BRIEF

For the first time, experts from banking and fintech, policymaking, consumer groups and civil society have come together to explore what Open Banking means for financial health, economic inequality and citizen power. This briefing summarises the findings of a roundtable event convened by the Finance Innovation Lab for over 30 professionals on 8 February 2018.

Open Banking holds huge potential:

it could put people in control of their financial data and enable products and services that work for customers and citizens. But this potential is not guaranteed. There are reasons to fear that Open Banking will increase information asymmetry and complexity, reduce customer control, and exacerbate exclusion and discrimination.

To harness the opportunities of Open Banking and mitigate the risks, we need urgent action from a range of stakeholders:

- Government expectations for Open Banking and regulatory oversight should be strengthened
- A large-scale social investment programme should be launched to support organisations developing new Open Banking services that benefit customers and citizens, with a focus on non-commercial use and new business models that put social purpose at their heart
- The Financial Conduct Authority's forthcoming Discussion Paper on a Duty of Care for firms needs to reflect Open Banking developments
- A Code of Conduct for Third Party Providers needs to be established, to help embed responsible data and innovation practices in their businesses
- There needs to be a public awareness and education campaign about Open Banking and the data revolution in finance.

1. INTRODUCTION

Banks have always held a wealth of information about their customers' finances and spending habits. Over time, developments in technology and behavioural science have made it dramatically easier to collect data, move it about and make sense of it, in the context of an increasingly digital economy. To support new entrants in the finance sector and compel banks to share the power of this knowledge, the UK's new Open Banking initiative (which builds on other recent EU-wide legislation) forces the biggest banks and building societies to "open up" the data they hold on customers.

Open Banking is a catalyst for the 'data revolution' in finance. It means that customers can now share financial transaction data with new players – who could range from start-ups to big tech companies – in a standardised and secure way. This could lead to an array of new services capable of helping customers better manage their money – new apps could analyse customer data to help illuminate their spending habits, encourage saving, automatically transfer money across different accounts to avoid overdraft charges, and identify better deals. The first wave of Open Banking solutions is already on offer, including real-time spending updates and insights for customers, support for individuals to save and for small businesses to manage their finances, as well as loan comparison platforms.

Despite its potential, far greater scrutiny is needed to ensure Open Banking leads to positive outcomes for customers and citizens. Most people have never heard of Open Banking (in January 2017 only 10% of the UK public had heard of it) and perceptions of the risks and opportunities it presents for customers and citizens vary widely.

On 8 February 2018, the Finance Innovation Lab convened 30 experts working across fintech and banking, regulation and policymaking, and academia and civil society to explore the following questions:



- How does Open Banking relate to **financial health**?
- What implications does Open Banking have for financial **(in)equality** and the poverty premium?
- How can Open Banking increase people's **power** (not just choice) in finance?

WHAT IS **OPEN BANKING**?

In 2016, the Competition and Markets Authority (CMA) concluded a review into the UK's retail banking market. To help overcome the challenges they found that new, smaller banks faced in competing against the big banks, the CMA proposed a series of remedies including **Open Banking**. The initiative came into effect in the UK on 13 January 2018. It requires the nine biggest banks and building societies to make it possible for customers to share their current account data with third parties, using a new set of standards designed to make the transfer of data consistent and secure.

The delivery of Open Banking is overseen by the Open Banking Implementation Entity (OBIE), a company set up by the CMA and funded by the nine participating banks and building societies. OBIE's roles include designing the specifications for Application Programme Interfaces (APIs) that banks and building societies will use to "open up" their data. An API describes how, through functions and procedures, another application can access the data in a system. Standardising these across banks aims to help new players in banking to more easily build new, safe web- and mobile-based financial service applications for customers.

Open Banking is unique to the UK and builds on the EU-wide **Payments System Directive 2** (PSD2), which came into force at the same time, and is intended to increase competition, innovation and security for electronic payments. PSD2 applies to all online payment accounts, but doesn't specify the technology to be used, unlike Open Banking.

It enables authorised, so-called "Third Party Providers" (TPPs) to retrieve data from consenting customers' accounts, to make payments on their behalf and to provide overviews of multiple accounts.

The Financial Conduct Authority (FCA) is the UK regulator responsible for authorising and supervising the two types of TPP: Payment Initiation Service Providers (PISPs) and Account Information Service Providers (AISPs).

Personal financial data will also be subject to the EU's new **General Data Protection Regulation** (GDPR), which comes into force in May 2018. GDPR strengthens the rights individuals have over their data, such as the right to access the personal data an organisation holds about them, to erase particular data points, and to have automated decisions explained to them. For organisations, it means significant changes in how they are legally obliged to manage the personal data they hold. In the UK, the Information Commissioner's Office (ICO) is the independent body responsible for upholding information rights.

"The most exciting part of all, is when that data and payment capability are combined to automate a lot of the hard tasks people face in their daily life. Busy people who aren't so literate in finance shouldn't be penalised and left behind because they have less understanding of the system."

- **Jamie Campbell** (Head of Awareness, Bud)

2. THE OPPORTUNITIES OF OPEN BANKING AND FINANCIAL HEALTH:

OPEN BANKING OFFERS TWO BROAD OPPORTUNITIES TO CUSTOMERS AND CITIZENS:

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Rather than expecting and relying on big companies to store and own our financial data, which is not ideal, Open Banking **could help customers to become the rulers of their financial data** for the first time. With greater control, people could more easily realise and share in the value of their data. But is the commodification of people's financial data – collecting, putting a price on it, and making it easier to move about and exchange – a good thing, even if it is controlled by individuals?

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The increased data insights and competitive pressures Open Banking promises, combined with new technologies that enable processes to be automated, could also potentially lead to **new and better products and services for customers**. The sorts of services banks and TPPs (either individually, or via a new ecosystem) could offer to support financial health and equality include:

- Data and information that helps customers better understand their financial habits and the range of financial services available to them, to improve their decision making, and to automate certain actions on behalf of customers (e.g. transferring money to avoid overdraft costs)
- Financial health assessments by service providers that help to identify and anticipate how and when customers might struggle with their finances, so that preventative action can be taken
- Access to low cost, automated financial advice
- More affordable credit and insurance products, especially for people who currently have 'thin files'
- Services that pool people's money and build their collective power to bargain for cheaper services or increased benefits.

WHY CUSTOMER AND CITIZEN OUTCOMES MATTER

Banking is an activity built on public trust and banks only exist because they have a social licence to operate. With this comes a social responsibility that goes beyond profit maximisation.

Banks, and the organisations they work with, should be held to account for the outcomes they create for all the people they affect, from their employees and local communities to people across the world who are impacted by their lending activities. We are all both customers of financial services and citizens who should have a say in how those services operate – so the Lab talks about customer and citizen outcomes.

3. THE RISKS OF OPEN BANKING AND FINANCIAL HEALTH:

For these opportunities to be realised, certain conditions need to be in place – including adequate regulatory oversight, sufficient public awareness and a diversity of business models. Without these conditions, Open Banking poses a number of risks for customers and citizens:

- The increased collection and use of personal data that Open Banking facilitates will **exacerbate existing information asymmetries**. With more data, banks and other businesses can make better judgements in their own interests. This could lead to cherry-picking the most desirable and profitable customers, and greater ‘personalisation’ and price discrimination. This may well benefit those customers, but could be to the detriment of less ‘desirable’ customers, who are likely to be poorer and could be priced out of the market or simply find no products available to them.
- More information will not necessarily increase people’s understanding and improve their decision making; in fact, **it could lead to a more complex and confusing market for customers to navigate**.
- Rather than greater control, Open Banking could **lead to a loss of control for customers**. For instance, if customers are asked to grant consent to access their data at the point of buying a service, they might not be in a position to say no (such as applying for an emergency loan). Although businesses are required to explain how they will use people’s data, it is not clear that this will be done in a way that is well understood and meaningful because people do not typically read terms and conditions and when they do they are not able to negotiate them.
- Control could be further reduced by a **‘frictionless’ digital banking environment** – sometimes friction (features of a digital interface that inhibit people from taking action) can provide a useful pause for consideration or information gathering.
- This loss of control could extend to their **lives beyond finance**. Since financial data is likely to be combined with other information, such as social media activity, people may feel pressured (explicitly or implicitly) to change their social behaviours, such as who they associate with on social media – an example of the ‘social chilling effect’.
- Open Banking is by its nature **exclusive**. It requires people to be banked, and digitally so. It also puts pressure on other services, like bank branches, that are more expensive for banks to run.
- More than this, data-sharing has potential to **create new forms of exclusion and discrimination**. It is well known that Artificial Intelligence and automated decision-making, which most TPPs are deploying, can lead to discrimination – as seen in predictive policing, for example.

All of these risks are made more likely by the fact that:

- Individually and collectively, the ability of the various bodies (including the OBIE, FCA and ICO) tasked with keeping oversight of Open Banking and the wider financial data revolution is considered **disjointed, reactive and under-resourced**.
- The majority of new entrants working on Open Banking are fintech start-ups operating in a high pressure commercial environment, run by people who don’t have **expertise in financial health** or whose desire to support financial health is squeezed out by financial pressures.

“Open Banking heightens the risk of scams and fraud; makes it harder for consumers to exercise rights and redress; could introduce higher costs in the supply chain and greater financial exclusion and discrimination; increases the risk of misselling and misbuying by consumers, and wider exploitation of embedded behavioural biases and vulnerable consumers; creates transition risks; and creates new corporate governance, cultural risks and regulatory risks.”

- **Mick McAteer**

(Co-Director, Centre for Financial Inclusion)

4. HOW TO ENSURE OPEN BANKING SERVES CUSTOMERS AND CITIZENS

If we want to harness the opportunities of Open Banking and avoid the risks, we need urgent action from a range of stakeholders. Our workshop attendees were remarkably aligned on what needs to happen next in regulation, public engagement and market infrastructure:

Enhanced oversight

- **Strengthen government and regulatory expectations and oversight:** Together with greater government leadership, the FCA, ICO, and OBIE need to do much more to inspire industry, civil society and customer confidence that Open Banking will lead to positive outcomes for customers and that any wrongdoing will be appropriately addressed. This would involve:
 - A government-led vision for how Open Banking can support positive customer and social outcomes
 - Formalised collaboration between authorities, to ensure there are no gaps in oversight, enforcement, protection and redress
 - Increased resources for regulators, especially the ICO, to be capable of protecting people (this is particularly important given that the current implementation of GDPR in the UK means that consumer bodies will not be able to undertake super-complaints)
 - Pro-active measures to prevent the numerous ways Open Banking and data sharing could have negative outcomes for consumers.

The FCA and OBIE, in particular, should commit to conducting customer risk and impact assessments of PSD2 and Open Banking in the next few months. The FCA must also demonstrate that it understands the implications of these changes for customers, by undertaking a strategy review in light of the data revolution. In the short term, the FCA's Strategic Review of Retail Banking Business Models needs to include Open Banking.

- **Ensure that the FCA's forthcoming Discussion Paper on a Duty of Care for firms reflects Open Banking developments:** While the scope of a Duty of Care goes far beyond Open Banking, it is particularly relevant to the use of personal data in finance because it specifically addresses asymmetries of power between firms and consumers and the conflicts of interest that businesses could face from, for example, offering a "free service" in exchange for selling customer data on to third parties.
- **Establish a Code of Conduct for TPPs, to help embed responsible data and innovation practices in their businesses:** This could include principles regarding how and when certain types of data should not be used in relation to specific products and how automated decision making processes can be designed in the best interests of customers.

"The data in our bank account can reveal sensitive information about our lives - not just how we earn and spend, but potentially factors like our political beliefs and religion. There has to be caution over the use of this data, particularly when used for automated decision-making."

- Tom Fisher (Research Officer, Privacy International)

Public engagement and information

- **Create a public awareness and education campaign about Open Banking:** As well as explaining what Open Banking is and how customers can use it in a safe way, the campaign should seek to help people to understand the value of their financial data. The campaign should prioritise targeting people who are most vulnerable to changes in the way personal data is being used in finance. It should also involve working with financial service providers and voluntary organisations to ensure that frontline staff are adequately equipped to answer the questions of service users.
- **Establish a non-profit, independent service to provide ongoing advice to customers** about Open Banking and the use of their personal data in finance. Two tools customers need, and which this service could potentially provide, are:
 - An online resource that lists all of the organisations authorised to participate in Open Banking, and clarifies how they make money
 - A way for customers to view and manage all the consents they have granted to third parties to access their financial transaction data.

Market infrastructure support

- Launch a large-scale **social investment programme** to support organisations developing new Open Banking services that benefit customers and citizens, with a focus on non-commercial use and new business models that put social purpose at their heart
- Support fintech start-ups to work with consumer groups and civil society representatives to better understand **public expectations** of Open Banking
- Create a **research programme** to generate insights from financial transaction data on behalf of the public. Questions might include: Is it possible to anticipate financial difficulty, so that preventative action could be taken? How could frictions be usefully reintroduced into banking services to support people's financial health?

“The very positive benefits to people's lives offered by sharing their account data via Open Banking could be lost unless there is a Duty of Care on firms to act in the best interests of consumers. There's a lot of potential to improve how companies explain their products to consumers and layer information in an engaging way, so people take time to understand what it is they are signing up to and how their data will be used.”

- Faith Reynolds (Independent)

FINANCIAL HEALTH

Financial health is about people's money and finances working for them, to build long-term resilience and opportunity, rather than finances having a negative impact on their lives. A person in good financial health is likely to feel in control, prepared and calm in relation to their finances.

Financial health is a concept that considers a person's financial situation in a systemic and holistic way, by taking into account the multiple forces that can influence it. These factors can be grouped into four areas:

- 1 Demand** - This includes characteristics that will affect demand for products and services, such as attitudes, motivations, skills and abilities
- 2 Supply** - This includes the policies, institutions and incentives that affect whether and how people can access products and services, and online security
- 3 Complex needs** - This includes individual characteristics and states that are usually beyond a person's control and sometimes unanticipated, such as mental health conditions, bereavement and unemployment
- 4 The wider environment** - This includes factors that set the wider context of financial health, such as the cost of living, labour market trends, the welfare system, house prices and social norms.

Each of these factors and the overall picture they make up is dynamic, meaning that the state of a person's financial health can change over time. The level of wealth and opportunity a person is born into is a key determinant of financial health, but anyone's life circumstances can change, leaving them at risk of financial ill-health. This is often hard to anticipate and control, and the impact it has depends on many factors including someone's social support networks and the financial 'safety nets' they have or can access.

Innovation for financial health puts people first and asks how financial services can be designed to work around a person's life situation, wants and needs, rather than trying to fit the person into the existing financial system.

TAKE ACTION

Open Banking is catalysing the use of personal data in finance, which brings significant opportunities and challenges for customers and citizens. Without concerted and pro-active effort from government and regulators, the finance industry, and consumer and civil society groups, the conditions that will enable Open Banking to serve society will not be realised. Worse, Open Banking has potential to reduce financial health and citizen power, and increase economic inequality.

We are at a pivotal moment in the development of banking services in the UK – actions we take now could determine the direction of our financial system, economy and society for many years to come. To discuss how you can help, express your commitment to the recommendations of this report or join the Lab's community of purpose-led innovators in finance, please get in touch.

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About this briefing

This briefing summarises the findings of a roundtable held on 8 February 2018, when the Finance Innovation Lab brought together 30 professionals working across fintech and banking, regulation and policymaking, academia and civil society to build understanding about the opportunities and risks Open Banking poses for financial health, economic inequality and citizen power.

The Finance Innovation Lab is a charity working for a financial system that serves people and planet. In 2017, the Lab incubated 13 innovators developing new financial services with potential to improve financial health, in partnership with the pioneering poverty-reduction charity, Toynbee Hall. The Financial Health Fellowship programme supported businesses including an app that uses social gamification to encourage saving, a platform that support neighbours to organise, pool savings and bargain collectively to reduce utility bills, and the UK's first cooperative bank for underserved individuals and businesses in London.

With support from Barrow Cadbury Trust, the Lab held two roundtables in February 2018 to share and explore further the lessons and questions about financial health innovation that came to light over the course of the Fellowship programme. The participatory events brought together a wide range of experts to cross-pollinate knowledge and build a shared understanding about the opportunities and risks Open Banking and the use of Artificial Intelligence pose for financial health, economic inequality and citizen power.

