



UK FINANCE

EXPLORING OPEN FINANCE

IN ASSOCIATION WITH:



FOREWORD

A group of UK Finance members have been considering the future of Open Banking and how it might evolve into Open Finance and beyond. This group has been chaired by Daniel Globerson, Head of the Bank of APIs, NatWest Group, with support from Jana Mackintosh, Managing Director of Payments & Innovation at UK Finance. Central to these discussions is a focus on customer and public benefit in an increasingly digital UK economy, ensuring that proposed capabilities not only serve expected use-cases, but also provide a foundation for ongoing innovation.

While Open Banking initiatives are in-flight worldwide, the UK has proven itself to be an early leader in not only bringing both account and payment services to market, but also demonstrating the power of collaboration in establishing standards which the largest banking institutions have adopted. We have also witnessed continuous improvement in services and customer experiences driven by market feedback. From these foundations, Open Banking usage has grown unabated in the UK, driving competition and innovation, and extended into Open Finance. In this brochure, we have included a few illustrative case studies from the many in-market examples.

Open Banking payments have demonstrated exponential growth, driving further interest across the industry in not only new choices in making and receiving payments for both customers and merchants, but how payments can be reimagined into new products and services. Our largest banks are rolling out Variable Recurring Payments later this year, which will drive regulated 'account sweeping' activity and has spurred quite a bit of discussion around commercial arrangements between banks and third-parties in support of wider uptake.

Our regulators have taken great interest in the Open Banking Implementation Entity which was setup by the CMA and large banks to establish standards, customer experiences, and oversight across a large proportion of Open Banking activity in the UK. The CMA, HM Treasury, Financial Conduct Authority (FCA) and Payment Systems Regulator (PSD) recently published a joint statement outlining their plans to oversee the future of this entity, with a view towards broader leverage in the financial services sector and perhaps beyond.

UK Finance and its members look forward to the engagement that will shape the Open Finance agenda. We believe broad participation is required to truly deliver the promise of Open Finance and beyond. To help shape our contribution, we are introducing a new network in UK Finance – the Digital Innovation group – a group committed to seeing Open Banking flourish and working across industry on supporting the future development of Open Finance.



Jana Mackintosh

Managing Director, Payments & Innovation
UK Finance



Dan Globerson

Head of Bank of APIs
NatWest Group

INTRODUCTION



Improving financial outcomes

The Open Banking market is already improving financial outcomes for consumers and small businesses. Given this positive impact, our vision is the market extending Open Banking into Open Finance, expanding data access and sharing across financial services, with the potential to collaborate across other regulated markets in the UK.



Foundation stones

Open Banking has laid the foundation stones on which Open Finance could scale the ecosystem further. There is an infrastructure across firms in which commercial engagement and technical development can foster competition, innovation and consumer-centric solutions.



The interim report's purpose

In this interim report UK Finance, in association with Management Solutions, describes those foundations and begins to consider how through collaboration across financial services, other markets, government and regulators we can start to build the Open Finance proposition.



THE MARKET IS CONTINUING TO DEVELOP

CMA & PSD2

The CMA Order and PSD2 placed legal requirements on firms to enable access to current and payment accounts respectively for regulated third parties, with customer consent. Each firm now has a legal obligation to maintain an API interface to enable that regulated access to payment accounts, for banks (ASPSPs) this must be at least on a par with their customer interface.

Maintaining Open Banking

The cumulative number of API calls to these dedicated interfaces now runs into several billion. These messages and the data exchange within them now enable the provision of products and services to five million customers, provided by around 300 firms in the Open Banking ecosystem. It is now part of the DNA of banking and finance in the UK and its reach is extending into other sectors, forming part of the digitisation that is taking place across the UK. Open Banking now features in our everyday lives in mortgage applications, credit scoring, car purchasing, the payment of tax and a wide variety of other use cases.

Developing Open Banking

The regulatory interventions laid the foundations for Open Banking. The market is now evolving Open Banking, creating new products and services for the growing number of customers who are adopting new ways to pay and share access to their account data to make life simpler and cheaper. The Open Banking capabilities, that firms from incumbent to challenger banks and FinTech companies have developed, have proven to be effective in delivering consumer and market utility. The distributed technology has laid the foundations stones on which Open Finance could scale up for even greater customer benefit.



THE OPEN BANKING MARKET IS ALREADY DELIVERING BETTER OUTCOMES FOR CONSUMERS AND SMES

Source: Open Banking Impact Report

Improving consumers financial wellbeing

- Open Banking services help consumers make better financial decisions, improve their savings by keeping on top of expenditure, eliminate unnecessary expenses and reduce their fees and costs.



Key impacts

91%

91% of Open Banking consumers find its services easy to set up and use. Consumer-friendly apps and tools have managed to engage its users through their interfaces.

75%

75% of Open Banking consumers are managing to keep on top of expenditure. Users are keeping to a budget, making them better suited to make independent financial decisions to improve their level of savings.

55%

55% of Open Banking consumers agree that these services have helped them reduce their fees and costs. Keeping to a budget and price comparison tools enhance consumer's financial decisions.

83%

83% of Open Banking consumers are willing to expand their use of these services. As a result of the positive impact on consumers' lives, they are keen on using further Open Banking services.

76%

More than three quarters of consumers are willing to continue using Open Banking services

PAYMENTS AND DATA

Granting consumers the right to consent data access

	Description	Examples	Customer benefit
PAYMENTS	<p>Open Banking Payments enable consumers to easily make a direct transfer from their account to another account, offering an alternative payment method for payers (e.g. consumers) and payees (e.g. merchants), encouraging choice, competition and innovation in the payments market.</p>	<ul style="list-style-type: none">• Open Banking payments• Account-to-account payments• Buy-now-pay later services• Sweeping• Variable Recurring Payments (VRP)	<ul style="list-style-type: none">• E-commerce payment and refunds• Rewards and loyalty management• Possibility to make easier international payments• Increased transparency when making payments
DATA	<p>Data services enable consumers to access and share their data with third party providers (TPPs), encouraging the development of innovative products and services that help consumers better engage with their finances, make empowered decisions and access tailored products and services.</p>	<ul style="list-style-type: none">• PFM platforms• Credit checks• Account verification• Loan and credit assessments• Automated verification• Compliance	<ul style="list-style-type: none">• Improved financial decision making• Increased access to advice and guidance• Better borrowing decisions• Enhanced user experiences• Boosted awareness of financial position

EUROPE

In Europe, industry is likewise looking to build on the regulatory drivers behind Open Banking

Approach	Approach overview
Regulatory (European Union)	<ul style="list-style-type: none">In the EU, data access is primarily personal sensitive data (highly regulated and with explicit user consent) and account data (transaction related data required for payment initiation). The EPC is managing, in collaboration with the ERPB, the SEPA Account Access Scheme. It is a scheme-based approach that will build on and beyond the baseline of PSD2. The focus of this year is to develop the Scheme rulebook focusing on API payments within scope of PSD2. From 2022 onwards, the EPC will potentially expand the Scheme beyond PSD2 and beyond payments into other services.
Body	<ul style="list-style-type: none">The Berlin Group is complementing the work carried out by the EPC. It is an initiative focused on defining a common scheme in the inter-banking domain between creditor and debtor banks, standardising technical and functional requirements when deploying a payment scheme for the Single Payment Area. The target of the Berlin Group is moving from the 'Core XS2A' into the 'OpenFinance API' to expand what they referred to as premium value-added services, relying not only in PSD2 but also on GDPR, while providing access to other institutions in the market.
Implementation timeline	Trends & outcomes
EPC SPAA June 2021-November 2022	<ul style="list-style-type: none">Europe is moving towards an even more open data society. To support this trend, the EPC and the Berlin Group are working within and beyond PSD2, with an eye on wider data access to other services, commonly known as horizontal data access.Payment methods across Europe have been improved, making them easier and faster. An example is Bizum, an integrated solution in Spanish banks that enables account-to-account instant transfers for consumers across different banks.

OPEN FINANCE

Focusing Open Finance on better outcomes for customers

What are the wider opportunities of Open Finance?

This is a question that hundreds of market participants will now be pondering. Within UK Finance, we have convened a member group, which includes large and mid-tier retail financial institutions, specialist banks, open payments providers and other members, to consider ways in which Open Finance could reduce cost or increase benefit for customers. A low bar to entry, through the low-cost reuse of current capabilities, will lock in the ability to bring to market solutions for consumers more quickly.

What does this customer centricity mean?

Open Finance could reduce fraud, improve financial wellbeing, widen access to credit, deliver greater choice in payments and help enable reusable digital identities. The delivery of each of these outcomes is a major undertaking. The challenge in the work going forward is to identify the priorities where success is more likely, to describe the collaborative action from the market, from government which can open access to data, and with the Joint Regulatory Oversight Committee to direct and begin to map out what could be done.

By focusing on customer outcomes we are also best placed to directly address those questions which most plague individuals and businesses and which Open Finance has the potential to resolve. These could be:

Employees looking to ensure they have sufficient funds to retire

Businesses seeking to save on transaction fees

SMEs searching for more affordable credit

Individuals worried about how to spot fraudulent activity



CASE STUDIES

TINK & YOUTILITY

The European open banking platform Tink, and subscription technology platform Youtility, partnered earlier this year, to allow UK retail banks to help their users take crucial savings actions and make more sustainable choices on core household costs without leaving their banking app.

The combination of Tink's Money Manager product and Youtility's technology enables banks to deliver frictionless and hyper-personalised customer journeys. Through real-time categorised transaction data, people can set budgeting goals, and achieve meaningful savings on household contracts such as energy, broadband, TV, landline and mobile – while reducing their carbon footprint by up to 25 per cent per year.

REWIRE & TOKEN

Rewire is a neobank shaping the way international workers manage their finances, helping them create a better, more financially secure future for themselves and their families.

Rewire leveraged Open Banking Payments from Token to enable its customers to load their balance to enable a remittance payment to a beneficiary. Token provided Rewire with the simplest solution for their customers to fund their account from within the Rewire app.

When the customer has entered the amount there are three simple steps to load their balance:

1. Select the Instant Bank Transfer payment option
2. Select the Bank to pay from
3. Confirm the transaction in their mobile banking app

YOULEND & PLAID

Short-term business funding is the lifeblood of small- and medium-sized enterprises (SMEs). It can unlock opportunities to grow and scale, such as buying new equipment or hiring seasonal staff. Yet, two in five SMEs say they lack sufficient capital to keep their businesses going – and a shortage of funds can squash a good business idea and even lead to bankruptcy.

Over the past decade, tech companies like YouLend have stepped in to fill the gap. By evaluating nonconventional data points such as a business' monthly card payment data, immediate cash flow, repeat buyer behaviour, and digital footprint (in addition to more traditional measures of creditworthiness), YouLend's software platform can extend credit to SMEs that otherwise might not qualify.

In order to strengthen the assessment of a business' immediate cash-flow position, YouLend needed applicants' bank statement data without the hassle of the applicant uploading files or photographs. That's when YouLend turned to Plaid.

Link for more info -

<https://plaid.com/blog/youlend-customer-story/>



NEXT STEPS

The evolution of Open Finance is already underway, with industry taking forward a range of initiatives aimed at delivering the above outcomes. In some of these areas, such as Economic Crime and Digital ID, the focus will be on consolidating and implementing the various activities, including the enhanced fraud data sharing initiatives under way with Pay.UK and access to Companies House information, enabled through the Economic Crime (Transparency and Enforcement) Act 2022. In other areas, industry is providing thought leadership on how Open Finance could support entrepreneurial behaviours – for example, by removing friction points within the creation and set-up of SMEs.

UK Finance is looking forward to working with JROC, OBIE, end users and other industry stakeholders to explore how Open Finance could develop in the UK market. We will be looking at ways we can build our engagement with the market to identify the most compelling use cases and work collaboratively to help enable them.

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