



OPEN FINANCE AND VULNERABILITY

A POLICY DISCUSSION PAPER

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ABOUT FINANCE INNOVATION LAB

The Finance Innovation Lab is a UK-based charity working for a financial system that serves people and planet – one that is democratic, sustainable, just and resilient. The Lab began as a collaboration between WWF-UK and the Chartered Institute of Accountants in England and Wales in 2009, and became an independent charity in 2015. Today, we cultivate a community of systems-changemakers and work on initiatives that impact mental models and power dynamics in finance for deep, lasting change. Our work focuses on growing purpose-driven finance, shifting mainstream finance, influencing law, regulation and policy, and building the power of our community.

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EXECUTIVE SUMMARY

Open finance is a radical initiative that aims to ‘open up’ more data about people’s finances.

The intention behind it – to give consumers greater control over their data and the power to make better financial decisions – is welcome. Mainstream financial services do not always work well for people, especially those in vulnerable circumstances. According to the Financial Conduct Authority, over 50% of UK adults are at risk of financial vulnerability.

But while the open finance movement is gathering momentum, we do not yet know much about the impacts of open banking (its predecessor) on people. The public also remains unconvinced of its benefits.

This paper explains how open finance could exacerbate the risks that finance currently poses for people, especially those in vulnerable circumstances. Such risks include:

1. A reduction in the control people hold over data about them
2. Greater financial exclusion
3. Careless automation
4. The rising power of platform monopolies.

On the other hand, open finance could present opportunities to identify unmet needs. Realising this potential, and mitigating the major risks, will require policy makers taking action to:

1. Pro-actively tackle the new forms of market power that data enables
2. Tilt the playing field in favour of purpose-driven innovation
3. Give people with lived experience of vulnerability and their representatives a meaningful voice.

This paper offers 12 recommendations for policy makers and regulators to avoid the risks and realise the opportunities of open finance.

Unless action is taken, existing power imbalances between industry and the public will be reinforced – albeit with the power likely shifting from banks to tech giants. Life for those in vulnerable circumstances will become more difficult.

Regulators emphasise the importance of firms meeting the needs of customers with characteristics of vulnerability, and the need to make improvements where this is not happening. It is just as important to ensure that the needs of vulnerable people are considered in the development of new policy.

INTRODUCTION

In 2018 UK regulators mandated ‘open banking’ (the predecessor of ‘open finance’) to try to create greater competition in the banking sector.ⁱ It required the biggest banks and building societies to make it possible – for the first time – for people and small businesses to share payments information (from online banking) with third parties using safe and secure standards. Regulators expected that by giving people the ability to share financial data, opportunities would be created for new services to challenge the power that larger banks hold over the market and their customers. It was anticipated that open banking applications could give people greater oversight and understanding of their finances, automatically move money across different accounts to avoid overdraft charges, and enable easy switching to access better deals.

Today, policy makers and industry actors are exploring the potential for open finance to ‘open up’ more data about people’s finances – not just payments but insurance, mortgages, pensions and investments as well. The hope is that this would extend the potential benefits of open banking and lead to greater innovation. Open finance forms part of the government’s wider ‘smart data’ initiative, which aims to put “consumers and SMEs in control of their data and enabling innovation”.ⁱⁱ

The intentions behind open finance are welcome. A power imbalance between consumers and firms is typical in the financial services sector. Whether in pensions, insurance, or credit markets, millions of people suffer from high charges, limited options, and exclusion from products and services that are essential to everyday life. The Competition and Markets Authority’s Retail Banking Investigation, which led to open banking, revealed that “a substantial proportion of customers are paying above average prices for below-average service quality”. It was estimated that around 90% of people were paying over the odds for their bank account.ⁱⁱⁱ

This asymmetry affects some people more than others. The Financial Conduct Authority (FCA) defines a vulnerable customer as “someone who, due to their personal circumstances, is especially susceptible to harm, particularly when a firm is not acting with appropriate levels of care.”^{iv} In October 2020, most UK adults – 53% or 27.7 million – had characteristics of vulnerability in relation to financial services.^v The FCA defines these as low capability, low resilience, having experienced negative life events, and being in poor health. People classified as vulnerable may make poor financial decisions or find it difficult to access a product or service. This can then lead to problems such as mis-selling, loss of money, and over-indebtedness, with knock-on effects on a person’s mental health, quality of life and relationships.

Most people will face vulnerable circumstances at some point in their lives, and the COVID-19 pandemic has only made this more likely. Vulnerabilities are often compounded too. For instance, the number of adults experiencing depression nearly doubled in early 2021 compared to pre-COVID levels, and the biggest increases are for the young, disabled people, parents, and those who would struggle to afford an unexpected expense.^{vi} During lockdowns insecure workers – the 3.7 million people in low-paid self-employment or without a guarantee of regular hours – faced significantly more hardship, and more frequently felt forced to work in unsafe conditions, than those in secure work.^{vii}

How can open finance help to tackle the long-standing imbalance of power between financial services firms and consumers? What will it take for open finance to play a leading role in supporting the rising number of people facing vulnerable circumstances?

The open finance movement is gathering momentum, but we do not yet know much about the effects of open banking. Statistics are available about the number of firms working with open banking (about 300), and the small but rising number of open banking users (now at around 3 million), but what do we know about the impact this is actually having on the market dynamics or, most importantly, on people? ^{viii}

We now know that some of the key open banking use cases proposed by regulators have not come to fruition.^{ix} Years on from its launch, and following much pressure, a consumer impact reporting process has only recently been initiated.^x Evaluative work like this is vital to help us understand how the risks associated with open banking, including financial exclusion and market consolidation, are affecting people in vulnerable circumstances.^{xi}

While plans for open finance progress, the public remains unconvinced of its benefits. Surveys show that people are reluctant to share data in exchange for new financial products.



Source: authors' infographic using data from Jonquil Lowe

This paper is the result of collaboration between third sector organisations that have followed the development of open banking. It highlights the major risks that we believe must be taken into account if open finance is going to benefit ordinary people – especially those least well served by the finance sector today. It offers a series of recommendations to policy makers that aim to ensure that open finance contributes to a financial services sector that works for everyone.

This paper is relevant to all government departments and regulatory institutions and initiatives responsible for the digital economy. These include the Treasury, Department for Business, Energy and Industrial Strategy (BEIS), Department for Culture, Media and Sport (DCMS), FCA, Bank of England, Pensions Regulator, Competition and Market’s Authority (CMA) and Digital Markets Unit, Information Commissioner’s Office (ICO), UK Regulator’s Network, and Digital Regulation Cooperation Forum.

FCA guidance emphasises the importance of financial services meeting the needs of customers with characteristics of vulnerability, and the need to make improvements where this is not happening.^{xii} It is just as important to ensure that the needs of vulnerable people are considered in the development of new policy.

CONSUMERS – AND OTHER PEOPLE

Thinking about open finance in terms of a straightforward relationship between firms and consumers is too limited. We must also consider the secondary impacts on people who are not consumers or participants in open finance (many of whom face vulnerabilities that open finance could compound) as well as the impacts on society more broadly.

For example, digitisation in finance puts pressure on non-digital services such as in-person branches and access to cash, which has knock-on effects on the people using those services. People who are elderly, disabled, and poor – and so likely to be in vulnerable circumstances – are most reliant on cash.^{xiii} Furthermore, most people want to have the option to use it.^{xiv}

Consumers using open finance will be a subset of consumers of finance in general. But people who do not share their data via open finance may still be affected by it. For example, firms may choose to apply differential fees, charges and eligibility criteria for open finance-enabled products and services. The ‘privacy premium’ refers to when people who opt out of sharing data face higher prices.^{xv} Information some people share – including via open finance – can also reveal insights about other people and groups, without their knowledge or consent.^{xvi}

RISKS

The financial sector as it currently operates creates certain risks for people in vulnerable circumstances. In some cases it can even increase the risk of vulnerability for people who were previously secure. Open finance could exacerbate these risks and introduce new ones. Such risks include a reduction in the control people hold over data about them, greater financial exclusion, careless automation, and the rising power of platform monopolies.

Loss of control over data

The FCA's vision for open finance is to give people greater control over their data and the power to make better financial decisions.^{xvii} But what does it mean to have 'control over your data', and does this kind of 'control' necessarily lead to better financial decision making, or better outcomes?

Open finance would allow consumers to use third-party services that would ask for their 'consent' to access financial data held about them by another firm. This may provide consumers with a wider range of services, and hence the appearance of greater control, but there is no guarantee that these services will meet their needs. If services are not designed with vulnerable users' interests in mind, then for these customers the sharing of data may lead to a loss of control over their financial health and wider life outcomes. The significant asymmetry between firms' and individuals' ability to make use of this data risks exacerbating existing power imbalances.

Terms and conditions around data sharing are difficult to understand and time consuming to read. Researchers at the LSE have found that this makes determining 'informed consent' in financial services very difficult.^{xviii} Contracts often involve complex data chains, which cede control of data to many more firms than is at first apparent. This can result in data sharing impacting access to multiple services. There is therefore a real danger that people will fail to understand the full implications of allowing access to open finance data. This undermines the notion of informed consent.

“From the consumer's point of view, they are 'just' buying a single product or service. Given the consumer's ability to assimilate layers of information for both the product and data sharing, alongside known behavioural traits we all exhibit, the expectation set is unrealistic. Regulation has therefore created an approach which cannot be applied by consumers and genuinely 'informed consent' is in practice impossible. The risk is that consumers do not understand what they have given 'consent' to, especially with regards to the use of their data”

Cheetham et al, BEIS Smart Data Research (2021)^{xix}

To begin to counteract this problem, clear communication about the nature of consent, the impact it will have on people's lives, and how to withdraw it is a minimum requirement.

Recommendation 1

Building on existing GDPR and PSD2 requirements^{xx}, BEIS should ensure via legislation that when people are presented with the option to share open finance data they are given a summary of the following information:

- What data they are sharing.
- Which organisations they are sharing data with.
- How long the data will be accessed by those organisations.
- For what purpose the data will be used, including how the firms are making money from it.
- Which parties and purposes are essential to receiving the service, and which are not, with the option to opt out of the non-essentials – and a clear explanation if that would involve paying a higher price or different terms.
- The potential consequences of data sharing over the long-term (e.g. your insurance premium might go up or down).
- How consent for data sharing can be withdrawn.
- The regulatory status of parties involved and whether sharing data involves entities not regulated by the FCA.
- What the avenues for queries and redress are in the event of misuse or abuse.

This information should be accessible via a dashboard that collates all of a person's consents on an ongoing basis and enables them to make changes.

To ensure that the information is presented in a way that everyone can understand, it must be designed and tested with people with lived experiences of vulnerability. The dashboard must also be accessible to all.^{xxi}

But no matter how clearly information is presented, 'consent' in this context remains ambiguous and may not be freely given. Users are prompted to share data at the point of needing a product or service. People often make financial decisions, such as taking out a loan, in moments of stress and uncertainty when it is difficult to weigh up complex options. Contracts are typically unilateral too; if you want the service you have no choice but to accept the terms. There is a risk that data sharing becomes a prerequisite for accessing essential financial services.

Firms could collect open finance data on multiple customers and combine it with other data sets ranging from online activity to healthcare. This data is then used to train algorithms and generate inferences. These inferences are likely to be much more valuable to firms than a single individual's data. Inferences derived from aggregated data can then be traded between firms offering different services. These inferences will then affect individual customers' access to services.

This further undermines the notion that by giving or withholding their 'consent' individuals are gaining control. As well as being used to make general inferences, the data that we share – including via open finance – can reveal information about people in our social networks without their consent or knowledge.^{xxii} As a result, people are made potentially vulnerable because of policies and services created from the data that others have shared.

These obstacles to people's agency over the use of open finance data (which includes personal data) all exist under the General Data Protection Regulation (GDPR).^{xxiii} However, there are questions about the ICO's capacity to adequately supervise and enforce even the standards that GDPR requires of firms. There are also questions about what will replace GDPR in the UK after Brexit. To overcome the problem of the ICO's capacity, it has been proposed that other sector regulators should have concurrent powers for data protection, including the FCA.^{xxiv}

Regardless, the FCA could play a greater role in guiding firms about good practice in customer data management, particularly referencing how firms should review their practices for people in vulnerable circumstances. Examples of areas where more supervision would be helpful include avoiding 'leakage' (where personal information is shared inappropriately within an organisation), and assessing IT systems for privacy and security risks. As the FCA's work on operational resilience states, loss of confidentiality, integrity, or availability of data could bring about 'intolerable harm' to consumers.^{xxv}

The digital realm is developing rapidly, and not everyone has the experience and ability to keep up. The pandemic has shown how a rapid transition to digital can leave people more susceptible to scammers. Investment scams, often promoted via online ads, rose 32% in 2020.^{xxvi} UK Finance has also reported criminals openly advertising fraud and scam services for sale online, including custom-built apps which replicate real banking apps. Open finance could also create new opportunities for fraud. If consumers are prompted to share data more frequently, this increases the risk that it will be shared with someone with dubious intentions.

It is already rare for consumers to get any redress under the current system. The sense of control that consumers feel over their financial data will not be helped by a lack of clarity regarding interagency collaboration. It is not year clear, for example, how the FCA, ICO, and Financial Ombudsman Service will address data breaches involving firms providing open finance services. There is also a risk that open finance data will be acquired by firms outside of the FCA's regulatory perimeter. For example, current account data could be used in 'affordability' checks for online gambling services. This makes cooperation between financial and other regulators, such as the Gambling Commission, essential to ensure that the needs of vulnerable consumers are met.

Consumer choice and service innovation can give the appearance of increased control. In fact, services that are not adequately sensitive to the needs of vulnerable people can lead them to experience even less control over their financial health. Furthermore, the nature of data sharing agreements often means that people do not have a real choice about whether and how their data is used if they wish to access services. Policy makers have not yet found a way to ensure that open finance translates into meaningful control for people. The industry risks becoming a bewildering wild west in which people are unable to make decisions in their own best interest.

Financial exclusion

Open finance also risks excluding people in the most vulnerable circumstances from products and services. Those who are not online will have severely restricted access or face unfair costs. 1.9 million households in Britain cannot afford access to the internet^{xxvii} and, according to research by Lloyds Bank, 9 million people in the UK do not have the foundational skills needed to participate in a digital society^{xxviii}. Millions are therefore unable to use the tools required to navigate open finance, such as dashboards (see Recommendation 1).

Recommendation 2

DCMS has prioritised 'rolling out world-class digital infrastructure nationwide'. This includes work 'to ensure vulnerable people access the support they need to benefit from digital connectivity'.^{xxix} The Treasury should work with DCMS to ensure access to essential financial services – including those provided via open finance.

New data-driven business models will change the way risk is assessed and prices are determined in a way that could exclude some people from certain financial services. Access to open finance data may make it easier for firms to cherry pick the most profitable consumers to serve, while ignoring or even exploiting those with more complex needs. This could further skew innovation towards the 'included' and 'super-included'.

There are numerous examples of how new forms of algorithmic decision-making – which open finance could enable – are more likely to work against people already facing discrimination and marginalisation.^{xxx} Algorithms are not 'objective'. As a result of their design and the data they are trained on, they have in-built biases that perpetuate or even exacerbating pre-existing prejudices.

Financial exclusion is of particular concern in the insurance sector, where firms could use open finance data to support the creation of ever more 'personalised' risk pricing.^{xxxi} This undermines the principle of mutual aid, and risks making insurance unaffordable or even completely unavailable to those who need it most. In this way, open finance risks exacerbating the difficulties faced by vulnerable customers who, due to circumstances beyond their control (such as poor health and poverty), are more likely to be classed as uninsurable, face higher costs, or even have lifestyle changes forced upon them in order to access essential services.

People experiencing vulnerabilities are already more likely to be unbanked, and less likely to hold any form of savings, insurance, pension or investments.^{xxxii} The 2015 Extra Costs Commission found that three million people with disabilities had been turned down for insurance or charged extra.^{xxxiii} In 2019, just 1 in 3 people with severe mental health problems had home insurance or a savings account^{xxxiv} and 61% of renters in low income households had no contents insurance.^{xxxv} People with protected characteristics are less likely to hold any insurance.^{xxxvi}

When firms use new data to assess risk and increase profit, this must not come at the expense of anyone accessing essential services. But as well as mitigating harm, policy makers should ask how open finance can help the people currently least well served by the finance sector to access the services they need.

Recommendation 3

The FCA should undertake an impact assessment to understand how open finance could exacerbate the risk of harm to people in vulnerable circumstances in each part of the finance sector. This should inform how its development is designed.

Personalisation in insurance carries serious risks of exclusion and poor outcomes for vulnerable consumers. The FCA and Treasury should consider placing a moratorium on the use of new data, including from open banking and open finance, in the insurance sector until there are sufficient safeguards in place to ensure that its use will not exacerbate harm.

Open finance forms part of a wider ‘smart data’ initiative, which aims to support data portability across multiple sectors including utilities like water, energy, and telecoms.^{xxxvii} In this context open finance data could further contribute to exclusion in sectors beyond finance. For instance, a poor bank balance or credit rating could result in less choice and more costly energy and telephone provision.

Careless automation

Open finance will accelerate automation in financial services. Third parties would be able to undertake or initiate transactions on a customer’s behalf, for example initiating payments, switching accounts, making an investment, applying for credit, and presenting the data back to customers.

Automation presents challenges when it comes to meeting the needs of people in vulnerable circumstances. Customers can feel more comfortable disclosing information related to vulnerability in conversations with staff, and automation will remove opportunities for that to happen. Automated systems can impact customer decisions too. Reduced ‘friction’ can make it easier for people to act against their best interests. Navigating new online systems can be overwhelming and limit engagement, or inhibit informed decision making.

Research suggests that anxious customers feel dissatisfied and lose trust with their service provider when interacting through self-service technology (such as chatbots), even when the process leads to a satisfactory decision.^{xxxviii} It is also not always obvious to people that they are speaking to a machine rather than a human being. This realisation could be distressing for people, particularly if they are lonely or isolated, or facing other challenges.

Automation could also make it harder for consumers to exercise their right to challenge firms’ decisions, which may lead to exclusion or problems getting redress. This will be exacerbated for vulnerable consumers whose needs may be out of the ordinary and require explaining to the firm.

The FCA is currently consulting on a new Consumer Duty, which would require firms to consider consumers’ best interests and good consumer outcomes in the development and management of products and services.^{xxxix} Firms adopting automated processes will need to work harder to ensure good outcomes for customers, and the FCA should consider how the new Consumer Duty could support this.

Recommendation 4

The FCA's work on a Consumer Duty should include a strong requirement on firms to provide evidence (e.g. via an impact assessment) that digital and data-driven services (e.g. algorithmic decision-making) do not exploit consumer vulnerabilities, biases or information asymmetries. The FCA should monitor and publicly report on these consumer outcomes on an annual basis. The report should share good practice and call out the worst. This research must then inform enforcement.

Rise of platform monopolies

There is a growing relationship between finance and Big Tech.^{xi} Firms such as Google, Facebook, and Amazon manage key parts of the digital infrastructure that underpins the financial system, and increasingly provide financial services as well. Google even has an open banking license. As finance becomes more data-driven this trend will accelerate.

Big Tech firms already hold enormous amounts of data on their users. They also have vast pools of capital to invest in the most cutting-edge analysis tools. Network effects mean that Big Tech companies tend towards monopoly. Because the value of a data point grows when aggregated with others, combining these existing data sets with financial data will give platform monopolies a significant advantage in the digital economy.

“...like a spider in the World Wide Web – they see everything that’s going on, and collect vital data that others can’t get.”

Margrethe Vestergær (European Commissioner for Competition) 2020^{xii}

There are already examples of tech firms rapidly dominating financial services. In a matter of years, Chinese tech firm ANT became the world’s largest money market mutual fund, with \$165 billion assets under management.^{xiii} The firm achieved this by encouraging e-shoppers that it had initially been supporting with online payments to transfer dormant cash from payment accounts to its investment account, which was offering rates of return above those available from bank deposits.

The rise of platform monopolies in finance would go directly against the stated purpose of open finance – to boost competition. It could also further undermine trust in the financial system. In 2021, just 5% of UK adults trust Big Tech to protect their personal data, whereas 33% trust High Street banks.^{xiiii}

Recommendation 5

The Digital Markets Unit should investigate the potential for open banking and open finance to drive market consolidation and what methods exist to mitigate the risk of platform monopolisation in the finance sector. These methods should include: ‘firewalls’ (which could give regulators and consumers powers to inhibit Big Tech firms from combining the open finance data it accesses with other data sets, including social media data); and reciprocal insights (which could require Big Tech firms to share the insights they glean from open finance with the government, public, and other firms).

Academic Shoshana Zuboff calls the economic logic underpinning Big Tech firms “surveillance capitalism”.^{xliv} This term refers to a business model according to which firms collect valuable data about people in order to create products that predict and even influence consumer behaviour. These products are sold to advertisers, who constitute the primary customer base of Big Tech firms. The main priority of such firms is therefore selling to advertisers, and not providing services to their users.

“Surveillance capitalists know everything about us, whereas their operations are designed to be unknowable to us. They accumulate vast domains of new knowledge from us, but not for us.”

Shoshana Zuboff 2019

A move into finance is attractive to Big Tech firms because it expands the scope of their surveillance. However, the people using financial services provided by Big Tech would not be the primary customer. This means that incentives to meet the needs of customers is reduced compared to traditional financial services firms, especially with regard to vulnerable people who often need specialised support.

The FCA's consultation on a new Consumer Duty condemns practices which ‘hinder consumers’ ability to act, or which exploit information asymmetries, consumer inertia, behavioural biases or vulnerabilities’.^{xlv} But financial service provision based on serving the advertising business risks exacerbating exploitative practices, particularly for people in vulnerable circumstances.

Last year, the FCA's insight blog noted how the use of big data adds a new dimension to the problem of firms using techniques of persuasion: “it may give firms the ability to identify those consumers most being sold an unsuitable product. It also opens up the possibility that firms could use data trails – for example seeking out social media posts – to identify when an individual consumer is at their most vulnerable.”^{xlvi}

Given the growing role Big Tech has in the delivery of financial services, it should submit to greater regulatory scrutiny and to the same conduct of business rules as firms in traditional financial services.

Recommendation 6

The government must establish a new Digital Conduct Authority to ensure that Big Tech is subject to the same standards as traditional financial services. This could perform a similar role to the FCA or set standards that sector specific regulators enforce.

69%: UK adults uncomfortable sharing data about their lives with banks and big tech companies to access financial services

Most UK adults – over two thirds (69%) – said they are not comfortable sharing more data about their lives with banks and big tech companies to more easily access financial services. ^{xlvii}

OPPORTUNITIES

Mainstream financial services do not always work well for people, especially those in vulnerable circumstances. Better use of financial data could help to address this. However, it should not be taken for granted that the opportunities of open finance will outweigh the risks. Open finance could present opportunities to identify unmet needs. This will be best achieved through purpose-driven innovation.

Identify unmet needs

Qualitative research by the UK Regulators Network finds a positive relationship “between the severity of someone’s vulnerability, and their openness to disclosing and sharing data”.^{xlviii} This reflects a desire to receive as much support as possible while avoiding the distress that comes from repeatedly disclosing personal challenges. Research by Barclays finds that many people (58%) think banks should use customer data to identify vulnerability and offer support in *some* cases.^{xlix}

There may be opportunities to use open finance data to support people in vulnerable circumstances. For example, the Money and Mental Health Policy Institute worked with fintech Touco on an open banking powered tool designed to help people living with mental health conditions.¹ The service provides money alerts via text messages to account holders and someone they trust whenever there is unusual spending activity. A small pilot found that this supported greater financial health and reduced feelings of shame for users.

However, the ability to identify and monitor vulnerability using open finance data is a double-edged sword. While it could be used to identify and help people in need, it could equally be used to exclude vulnerable people, or target them with inappropriate products. Some respondents to the aforementioned Barclays study questioned the bank’s motivations. They were sceptical about data accuracy and third-party sharing, and cited previous experience of a lack of meaningful support.

The benefits of open finance might be better realised if we do not rely primarily on profit-driven firms to identify and monitor vulnerability. One alternative is the ‘data institution’. The ODI defines data institutions as organisations that steward data on behalf of others, often towards public, educational, or charitable aims.ⁱⁱ Another organisation researching data analytics and social purpose is the Global Open Finance Centre of Excellence, which has been working with data providers on a voluntary basis to aggregate anonymised and pseudonymised data.ⁱⁱⁱ

Recommendation 7

BEIS should appoint and support a multi-stakeholder advisory group that includes consumer groups, civil society organisations, people with lived experience of vulnerability, privacy experts, and academics to discuss and debate how an ‘open finance for vulnerability’ data institution could be best established.

A data institution with strong regulatory oversight and an explicit mission to support people in vulnerable circumstances through research and the use of open finance could increase public understanding of aggregate data and distribute the value of resulting insights more fairly. Once people's needs are identified they must be supported to meet them. For example, information about customers using high-cost loans could potentially be used to design a less expensive alternative, or to guide them towards a more appropriate product or independent advice. In order to ensure this happens, purpose-driven finance institutions and public interest organisations must find it at least as easy to participate in open finance as other firms.

Purpose-driven innovation

Open banking has already brought about some new products and services that aim to benefit people in vulnerable circumstances. These are typically created through collaborations with third sector organisations and purpose-driven finance institutions, such as credit unions and Community Development Finance Institutions, and supported by dedicated funding and investment, such as the Nesta/ Treasury Affordable Credit Challenge^{liii}.

Charities have expertise in vulnerability and can support co-design of services with people with lived experience. Grants can support the development of new services and business models that are focused on improving consumer outcomes over making a profit. However, purpose-driven innovation remains a marginal feature of the open banking sector.

Purpose-driven finance

The Lab defines purpose-driven finance institutions as those that put a social or environmental mission at the heart of what they do. Financial returns remain important, but they are not the main objective. Crucially, ownership and governance structures support the mission, along with mission-focused culture and leadership.¹

Purpose-driven firms are more likely to meet the needs of vulnerable people. Their ownership and governance structures also address the power imbalance between firm and customer that is typical of mainstream services, and which risks exacerbating vulnerability.

The Finance Innovation Lab's Fellowship programme is an incubator for financial innovations that have a social or environmental mission at their heart.^{liv} In 2019 it supported NestEgg.ai – a fintech using open banking to provide credit unions with software to improve lending decisions and increase member engagement.^{lv} NestEgg has also developed an app to enable credit union members to access data about them. Using 'Financial Health Indicators', they are supported to understand and improve their own financial situation.^{lvi} NestEgg has received remarkably good feedback from the sector.^{lvii}

The Open Banking for Good (OB4G) initiative has supported businesses that aim to help people who are "financially squeezed" manage their money and income, and access advice and support.^{lviii} An example is Ducit.ai, which uses artificial intelligence to categorise open banking data and quickly calculate income and expenditure – information that is key to providing financial advice.^{lix} As part of

the OB4G challenge, Ducit.ai was able to work with The Money Advice Trust to better understand the debt advice perspective to this problem.

Unfortunately, the odds are massively stacked against purpose-driven finance in the UK. High-cost credit providers, for instance, are ten times as big in terms of market share compared to ethical, affordable providers.^{lx} Research by Fair4All Finance found that most credit unions have an annual IT budget of less than £50,000.^{lxi} As described above, open finance risks further advantaging providers that have the resources to invest in new technology, and the expertise and business models to profit from it.

Purpose-driven firms already face an uphill struggle compared to the rest of the finance sector. Government and regulators should reverse this dynamic so that the playing field is tilted in favour of those seeking positive social and environmental outcomes. Policy makers must work with purpose-driven firms to understand what they need, so that open finance – and the wider ‘data revolution’ – does not introduce new barriers for them, but helps them to grow and flourish.

Recommendation 8

The government should ensure that purpose-driven innovation is a key component of the development of open finance. This will require long-term funding and investment as well as making regulation proportionate to the purpose-driven finance sector. At the very least, this should include using the FCA’s Digital Sandbox^{lxii} to address specific problems with vulnerability (such as the poverty premium) and supporting purpose-driven fintechs. In addition, the government should expand the Dormant Asset Scheme to provide investment to modernise the technology platforms for affordable credit providers.

GOVERNANCE AND REGULATION

Realising open finance's potential, and mitigating its risks, requires that relevant regulation and governance is designed to produce better outcomes for people, especially those in vulnerable circumstances. It must also ensure that people with lived experience of vulnerability and their representatives have a voice in its development and implementation.

Recommendation 9

BEIS and the Treasury must enshrine the interests of society, especially people in vulnerable circumstances, in the primary and secondary legislation that will underpin smart data and open finance.

Regulation associated with open banking was limited to promoting competition and innovation. Little consideration was given to outcomes for consumers, and the real-world benefits of the initiative are not yet well understood. However, the Consumer Evaluation Framework, recently initiated by the Open Banking Implementation Entity (OBIE) is a welcome positive step.^{lxiii} The establishment of the End User Risk Committee also demonstrates an acceptance that open banking does create new risks which must be mitigated if it is to deliver benefits for all customers.

Open finance is a radical policy initiative and it carries major risks. Therefore, it is vital that a method for regulators to assess the impact of open finance on consumers and people is established from the outset.

Recommendation 10

The FCA, CMA, and Money and Pensions Service (MaPS) should facilitate regular independent evaluations of open banking, open finance, and associated initiatives (such as pensions dashboards). These should be led by individuals with no stake in the industry, and seek design input from groups representing the public, including people with lived experience of vulnerability. Findings regarding the impact (good and bad) should then be used to inform the ongoing development of open finance. They should also be shared with the third sector and be accessible and easy to read.

Notwithstanding OBIE's Consumer Forum, consumers and civil society still lack a meaningful voice in decision making. The entity is dominated by industry actors, and advocacy groups lack resources to fund public participation.

CMA and BEIS reviews of the oversight, governance, and funding of the open banking and smart data initiatives will shape the future of open finance. They must improve inclusion of consumers and civil society.

Recommendation 11

CMA and BEIS plans for the future of OBIE and the smart data function must incorporate the following principles:

- There must be a strong legal basis ensuring that the voice of consumers, the wider public, and their representatives is recognised and acted upon.
- Consumer and civil society representatives must be properly resourced, with access to an independent secretariat and funding for training, research, and input from expert organisations.
- Consumer and civil society organisations must have representation (and voting rights) equal to industry actors on decision-making bodies (i.e. 50%).
- Economic sustainability must be balanced against the social mission, and the sustainability model that allows for the most equitable outcomes must be prioritised.

If it is to alleviate rather than exacerbate vulnerability, open finance policy and regulation must draw on the principles of ‘inclusive design’ – designing markets, products, and services to ensure they are accessible to, and usable by, as many people as possible.^{lxiv} There has been a tendency for firms, but also regulators, to design for the average user and then treat the challenges faced by ‘vulnerable consumers’ as a problem to be dealt with afterwards. They must instead work with people with lived experience of vulnerability from the outset.

Recommendation 12

The Treasury, BEIS, FCA, and MaPS should ensure that inclusive design principles are embedded in the implementation of open finance, and in the guidance issued to participating firms.

There is a great deal of uncertainty about what new services and business models will emerge from open finance, and how these will impact the market, people, and communities. This necessitates a precautionary and dynamic approach towards regulation, where risks are constantly assessed and reviewed. People in vulnerable circumstances are likely to be particularly adversely affected by inadequate regulation or gaps in provision, and particular attention must be paid to their needs.

CONCLUSION

Open finance is a radical policy intervention. Although it is still in the early stages of its development, it is likely to be a seismic event.

It should be a catalyst for financial services reforms that put more power in the hands of individuals and communities, and deliver better outcomes especially for those in vulnerable circumstances.

The government and regulators have the tools at their disposal to make this happen. They need to pro-actively tackle the new forms of market power that data enables. They must tilt the playing field in favour of purpose-driven innovation. And civil society must be meaningfully included in the development of policy, regulation, and governance.

Unless action is taken, the existing power imbalance between industry and the public will be reinforced – albeit with the power likely shifting from banks to tech giants. Life for those in vulnerable circumstances will become more difficult. This applies to the UK, but importantly also other countries around the world, such as Brazil, Canada, and Mexico, where the open banking agenda has been promoted.



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