Finance Innovation Lab
Call for Input: Open Finance, March 2020

1. Contact

1.1. To discuss this response in more detail, please contact Marloes Nicholls, Head of Programmes via marloes@financeinnovationlab.org or 07828287938.

2. Finance Innovation Lab

2.1. The Finance Innovation Lab (‘the Lab’) is a UK charity incubating the ideas and people that are transforming the financial system for the better. Alongside our incubation programmes, we undertake collaborative research with a wide range of stakeholders to build knowledge and understanding of the ways in which finance is rapidly changing and what the impacts of that will be on society and the environment. They include: consumer and civil society organisations; responsible finance providers and debt advice agencies; fintechs and banks; as well as academics, regulators and policymakers.

2.2. This response draws, in particular, on work that we began in 2017, to understand how data-driven financial innovation could deliver better outcomes for people and planet. Most notably, at the start of 2018 we published a briefing about Open Banking and Financial Health and co-led the Consumer Manifesto for Open Banking.1,2 Throughout 2019, our Data Fellowship programme supported 14 financial innovators to pioneer the responsible use of data. Some of our Fellows have since received support from the FCA Innovate team and Green Fintech Challenge, and their work has been recognised by the HMT Affordable Credit Challenge. Today, the Lab is a thought leader on data ethics and innovation. For example, we have advised the Centre for Data Ethics and Innovation, we gave a keynote at The Alan Turing Institute’s conference on AI ethics in finance (alongside Chris Woolard)3, and we taught the data ethics module of Cranfield University’s MSc in Retail and Digital Banking.

2.3. Following the development of open banking – a significant new experiment by policymakers to use technology to rebalance power in markets – and the growing interest in its evolution, we welcome the FCA’s call for input to the emerging open finance agenda.

2.4. We have focused our response to answer the FCA’s questions that are most relevant to what we believe are the most important and pressing issues to consider if open banking and open finance are to enable a transformation of finance that delivers better outcomes for UK consumers, citizens, and society as a whole. In summary, our view is that:

- Open banking has developed without the needs of people and society at its heart, and we do not yet know whether it has led to better outcomes for consumers.
- By placing consumers and citizens at the heart of the open banking and open finance projects, and by setting the initiatives within a vision for a future financial

---

2 Open Banking Consumer Manifesto (2018)
3 https://www.turing.ac.uk/events/ai-ethics-financial-sector
system that serves people and planet, we believe that there is potential to deliver better outcomes.

- At the same time, open banking and open finance raise significant risks, which include heightened financial exclusion, increased mis-selling and mis-buying, and exploitation of vulnerable consumers.4
- How finance will ultimately change as a result of open banking is uncertain and complex, however, and it is difficult anticipate all of the impacts it will have. Therefore, an approach that focuses on starting small (in areas where risks/potential for harm are low, and opportunities to support those currently marginalised by finance are high) and undertaking ongoing and frequent monitoring, evaluation and review would be sensible.
- In order for open finance to achieve its potential and deliver better outcomes, consumer groups and civil society organisations need to be meaningfully included, and supported to participate, in the development of the open finance agenda.
- For this to happen, the FCA must adopt a broader vision of the purpose of its work which focuses on improving the function of finance for people and planet. It has an important role to play in leading the convening of Government departments, other regulators, and civil society, and in undertaking ‘ecosystem gardening’ – monitoring and shaping systems and regulation – to ensure that the open banking and finance ecosystems develops in a way that has the maximum possible beneficial impacts for society as whole.

3. Q1: What action can we take to help ensure the potential of open banking is maximised, for instance to support the development of new open banking services?

3.1. The potential for open banking to enable innovation in financial services that deliver better outcomes for people is significant. There are opportunities that are well documented (such as driving greater account switching, facilitating access to lower cost automated advice, and enabling preventative financial health monitoring), but as yet many of these potential use cases are unrealised. Important examples of this, and the cost of inaction, are highlighted in the Consumer Priorities for Open Banking5 report.

3.2. The FCA should play an essential role in continuously collating all of the opportunities for open banking to better serve consumers, monitoring whether and how these are being realised, and the extent to which these might improve overall impacts on socially and economically desirable outcomes including reducing social exclusion and accelerating the transition to a low-carbon economy. (This could build on Table 1 in the Call for Input.) It should then use this knowledge to actively shape systems and regulation to ensure the Open Banking ecosystem develops in a way that has the maximum possible beneficial impacts for society as whole.

3.3. As part of such ‘ecosystem gardening’, the FCA should also seek to understand which types of people are benefiting from new open banking-enabled services. Currently, there is little evidence of which customer segments and sociodemographic groups are benefitting from open banking. We do not know if it is working for a broad number of people, or potentially making some pre-existing problems related to exclusion and

---

inequality worse by concentrating market activity on well-served customer segments. It has been notable that another recent change in finance (also driven by digitisation of the sector) – the shift to ‘less cash’ – has developed quickly despite negatively impacting people in poverty and facing other vulnerabilities. Building on the work of the Access to Cash Review, the Government has now seen that it needs to take action to protect people’s ability to use cash.

3.4. Our financial system does not currently work well for a large number of people. For example, over 8 million are in problem debt. Since open banking (and open finance) has the potential to contribute to improving outcomes for these people, or making them worse, the FCA has an opportunity to put citizens’ interests – particularly those who are marginalised and excluded by the current system – at the heart of the agenda. Ecosystem gardening could help the FCA to understand and track the distributional impacts of open finance in order to help improve the regulatory system and open banking architecture to deliver important social and environmental outcomes.

3.5. Insights from ecosystem gardening should be used to inform interventions, for example by the Government, the third sector, and business, to help to rectify issues and close any gaps that might exist or emerge. For instance, the Government could sponsor challenges that incentivise the creation of particular types of services. The Lab’s Fellowship programme is one example of a method of incubating services designed around the needs of particular people and communities (in 2017, our Financial Health Fellowship supported entrepreneurs to co-design innovations with people with lived experience of problem debt). Building on the Green Fintech Challenge, the FCA could offer priority and tailored regulatory support to firms working on specific issues.

3.6. Open banking also presents opportunities that are not yet known or well understood, and which need to be uncovered and supported. One of the reasons for this is that stakeholders who know customers best, such as consumer and civil society organisations or, indeed, the customers themselves, are typically excluded from initiatives about technological developments in finance. Exclusion can happen because these stakeholders are not invited, but also if the process is poorly designed, or if engagement requires extra resources that the public and third sector do not have (e.g. time and knowledge).

3.7. In our experience, working in collaboration with the third sector can generate novel ideas for how innovation can work for customers. For example, in 2018 the Lab ran a series of ideation events across the UK, to build capacity in the third sector to understand fintech developments, and to generate new ideas for how new technologies in finance – including open banking – could be put to use to help tackle some of the UK’s most pressing social challenges, including addressing the poverty premium and promoting inclusive growth. One of the themes that emerged from the events, relevant to open banking, was ‘data pooling’ – how people could be supported to share their data with one another and benefit from its collective power, in a way that challenges the information asymmetry the financial sector is characterised by. By sharing information, people could interpret their data more holistically (e.g. as members of families and

---


communities, not just as individual consumers) and in context (e.g. by understanding how their finances compare to those of their peers), leading to better insights. They could club together to make cheaper bulk purchases, collectively bargain for better deals and improved behaviour from companies, and understand the interdependent nature of their financial data and wellbeing.

3.8. We believe that opportunities for organisations in the responsible finance sector (e.g. CDFIs and credit unions) and third sector (e.g. financial health charities and debt advice agencies) to work with open banking are also overlooked and unsupported. Commissioned by the Centre for Community Finance Europe, we recently published a guide to open banking for credit unions. Over the course of the research, we uncovered that at least 10% of credit unions in the UK are already working with open banking. Significant efficiency gains to the loan approval process are reported, and further benefits to operations, responsible lending decisions and the financial health of credit union members are anticipated. However, without sector-wide collaboration and support from regulators and the Government, there are significant risks of credit unions using open banking in a way that is not cost-effective, not as impactful as it could be (and even generating risks for their businesses and members), and not sustainable.

3.9. As part of ecosystem gardening, the FCA should ensure that it meaningfully consults a wide range of stakeholders with customer and citizen expertise (not just business and technical), so that it understands the full range of opportunities open banking presents, the risks and pitfalls that will need to be avoided, and what the FCA’s role in helping a positive future for open banking to come about is. For example, our interviews with credit unions suggest that there is a lack of clarity about how the regulations related to open banking apply to them, and how this could potentially change in future, and that specific regulatory guidance could be helpful.

3.10. Finally, we understand that one of the early hopes for open banking – which we support – was that academics would be able to access it, under careful conditions, in order to undertake public interest research. This was included in the original open banking framework, published by The ODI and the Open Banking Working Group but has since been dropped. Th FCA should reconsider this proposal, and the role it can play in supporting it to come about.

4. Q2: We are interested in your views on what open banking teaches us about the potential development of open finance.

4.1. The most important lesson to take from open banking is that much more needs to (and can) be done to ensure that major policy-driven technological change in finance serves the needs of customers, citizens and society. Two years since its introduction, it is unacceptable that the full range of opportunities and risks open banking presents are still uncharted, and that many of the opportunities that have been identified are as yet unrealised (see our response to Q1). Crucially, the actual impact of open banking on consumers and society is still unknown. Since 2018, the Open Banking Consumer Forum has called for the Open Banking Implementation Entity to produce a outcomes framework that would enable the impact of open banking on consumers to be assessed.

---

While work to produce this is finally underway, it is not yet clear when a first assessment will be conducted.

4.2. Market monitoring means we know that a majority of new services powered by open banking offer credit profiling. We do not know, however, which type of people have seen their credit score change, or how this has changed their access to credit, and what the ultimate impact on their financial health has been as a result.

4.3. We believe that open banking and open finance have implications that go beyond the concerns of individual consumers – to citizens and society as a whole – because they have the potential to transform finance, changing the nature of and conditions for access to essential services (including insurance and credit), and impacting social issues such as economic inequality and climate change (see Q4 and Q7).

4.4. In the case of open banking, we believe that the prioritisation of market growth over consumer and societal outcomes can be explained by the fact that it was introduced by the Competition and Markets Authority, via a measure to drive greater market competition. While more competition can lead to better outcomes for consumers, it does not always, and a narrow focus on competition can miss the full range of pathways to delivering better outcomes for citizens and society as a whole.

4.5. In our report – The Regulatory Compass: Towards a purpose-driven approach to financial regulation – we make the case that UK regulators and policymakers need to develop and adopt a more explicit and holistic concept of what social purpose means in the context of financial services, and reorient their mandates, mindsets, and metrics around that.9

4.6. In the short term, given the FCA’s expertise protecting consumers, we believe it could play a crucial leadership role in ensuring that consumers are at the heart of the emerging open finance agenda, and that this approach is built into any standards, infrastructure, policy, and regulations that are developed. However, this requires a deeper understanding of what is meant by ‘consumers’ and a focus on ensuring that benefits accrue in particular to those who are currently excluded. Looking forward, we (in principle) support the FCA’s shift to outcomes-based regulation, and believe the FCA should shift to a broader outcomes-based framework to guide the development of the open finance agenda, putting the interests of society and the environment alongside those of consumers.

4.7. If open finance is to develop with the interests of customers, citizens and society at its heart, then consumer and civil society organisations will need to be involved in its design and any future implementation. It is striking that they are not listed as interested parties to the call for input on the FCA’s website. They have not been sufficiently included in the development of open banking either (see 3.4 – 3.7 above). The FCA has a responsibility to support and resource the meaningful involvement of these organisations – and to do so in an accountable way.

4.8. From Q2 2020, and with the support of the Barrow Cadbury Trust, the Lab will undertake a new programme of work to help build the capacity of organisations including consumer and civil society organisations, as well as credit unions and responsible finance providers, to understand, share knowledge and participate in advocating for a data-driven financial system that puts the interests of their beneficiaries

---

at its heart. We would be very happy to share more information about this programme with the FCA, and to discuss opportunities to collaborate.

5. Q3: Do you agree with our definition of open finance?

5.1. We recognise the definition of open finance outlined in the call for input.

5.2. However, we would question the underlying principle that the data supplied by and created on behalf of a financial services customer is owned by the customer in question. Since data can be about multiple people (e.g. DNA, or household spending), it is not straightforward that individuals should be able to share or sell on all of their financial data. If people are to feel in control of data about them, then open finance should support people to assert their rights and enact their responsibilities over data, without necessarily establishing ownership of it. The Open Data Institute has set this out in more detail.\(^\text{10}\)

6. Q4: Do you agree with our assessment of the potential benefits of open finance? Are there others?

6.1. The financial system fulfils a set of critical functions for the rest of the economy and, by extension, for society and the environment. It has become customary in recent decades to think of finance primarily or even solely as a sector in its own right; in this frame, the financial sector is the ‘goose that lays the golden eggs’ for the rest of the economy, selling financial services across the world and thereby generating jobs, profits and tax revenues. Fintech and financial innovation have been celebrated in similar ways. There is, however, a danger that these perspectives obscure an understanding of the financial system as a utility – an essential service upon which the functioning of the rest of our economy depends.

6.2. Neither finance, nor innovation, are ends in themselves. We believe that the finance sector’s ultimate purpose should be to enable us to achieve our goals – as individuals, as communities, and as a society. Our dependence on the financial system to fulfil this purpose is only becoming greater as our economy becomes more financialised (for example, as private personal pensions increasingly replace state-funded pensions) and digitised (for example, with open finance).

6.3. While the potential benefits of open finance listed in the call for input are plausible, they need to be set within a vision for a future financial system that serves people and planet; they should be developed and built on in collaboration with consumer and civil society organisations, and this should be done with a sufficiently long timeframe in mind (at least up to 2040).

6.4. The opportunities open finance presents should form part of a comprehensive vision for a future financial system that meets societal needs. Given the UK’s social and economic priorities, the vision could, for example, be anchored in a better financial system that is (a) more resilient and less crisis-prone, (b) facilitates the just transition to a net-zero

---

carbon economy, and (c) promotes social inclusion – or, a ‘levelling up’. This vision, as well as an analysis of the opportunities open finance presents, should be co-produced with consumer and civil society organisations.

6.5. We are particularly surprised that the role open finance could play in supporting the UK to achieve net zero is not mentioned in the call for input. Open banking-enabled services are already demonstrating how financial data might be used to support people to understand and reduce their carbon footprint.¹¹ Open finance could further impact the spending, lending and investment decisions of individuals and firms, and there is an opportunity for this to support the green finance sector and a more rapid shift to a lower carbon economy. At the same time, supporting people to manage their lives in the face of a warming climate, biodiversity loss and ecosystem breakdown will become of greater importance over the coming decades – and finance could well play a role in helping people to be more resilient and adaptable.

6.6. The opportunities of open finance should be considered within a longer-term timeframe too; one that reflects the time it might realistically take for open finance to be introduced and become widespread, and which makes any plans for open finance futureproof. In the coming decades, the context for open finance (and its potential benefits) will change significantly. We can expect environmental crises (including more regular extreme weather events), resource pressures, an aging population, the changing nature of work – and more. At the same time, exponential growth in data collection and rapid technological change will impact the ways in which open finance could open up data, and how it could then be used. Finally, the global financial crisis has shown us how fragile the financial sector can be, and coronavirus has alerted us to other risks that can have major dramatic impacts for the financial sector. All of these important trends, risks and possibilities need to be taken into account when designing the open finance system.

7. Q5: What can we do to maximise these benefits (given the considerations set out in paragraphs 3.12 to 3.17)?
   Q6: Is there a natural sequence by which open finance would or should develop by sector?

7.1. How open finance will ultimately change the financial system and impact people is uncertain and complex. Therefore, an approach to realising the benefits of open finance that focuses on starting small (in areas where risks/ potential for harm are low, and the opportunities for marginalised groups are high) and undertaking ongoing and frequent monitoring, evaluation and review – in collaboration with consumer and civil society organisations – would be sensible. Both intended and unintended outcomes should be monitored.

7.2. We also note and reinforce the FCA’s reflection that: “However, open finance is inevitably not the only (or necessarily the best) way of delivering many of these outcomes. Other actions by firms or policy interventions could potentially address some of the same issues in a simpler way.” The FCA should work with stakeholders, including consumer and civil society organisations, to identify the use cases that open finance is best placed to help bring about.

¹¹ E.g. https://cogo.co/; https://sustainably.co/
7.3. Open finance offers opportunities to change the shape of banking so that it better meets major social needs, but it will not realise this promise unless it is accompanied by a major programme of support for the responsible finance and data sectors. Without this, open finance risks missing a key opportunity to help improve the finance sector overall by promoting the growth of socially and environmentally responsible actors and business models. With appropriate support, responsible finance providers and credit unions have the values and governance structures that make them well-placed to show how data can be used responsibly to deliver better outcomes. We will likely also need new non-profit initiatives to support people to understand open finance and manage and realise the value of their data.

7.4. The FCA should ensure that any work to boost competition in finance via open banking and open finance is accompanied by (a) ensuring market failures (e.g. information asymmetry) are tackled and (b) incentives and rules that promote the development of socially and environmentally valuable goods and services. Left to the market alone, we believe that open finance will develop in a way that prioritises the short-term profits of particular businesses over people and the planet.

7.5. The FCA should also work to guide the market, to ensure that open finance begins its development in a way that realises the most urgent use cases (from the perspective of customers and citizens) first. These should be use cases that are assessed to have low risk of causing harm, and evidence of their impact should be evaluated over time. As well as delivering better outcomes for people, this approach would be effective in building trust amongst the public. (We have anecdotal evidence that members and customers of credit unions and responsible finance providers are much more likely to consent to share their open banking data – up to 75% – than customers of other lenders.)

7.6. Rather than open finance developing in one sector, this approach is likely to involve collaboration across sectors (e.g. credit and advice) and actors (e.g. Government departments, fintechs, industry incumbents and the third sector).

8. Q7: Do you agree with our assessment of the potential risks arising from open finance? Are there others?

8.1. The FCA raises a number of important and plausible risks arising from open finance in the call for input. As with the potential opportunities (see Q4), we would like to understand how this analysis has been developed in collaboration with consumer and civil society organisations, and ensure that this is done with a longer-term timeframe in mind.

8.2. With regard to the risks of exclusion, it is important that the open finance agenda builds on the reality that for many people in the UK – especially the vulnerable and marginalised – there are significant barriers to managing money digitally. These include access to computer hardware, broadband, digital skills, and sense of trust and control. If open finance develops without acknowledging the existing digital divide in the UK, it has the potential to increase financial exclusion and economic inequality.

8.3. With regard to the risks of misuse of data and poor consumer outcomes, it is important to note that a proliferation of data and new data-driven financial products and services could make the financial system much more complex and difficult for people to understand and navigate. In light of this, the FCA should avoid putting the onus on consumers to make the ‘right’ purchasing decisions, and focus on the actions firms need
to take to ensure that open data leads to better decisions making (as opposed to greater confusion and fear).

8.4. Another area the FCA should consider is systemic risk. The financial sector is well known to be subject to a wide variety of systemic risks that can have major economic and social consequences, such as risks of asset price bubbles, contagion, panic, and default. Open finance has the potential to radically change both how the financial sector does business and who/what the main actors in the system are. Therefore, it must be designed to not exacerbate existing risk-drivers and to prevent new risks from arising. The FCA should (a) take these risks much more seriously by, for example, conducting a much deeper examination of potential systemic risks, involving all stakeholders including the Financial Policy Committee and civil society actors and (b) ensure that any regulations and frameworks that are put in place are explicitly designed to prevent and limit systemic risks.

8.5. The FCA must also work with the responsible finance sector to understand the risks open finance presents for it, and act to mitigate them. For example, there are concerns that the ‘platform finance’ model could undermine responsible finance providers if their products are judged on price alone.

9. Q8: Do you consider that the current regulatory framework would be adequate to capture these risks?

9.1. Most important is that the FCA is able to work pro-actively and collaboratively. Since open finance has the potential to drive significant change in finance, and introduce or heighten significant risks for customers, citizens and society, the FCA should work pro-actively to anticipate, monitor and mitigate dangers. It could work with consumer and civil society organisations to create heat maps that identify the types of activities that pose the greater risk of harm, and consider imposing restrictions on the application of open finance in those areas (including moratoria, or requiring that they are sandboxed by the FCA before going to market) until evidence can be provided that they deliver better outcomes for people and society.

9.2. The activities of open finance and their implications for people and society go beyond the FCA’s scope, and span the remit of multiple authorities, including (but by no means limited to) the FPC, HMT, the ICO, BEIS and DWP. The FCA will need to collaborate with all of these authorities on open finance, and we would like to see the relationship formalised, in a transparent and accountable way, to ensure there are no gaps in oversight, enforcement, protection and redress. One of the first questions the group of authorities should consider together is whether they have sufficient powers between them to manage open finance, or whether new powers, or even a new regulatory body is required.

10. Q11: Do you have views on the feasibility of different types of firms opening up access to customer data to third parties?

10.1. It is important to consider that firms in the responsible finance sector, including credit unions, could find it difficult to open up their customer data using their existing core information and IT systems, and may face prohibitively high costs to updating their infrastructure.
11. Q14: What functions and common standards are needed to support open finance? How should they be delivered?

11.1. In addition to common standards for data sharing (via APIs), common standards should be developed to support consumers to understand how their data is being used as part of any new open finance-enabled services. This could help to ensure that any data sharing is founded on meaningful consent. Such standards should help consumers understand how sharing their data will practically impact their finances, including how it might impact their access to other services in the future. All standards should be developed in collaboration with consumer and civil society organisations.

12. Q16: To what extent should the standards and infrastructure developed by the OBIE be leveraged to support open finance?

12.1. We note that, originally, the idea was that the OBIE would be run as a multi-stakeholder cooperative. Today, it is run by an unelected, sole decision maker, and the “users” that the OBIE provides support to are those that are using APIs (the TPPs).

12.2. There is an Open Banking Consumer Forum, which the Lab engages with. It is difficult to justify committing sufficient time and resources to deal with the technical nature of the discussions as there is no formal line of accountability to the OBIE for our input.

12.3. If an organisation like the OBIE is to be set up to develop the vital standards and infrastructure for open finance, then it must be open to and inclusive of consumer and civil society organisations, as well as credit unions and responsible finance providers. Furthermore, their involvement should be comparable and equal to that of other industry players.

13. Q19: What are the specific ethical issues we need to consider as part of open finance?

13.1. We are pleased that the FCA is exploring the ethical questions connected to data sharing and data-driven decision making in finance. Some additional ethical questions that are frequently raised in our work, and which we would value the FCA’s support in navigating, include:

1. Can any data be used to inform decision making in financial services, or are there some types of data that should not be used? (For example, there are concerns that the use of social media data in credit scoring could lead to ‘social cooling’

2. Since people’s data carries within it information about others, what are our rights over other people’s data, and our responsibilities to other people when sharing data?

3. Are there any financial services for which data sharing should never be a condition for access?

4. How can the potential public benefit of open data be weighed up against an individual’s rights to privacy?

5. How can the potential individual benefit of more personalised services, offered by open finance, be weighed up against the social value of collective services (e.g. insurance)?

---

12 https://www.socialcooling.com/
13.2. The FCA will itself face these kinds of ethical questions, and we would like to understand how it envisages navigating the trade-offs it will encounter\textsuperscript{14} as part of that.