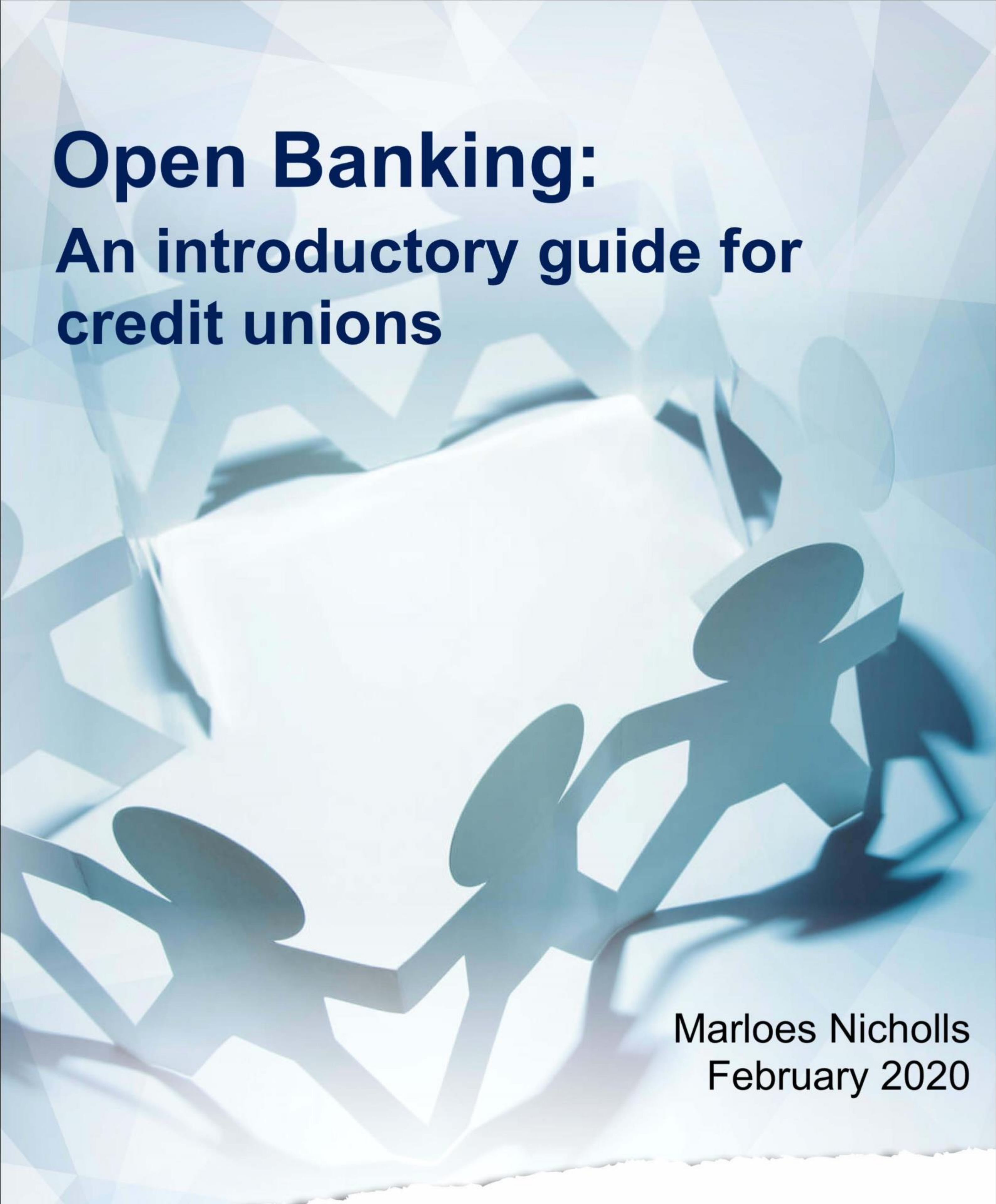
Open Banking:

An introductory guide for credit unions



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Open Banking: An introductory guide for credit unions

By Marloes Nicholls

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CFCFE is rooted in values of co-operation, participation, social and financial inclusion, transparency, integrity, and excellence. Much of its work is done in collaboration with Liverpool John Moores University.

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The Finance Innovation Lab. The Lab incubates the people and the ideas that can change the financial system for the better. Its vision is a financial system that serves people and planet – one that's democratic, responsible and fair. Founded in 2009 as a joint project of WWF-UK and ICAEW (Institute of Chartered Accountants in England and Wales), it is now a Registered Charity (number 1165269) and Company Limited by Guarantee (number 09380418).

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Executive summary

Open Banking has been hailed as a revolution in financial services. By enabling customers to share their transaction data with new players in a standard and secure way, it aims to open the way for an array of new businesses and services to compete by providing customers with better products, more choice and lower prices.

Two years since its introduction in the UK, awareness and adoption of Open Banking is picking up, including among credit unions. A significant number of UK credit unions are now working with Open Banking as part of their loan approval processes, with reported benefits from the increased accuracy and speed of affordability checks and credit risk assessments.

Combined with appropriate IT, oversight and governance, Open Banking has the potential to radically improve operations, responsible lending decisions, and member engagement and support. But there are also important risks. Using technology with the aim of rebalancing markets in favour of consumers is a new experiment for regulators, and there is not yet sufficient practice, evidence or shared learning to say how best credit unions can work with Open Banking, in a way that delivers better outcomes for their organisations and members.

For credit unions to harness the opportunity Open Banking presents, and ensure that it is used in a safe, impactful, cost-effective and sustainable way, will require movement-wide collaboration. Whether a credit union decides to use it or not, Open Banking matters, because it is set to be a major feature of our increasingly data-driven financial system – and our lives.

1. Introduction

This introductory guide – the first of its kind – has been written for leaders in the UK's credit union movement, and aims to build awareness and knowledge about Open Banking and its implications, as well as to spark discussion and action. It covers:

- Open Banking 101
- Opportunities
- Risks
- State of play
- Case studies
    1. Central Liverpool Credit Union and NestEgg.ai
    2. East Sussex Credit Union and consents.online
    3. Police Credit Union and Credit Kudos
- Challenges
- Looking forward
- Resources.

Open Banking is a UK implementation building on new payments legislation that came into effect across the European Union in 2018. While this paper focuses on the UK, we are aware that countries across the world are looking to learn from the UK's experience, and so it may also be of interest to credit unions in Ireland and elsewhere.

The guide was written by Marloes Nicholls and draws on her experience as Head of Programmes at the Finance Innovation Lab – a charity that incubates innovations with the potential to transform finance to serve people and planet. It has also benefitted from the input of credit unions, fintech providers and other experts, and feedback shared with her at the Centre for Community Finance Europe's annual conference on 17th January 2020[1].

Please note that the businesses named in the guide (either listed as examples, or presented in case studies) are not endorsed by either the Finance Innovation Lab or the Centre for Community Finance Europe.

Open Banking, and its use by credit unions, is relatively new and unchartered territory. Credit unions should ensure they understand how their planned utilisation of Open Banking will fit with their internal policies and wider legal and regulatory requirements.

[1] A report on the proceedings of this conference, including the Open Banking presentation and Q&A, can be found at www.cfcfe.eu/events

2. Open Banking 101

In 2017, the Competition and Markets Authority (CMA) completed a review into the UK's retail banking market, which found that new and smaller banking service providers faced a range of barriers to competing against the big banks. The CMA ordered a series of remedies including Open Banking, which came into effect in the UK in January 2018.[2] It requires the nine biggest banks and building societies (the 'CMA9') to make it possible for customers (individuals and SMEs) 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 the Open Banking Standard has been overseen by the Open Banking Implementation Entity (OBIE)[3], a company set up by the CMA and funded by the participating banks and building societies. The OBIE's role has included designing the specifications for Application Programming Interfaces (APIs) that banks and building societies use to 'open up' their data. In brief, an API provides instructions and tools for different computer programmes to 'speak' to one another. In the case of Open Banking, APIs specify how external software can interact with the computing system of a bank (or another account provider) in order to access a customer's data and make payments on their behalf. Standardising these across banks aims to help other players in banking to build new, safe web and mobile applications for customers.

Application Programming Interface (API) – a metaphor

Imagine you're eating out. Typically, when you go to a restaurant you select what you want from the menu and a waiter will take your order and pass that on to the kitchen. Later, the waiter will serve you the food too. Note that customers are not allowed to go directly into the kitchen themselves, and they can't eat whatever they like – they must pick from whatever the chef is cooking that day.

In effect, the waiter is the API, the menu is the documentation which explains what you can ask from it, and the food is data. You are an API customer, and the kitchen is the bank's database.

The UK was first in the world to introduce Open Banking. It builds on the EU-wide Payment Services Directive 2 (PSD2), which came into force at the same time, and aims to increase competition, innovation and security in the payments market. PSD2

[2] Since the implementation of Open Banking under UK laws goes beyond the requirements of PSD2, it is assumed in this paper that it will not be impacted by Brexit. This may not be the eventual situation, but is presumably the most reasonable current basis for planning.

[3] https://www.openbanking.org.uk/

applies to all payments accounts which are accessible online, but does not specify the technical approach to be used (such as the Open Banking APIs).

PSD2 brings Third Party Providers (TPPs) into the scope of regulation for the first time, and allows people to consent to share their financial data with them (previously, banks were able to block this via terms and conditions). The Financial Conduct Authority (FCA) is the UK regulator responsible for implementing PSD2 and supervising and authorising the two types of TPP:

- Account Information Service Provider (AISP) – accesses and aggregates customer data to provide an overview of a customer's payment accounts with different banks.[4] Examples include: Credit Kudos (see Case Study 3) and Experian.
- Payment Initiation Service Provider (PISP) – initiates payments directly from a customer's payment accounts (with permission). Examples include: Bud and TrueLayer (see Case Study 1).

PSD2 applies to credit unions when providing payment services but an exemption means that, currently, they could in theory access a member's Open Banking data, present it back to them and make payments on the member's behalf *without* becoming an authorised AISP or PISP (although credit unions should register with the FCA if payment services activities are undertaken).[5, 6, 7] In practice (at least for the time being), credit unions are partnering with TPPs, and other tech partners, in order to work with Open Banking.[8] In line with the aforementioned PSD2 exemption credit unions are currently under no obligation to provide TPPs access to the account data of their members, unlike the biggest banks and building societies.

Personal financial data is also subject to the EU's General Data Protection Regulation (GDPR), which came into force in May 2018. GDPR strengthens the rights individuals

[4] For businesses that only carry out account information services, there is an option to become a Registered AISP. These providers have no capital requirements and need to meet fewer conditions than authorised firms.

[5] The Payment Services Regulations 2017, Regulation 3 https://www.legislation.gov.uk/uksi/2017/752/regulation/3/made

[6] The Payment Services Regulations 2017, Regulation 4 http://www.legislation.gov.uk/uksi/2017/752/regulation/4/made

[7] The provision of payments by credit unions is also subject to the Credit Union Act 1997 and the Credit Union Act 1997 (Regulatory Requirements) Regulations 2016.

[8] At the moment, credit unions are taking the role of "Third party (not providing AIS)" in the AISP models outlined by the FCA (https://www.fca.org.uk/firms/agency-models-under-psd2)

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. It has brought significant changes to how organisations are legally obliged to manage the personal data they hold. Some of the rights complement the approach to data sharing in Open Banking and all of them must be respected by credit unions when they are handling people’s transaction data. In the UK, the Information Commissioner’s Office (ICO) is the independent body responsible for upholding information rights.

What can we learn from Open Banking data?

Open Banking can provide access to an individual’s real-time and historic transaction data associated with one or more online payments accounts (including current accounts and credit cards). It is important to note that this data is subject to the same limitations as other types of data and in some cases is only a proxy for the source information that credit unions might normally rely on. For example, if a payment to a local authority shows up in a person’s transaction data, it does not offer a guarantee that they are regularly paying their council tax in full, in the way that the official record of council tax payments would.

3. Opportunities

Open Banking aims to open the way for an array of new businesses and services to compete to provide customers with better products, more choice and lower prices. With Open Banking, new apps can (and increasingly do) analyse customer data to help illuminate their financial positions and spending habits, boost saving, automatically transfer money across different accounts to avoid overdraft charges, identify better deals and drive switching. According to an estimate by leading consumer advocates, the UK public *could* gain £12bn from Open Banking-enabled services over the course of just a year, not to mention the wider benefits of improved financial health and wellbeing.[9]

Combined with other information and technologies, as well as appropriate oversight and good governance, Open Banking has the potential to support credit unions too – in a range of ways that improve their operations, responsible lending decisions and member engagement and support. As the case studies below demonstrate, it can:

- **Support affordability checks:** Account transaction data can be used to better understand the income and expenditure of a member as part of an affordability check. This could offer a more accurate, up-to-date, convenient and rapid method than asking members to provide evidence at an interview, often by sharing paper documentation.
- **Improve the accuracy of credit risk assessments:** Open Banking data could also help to improve the accuracy of a credit union's assessment of a member's borrowing risk. In combination with risk models and other data sources, it can be used to better profile members with 'thin' or 'impaired' files, such as those who have traditionally been penalised by mainstream credit scoring systems. As a result, the rates of default and financial exclusion could both be reduced.
- **Reduce the time and costs involved with processing loans:** By digitising and automating the underwriting process, Open Banking has the potential to significantly speed up and reduce the unit cost of loan assessments. This could free up essential time for other work that is better suited to in-person meetings with members. It could also enable the entire loan approval process to take place online, potentially allowing credit unions to compete with the instant decision-making and user experience offered by many high-cost, short-term lenders.

In the future, it is anticipated that Open Banking could also:

[9] Reynolds F. and Chidley M. (2019), Consumer priorities for Open Banking, London

- **Facilitate greater understanding of members' financial health:** Open Banking data can already be used to identify early warning signs of financial ill-health for individuals, such as frequent gambling activity and pay-day loan usage. Credit unions (individually, and possibly by sharing information across organisations) could potentially use this to better design and target timely interventions, and to evaluate the impact of their services. Members could also be supported to understand their own financial situations, including their loan eligibility and what action they could take to improve their financial health, via access to their own personal data, or anonymised group data.
- **Enable tailored payments and savings products:** Building on the changes PSD2 has made to payments, as well as insights from Open Banking transaction data, credit unions could better tailor savings and loans services to their member's needs. For example, repayment plans could be personalised and optimised to mirror the variable income faced by people with insecure or irregular work, and savings could be supported via 'account sweeping' (where credit balances are automatically shifted into a savings account).
- **Cut the cost of payments:** Payments made via Open Banking can be instant and cheaper which could reduce the risk and fees for credit unions associated with them.[10]

[10] Under PSD2, certain payment surcharges are banned, including B2B direct debits and credit transfers, where the bank/ card issuer and payment provider are located in the EEA. NB The UK's relationship to PSD2 and other EU/EEA arrangements from 2021 is to be confirmed.

4. Risks

Using technology with the aim of rebalancing markets in favour of consumers is a new experiment. There is not yet sufficient evidence to say whether Open Banking will succeed in increasing meaningful competition in a way that delivers better outcomes for organisations like credit unions and their members. In fact, alongside the potential opportunities of Open Banking, a host of risks can also be anticipated. For credit unions, some of these relate to its direct use, including:

- **Underwriting errors:** Open Banking data is no panacea for uncertainty. Unless its limitations and the potential for mis-categorisation and misinterpretation are understood and managed, there is a risk that the accuracy of affordability and credit risk could diminish with its use. (Gaming of the data has already been reported – for example, in blogs advising people to use separate accounts for gambling activity.)
- **Exacerbating digital exclusion and alienation:** Open Banking is inherently exclusive, to the extent that it requires a member to have a bank account that is accessible online. In many cases, new services enabled by Open Banking require people to have a reliable internet connection and smartphone. At the same time, the unique appeal of many credit unions is rooted in their accessibility, the time they take to understand people's complex financial lives (which can be hard to convey via data or a form) and their local presence. There is a risk that the move to digital could alienate some members if it is not managed well.
- **Contributing to financial exclusion:** Just as traditional credit scores can lock some people out of borrowing, risk assessments based on Open Banking data have the potential to exacerbate and create new forms of financial exclusion. There is yet to be a comprehensive and independent review to understand how data affects access to credit, or whether and which additional data sources could support financial inclusion.[11]
- **Exposure to third party data management risk:** Multiple parties can be involved in an Open Banking-based service, each with access to the data, including a bank, tech partners, AISPs and Registered AISPs. Under GDPR, if the credit union is the 'data controller' – which they will be if they are making decisions about how the data is used and they hold an agreement with the 'data subject' – then they carry the weight of being liable in the case of a data breach. While credit unions are already required to implement GDPR, by working with Open Banking they are likely going to need to manage larger

[11] Fair4All (2019), Financial Inclusion Data Sharing Review, Fair4All, London

quantities of personal data, as well as carrying the responsibility of working with more third parties.

Open Banking and the data-driven financial system it enables pose wider risks for credit unions and their members. These include, but are by no means limited to:

- **Price-based automated switching:** An increasingly data-driven system could reflect the values and interests of mainstream finance. For instance, the rise of recommendation platforms and automated switching based solely on price could damage perceptions of credit unions by presenting higher prices for some people, while not reflecting the wider benefits of their services.

- **Complexity and confusion:** The vast amount of information and growing number of new products unleashed by the 'data revolution' could make it more difficult for credit union members to make financial decisions in their best interests. For instance:

    - Customers could be required to understand multiple terms and conditions (both product- and data-related).

    - There is evidence that reduced 'frictions' in digital and online financial services can increase people's spending.[12]

- **Discrimination and exploitation:** The personalisation promised by data-driven finance has a dark side – it also enables more precise price discrimination, which can exacerbate financial exclusion. Equally, the very same data that a credit union could use to help someone (by improving a responsible lending decision, for example) could also be used against them by other actors in the market (to improve the targeting of payday lending, for example). Credit unions need to be able to understand how any partners they work with will use, and potentially sell, the data of their members.

- **Public mistrust:** There is a live debate shaping public understanding and attitudes about personal data, including the principles for its use and what these mean in practice. Beyond seeking consent to access members' Open Banking data, credit unions should make sure that members are happy about how their data is being used. They should also be aware of the potential risk of a 'techlash', arising from potential future scandals in finance (or other sectors), negatively impacting the public's trust in credit unions working with new data and technology.

[12] E.g. Thomas M., Kalpesh K.D. and Satheeshkumar S. (2011) How Credit Card Payments Increase Unhealthy Food Purchases: Visceral Regulation of Vices, Journal of Consumer Research, Oxford

5. State of play

Two years since its introduction in the UK, the Open Banking agenda has made substantial progress. The OBIE has developed what is known as the 'Open Banking Standard'. It covers all online payment accounts and includes:

1. **API Specifications** (technical documentation)
2. **Customer Experience Guidelines** to ensure that data sharing is easy and straightforward for customers
3. **Operational Guidelines** that support account providers to implement effective data-sharing interfaces while fulfilling their regulatory obligations.

In October 2019, the OBIE reported that there were 180 regulated providers (made up of 116 TPPs and 64 account providers) and that 53 of those had at least one proposition live with customers.[13] At the moment, most of these services relate to personal finance management (e.g. Yolt and Moneyhub) and credit risk profiling (e.g. Experian)[14]. Other sectors (including energy and telecoms) are now looking to learn from the Open Banking model, as are many countries.

However, the CMA's delivery of Open Banking has run behind schedule and is not yet fully complete. Some key functionality is still pending, such as reverse payments (to enable refunds). Customers also need greater support to keep oversight of all their consents (e.g. via a dashboard) and to manage them (including easily revoking consent).[15] Over time, important new issues have emerged and are as yet unresolved, including the potential to roll out Open Banking APIs to other financial services such as mortgages and pensions ('Open Finance'), and the value of a trust mark to assure customers[16]. It should be noted that at the time of preparing this report, the CMA was scheduled to publish a new roadmap for Open Banking in mid-Feb 2020.

While a range of regulation, infrastructure, firms and services have developed, consumer awareness and adoption remain low – but this is expected to rapidly change. In 2018 PwC reported that only 18% of consumers were aware what Open

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[13] OBIE (2019), Open Banking August – September Highlights 2019, OBIE, October 2019, London

[14] https://www.yolt.com/, https://www.moneyhub.com/, https://experian.com

[15] Reynolds F. and Chidley M. (2019), Consumer priorities for Open Banking, London

[16] Ibid.

Banking meant for them.[17] In January 2020, the OBIE celebrated one million customers adopting Open Banking and reported that this rate is doubling every six months.[18]

A growing number of initiatives aim to raise awareness of Open Banking and its benefits, including new services that have the potential to support financial health. Finance Innovation Lab's 2019 Data Fellowship incubated 10 innovations using data responsibly (including via Open Banking) to serve people and planet. Nationwide's 2019 Open Banking for Good initiative supports start-ups offering new solutions that could improve the wellbeing of the 'financially squeezed'. Nesta's Open Up 2020 challenge is a prize fund to support Open Banking-enabled services that help people manage their money through transparent, accessible and fair products. Backed by HM Treasury, Nesta's Affordable Credit Challenge (2019-2020) supports partnerships between UK community lenders and fintechs developing innovations, many of which use Open Banking to increase access to responsible credit. These initiatives have directly supported new Open Banking services for credit unions (see case studies) and, more broadly, have helped to build understanding of the potential opportunities Open Banking presents for the sector.

[17] The future of banking is open: How to seize the Open Banking opportunity (PwC, 2018)

[18] https://www.openbanking.org.uk/about-us/latest-news/open-banking-adoption-surpasses-one-million-customer-mark/

6. Case studies

There has not been a comprehensive survey to understand how many credit unions are using or planning to use Open Banking, but there are a significant and growing number of examples. The following case studies show some of the different types of services being developed, the partnerships involved, and the benefits for credit unions and their members.

Case study 1: Central Liverpool Credit Union and NestEgg.ai[19]

Central Liverpool Credit Union (CLCU) has been accessing the Open Banking data of its members through the platform NestEgg since February 2019, in order to improve the accuracy of credit assessments and the efficiency of their loan application process.

Traditional credit bureau data, which CLCU and a number of other credit unions have used to inform credit risk assessments, typically has a time lag. For instance, a County Court Judgment made two years ago could show up in a person's file, indicating financial distress, even if they have since recovered from the situation.

Open Banking provides a way to see the most up-to-date information about a person's financial position and CLCU have found this is a useful complement to credit bureau data. It has meant that they can now offer a number of loans to applicants who were previously declined on the basis of credit data alone. In the run up to Christmas 2019 they lent £700k more than in 2018 and saw their fastest ever winter membership growth rate. All four credit unions using Open Banking via NestEgg have loan to share ratios over 80%. Six more will start using Open Banking in February 2020.

NestEgg's Decision Workflow software enables credit unions to improve the efficiency of their loan application processes. Open Banking is used to undertake affordability checks (with no need for loan officers to read through bank statements), key issues are automatically highlighted, and a 90-day spend is presented according to the 50/30/20 budgeting rule, improving FCA compliance and creditworthiness checks. Online loan applications can be made in under one minute. One credit union NestEgg works with has seen the average age of its members fall by seven years as a consequence of digitising its loan application process.

Currently, NestEgg works with TPP TrueLayer and uses credit reference agency TransUnion, and it plans to become a TPP and Credit Reference Agency in its own right. NestEgg was also supported through the Finance Innovation Lab's incubation programme for innovators pioneering the responsible use of data in 2019. In November 2019, CLCU and NestEgg were selected as finalists of the Affordable Credit

[19] https://centralcu.co.uk, https://nestegg.ai

Challenge. Together, and in partnership with 15 other credit unions, they are developing Financial Health Indicators (FHIs).

These FHIs combine Open Banking data, credit bureau data and a credit union's own loan and savings information to support members to understand their own financial situation. Using a new app, members will be able to monitor their FHIs and receive recommendations about what action they could take to improve their financial health and their creditworthiness. Through FHIs, Open Banking data will be available to both the member and a credit union, providing greater transparency and helping borrowers feel more in control of their finances.

Case study 2: East Sussex Credit Union and consents.online[20]

In 2018, East Sussex Credit Union (ESCU) became one of the very first credit unions to work with Open Banking. In partnership with Consents Online Ltd (consents.online), they have been able to access reliable, accurate and easy to digest digital transaction information and analytics to significantly speed up the underwriting process (from 3 days to 24 hours) and provide its members with an easy to use online Open Banking experience.

consents.online is a platform that enables clients to access transaction data and provides a place where consumers can control what information they share with whom and on what terms. It is part of the AccountScore group of companies which specialises in transaction data analytics for consumer and business lending, operating in the UK, USA and India. They have over 80 clients, including HSBC, Vodafone and seven other UK credit unions. AccountScore is an AISP, and it has a strategic partnership with Equifax for its Open Banking-based services.

ESCU uses consents.online in tandem with the AccountScore transaction data analytics platform to examine and understand a member's historical and predicted financial circumstances. Compared to manually assessing and processing loans, ESCU has found that this is more cost effective and leads to fewer members dropping out of the loan application process.

There are also regulatory benefits from working with the platform, arising from the fact that they can better demonstrate how they have assessed affordability, e.g. by matching and verifying critical data points (such as salary payments and employment status within an account).

ESCU's consistent organisational approach to the use of Open Banking data, as well as member engagement, has been enabled by effective internal administration and oversight, as well as staff training to access and use the data. With new and more

[20] https://www.eastsussexcu.org.uk, https://consents.online

information, ESCU has seen its loan approval rate change – at first dropping rapidly. They have since tweaked the parameters of their affordability check to meet their risk appetite and ensure the continued provision of responsible and affordable credit.

Case study 3: Police Credit Union and Credit Kudos[21]

Police Credit Union serves employees from the police, military and prison services. Typically, their members are required to complete a number of checks prior to being granted a loan. Many military members have a poor or limited credit history, having lived in barracks for significant periods. As a result, around 40% of these applicants returned little or no information from traditional credit reference sources.

For these members, Police Credit Union required additional evidence in order to progress their application, usually in the form of scanned copies of payslips and bank statements. This step often proved onerous for members, resulting in high levels of applicant drop-off. Applicants would return documents in varying and often inconvenient or unusable formats. The need to process and inspect these documents manually added significantly to operating overheads and meant that the application process could take several days.

Credit Kudos is a challenger credit bureau and AISP using new data (including via Open Banking) and machine learning to predict credit risk and affordability. Police Credit Union has worked with them to boost approvals for their thin file cohort, cut out document inspection, and establish a completely automated acquisition pipeline. Average credit information collection and evaluation times have dropped to minutes.

A Credit Kudos 'Connect' button was embedded into the customer application journey for the thin file cohort. This allows applicants to immediately and securely connect their bank accounts through Open Banking.

Police Credit Union underwriters are able to view the applicant's account data in the form of an easily digestible report on the Atlas web platform, allowing them to quickly identify the data relevant to any particular applicant, such as fixed income, spending habits or negative indicators like gambling. The ability to see applicants' transaction history over a long period of time has enabled Police Credit Union to make better lending decisions, by taking informed risks on those thin file applicants and ensuring that they are lending to those who can truly afford it.

As finalists of the Affordable Credit Challenge, Police Credit Union and Credit Kudos are developing a new 'reward loan', powered by Open Banking, which aims to increase access to credit for members, while reducing the risk for the community lender.

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[21] https://policecu.co.uk, https://www.creditkudos.com/, https://www.creditkudos.com/connect, https://www.creditkudos.com/atlas

7. Challenges

Despite the opportunities Open Banking offers, credit unions working with it may find the following challenges:

- **Tailoring data to the credit union context:** For Open Banking data to be useful for a credit union, it typically needs to be categorised so that the raw bank transaction data is restated in a relevant and meaningful way. Tech partners and TPPs will generally do this as part of their service, however to the extent that they have customers in other sectors, such as big banks, large telecoms companies and credit reference agencies, the presentation of data may not directly align to credit union needs (for example, some credit unions place importance on understanding the components of a member's benefits payments e.g. universal credit, disability living allowance, which is less likely to be sought by other financial institutions).
- **Resourcing dedicated oversight:** Credit unions can struggle to make the most of Open Banking when they do not have a member of staff dedicated to championing its introduction, managing partnerships, and overseeing the process. Some technical skills are useful, but potentially more important than this is having a member of staff responsible for implementing the technology and capable of embedding it within the credit union's processes. Credit unions could share the costs of such expertise through a service organisation.
- **Integrating tech and processes:** Using Open Banking is likely to have implications for a credit union's wider business processes – not just a specific product or service. As a result, credit unions can face difficulties when the decision to use Open Banking has been made without reviewing how the particular approach taken will connect and work with other existing and planned IT and operational systems.
- **Building trusted tech partnerships:** There are numerous new players in the market, each with a unique offering, pricing and regulatory authorisations. To screen them and develop the foundations of a strong partnership requires time and expertise – including communication of the credit union's needs, values and purpose, technical and legal knowledge, and powers of negotiation.
- **Staff and member take-up:** Unsurprisingly, given the low levels of public awareness about Open Banking, some credit unions have found that staff, volunteers and members can be reluctant to promote it or consent to opt in without support to understand Open Banking and its benefits.

8. Looking forward

Whether a credit union decides to use it or not, Open Banking matters because it is set to be a major feature of our increasingly data-driven financial system and the lives of credit union members. Looking forward, four areas of work need to be developed, ideally by the movement as a whole, if credit unions are to harness the opportunity presented by Open Banking:

1. **Undertake a strategic analysis:** Building on this guide, there would be value in undertaking a strategic analysis of the potential role Open Banking could play in supporting credit unions (individually and as a movement) in achieving their mission and tackling the priority problems they face.

   There is an as-yet unexplored opportunity to understand how Open Banking could support the wider ecosystem in which credit unions work, and the connections between different organisations in the affordable credit market and debt advice sector, in order to better support members' financial health.

2. **Collaborate for scale and impact:** Given the considerable resources involved with implementing Open Banking, credit unions should approach it collaboratively. Working together could help to:

   - Lower and share costs – e.g. through collective bargaining and bulk purchasing
   - Achieve economies of scale – e.g. by using and sharing tech across multiple organisations
   - Demand services designed to specifically meet the needs of credit unions and their members (as opposed to services originally designed for large corporates)
   - Avoid duplication of effort – e.g. the work involved in screening potential partners
   - Build the capacity of staff, volunteers and members – e.g. through shared training
   - Create larger, shared datasets across credit unions that can provide more and better insights.

   Some of these opportunities might be enabled or strengthened if the collaboration could be formalised, for example by creating a credit union service organisation.

3. **Build evidence and share learning:** Since the impacts and benefits of Open Banking are uncertain, and the path to successful implementation unpractised, there is a need and opportunity for early-adopting credit unions to monitor

outcomes and record lessons. By sharing evidence and learning, the sector could build knowledge of good practice collectively and more quickly.

4. **Understand new responsibilities:** Open Banking and the data revolution in finance significantly change the context credit unions are working in. For instance, the nature of financial inclusion and education could transform, and credit unions should reassess how best they can serve their members in light of this. They might also consider what new responsibilities they have, including potentially advocating for data-driven regulation and infrastructure that meets the needs of members, and supporting members to share their data with one another for collective benefit (just as they pool their money).

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