

Open Finance Working Group Response to the National Data Strategy, November 2020

About the Finance Innovation Lab

The [Finance Innovation Lab](#) is a charity that works to transform the financial system for people and planet. We work with changemakers from inside and outside the financial system, including innovators and influencers from values-based finance, fintech, mainstream finance, civil society organisations, governmental organisations and academia. With Positive Money, the Lab coordinates the Transforming Finance Network of civil society organisations focussed on financial sector policy.

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The Open Finance Working Group

In 2020, the [Finance Innovation Lab](#) and [StepChange](#) partnered to start a new conversation about Open Finance, beginning with an event [Open finance, 'open x': What's the use?](#), which took place online on 24 June 2020, and was attended by over 60 representatives from the third sector. A recording is available [here](#).

As a result, we identified a need and opportunity to develop a third sector-led vision for how Open Finance could serve the needs of individuals, communities and wider society. In September, we formed the Open Finance Working Group to help draft this. Alongside the Lab and StepChange, the group includes: [ABCUL](#), [Fair by Design](#), [Fair4All Finance](#), Faith Reynolds (Finance Lab Senior Fellow), [MacMillan](#), [Professor Sharon Collard](#) and [The Open Data Institute](#). We anticipate launching the vision in the first quarter of 2021. For more information about this work, contact the Lab's Head of Programmes, [Marloes Nicholls](#).

Key points

In this response we will make the following key points, focusing on the implications of the National Data Strategy for retail financial services:

- Data sharing in finance could deliver significant social benefits, but also presents risks if deployed with insufficient care
- The National Data Strategy should incorporate a plan to use financial services data to empower people and communities, particularly the most vulnerable
- Civil society and consumer groups, including experts by experience, should be closely involved in the design and governance of data sharing initiatives

Q1. To what extent do you agree with the following statement: Taken as a whole, the missions and pillars of the National Data Strategy focus on the right priorities. Please explain your answer here, including any areas you think the government should explore in further depth.

With respect to the first mission, 'unlocking the value of data across the economy', the government's responsibility must go further than simply making data accessible and available. It should take an interest in how data is being used, and promote use cases which benefit people and communities and enable them to realise its collective value and power.

In the case of Open Finance, significant downsides could result from allowing firms to access consumers' data with insufficient care. For example, consumers who are not online, or choose not to share their data, could find themselves excluded from certain products, or facing unfair costs. Firms could use the newly-shared data to target the most profitable customers, leaving marginalised people worse off. Individuals could end up sharing their data, possibly feeling coerced into doing so, without a clear idea of what it is being used for. And without a proper framework for redress, misuse of data could proliferate and trust in the system could collapse.

On the other hand, if the social benefits of data-sharing are prioritised, particularly targeting vulnerable communities, it could help to empower people and unlock socially useful innovation. For example more accurate assessments of creditworthiness may expand access to affordable credit. Communities of people could share and pool their data to benefit from its collective power. There may also be scope to align people's financial decisions more closely with their values, for example by providing pension savers with information about the climate impact of their investments.

In order to maximise the positive impacts of data sharing, the interests of people and communities must be enshrined in the legislation that underpins it. The government should work with consumer organisations, civil society groups and responsible providers to understand the most pressing needs for people and communities - particularly those

excluded from certain services - and to identify priority use cases based on that understanding.

With respect to the second mission, 'securing a pro-growth and trusted data regime', the government should recognise the significant degree of uncertainty surrounding how the data economy will develop, and the need for a dynamic approach towards regulation. There must be a recognition that certain groups, such as those on low incomes, are likely to be particularly adversely affected by inadequate regulation or gaps in provision, and particular attention must be paid to their needs.

The background to the fourth mission concludes with the ambition, 'With better data, we can unlock new opportunities for businesses to grow and innovate. We can vastly improve and streamline public service delivery and offer consumers greater power and choice in the market.' But thinking about data sharing in terms of a straightforward relationship between firms and consumers is too limited. We must also consider the secondary impacts on third parties, and on society more broadly.

Consumers using digital services are likely to be a smaller subset than the body of consumers in general. People who opt not to share their data may still be affected by data-sharing initiatives, because firms may choose to apply differential fees, charges and eligibility criteria for the associated products and services.

Although data sharing is intended to boost competition, there is a chance that it will lead to greater market concentration, allowing dominant firms to introduce higher fees and charges, thereby increasing inequality.

Q9. Beyond existing Smart Data plans, what, if any, further work do you think should be done to ensure that consumers' data is put to work for them?

If the wider social benefits of data sharing are to be realised, consumer groups, civil society organisations and responsible finance providers must be closely involved in the design, delivery and evaluation of the initiatives. This will require the following steps to be taken:

- There must be a strong legal basis for civil society voices to be recognised and acted upon
- Civil society must be involved in setting the strategic direction from the outset, through an inclusive design process, rather than responding to developments once the programme is already underway
- Consumer and civil society representatives must be properly resourced, with access to an independent secretariat, and funding to commission research and solicit input from expert organisations
- Consumer and civil society representatives must be present on key decision-making bodies, and able to act as a go-between with external groups

The government should provide support and funding for organisations that are developing products which empower people and communities, giving preference to those with purpose-driven business and governance models. It has demonstrated some commitment to promoting socially beneficial use cases in the context of Open Banking, via its funding of the Nesta £1.5k 'Open Challenge'. This model should be replicated and expanded in other areas. The Open Banking for Good challenge is also a good first step which could be built on in the context of Open Finance.

More generally, the government must take a broad view in its evaluation of the benefits of data-sharing initiatives. The National Data Strategy refers to Open Banking as having 'over one million users and an estimated gross annual benefit of £12bn for consumers and £6bn for SMEs.' But the number of users and value of transactions is a crude indicator of its ultimate social benefit. The [Consumer Priorities for Open Banking report](#), written by Independent Consumer and SME Representatives for the Open Banking Implementation Entity, lays out a more comprehensive methodology for how the benefit of Open Banking could be evaluated.