

The Future of Open Banking



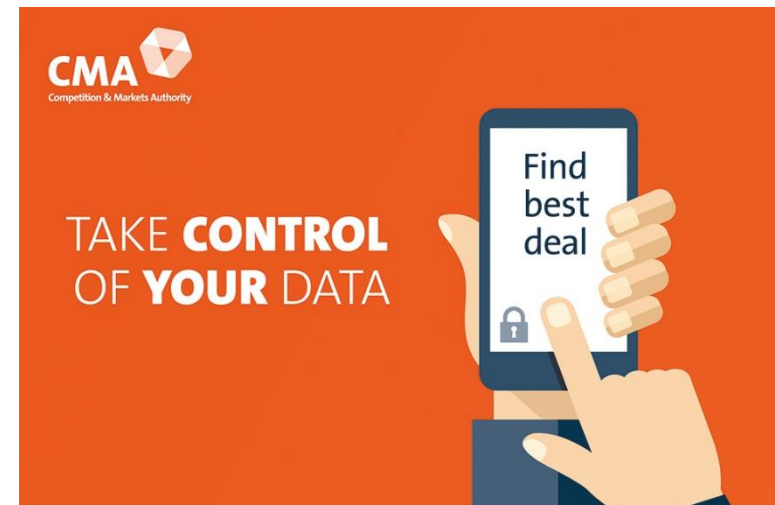
Alasdair Smith, Colin Garland, Bill Roberts (CMA)

Andrew Pinder (Implementation Trustee)

18 January 2017

Market Investigation Findings

- Features:
 - Barriers to accessing and assessing information
 - Barriers to switching
 - Low levels of customer engagement
 - Incumbency advantages
 - Product linkages
 - Information asymmetries
- Adverse effect on competition in the provision of
 - PCAs
 - BCAs
 - SME lending



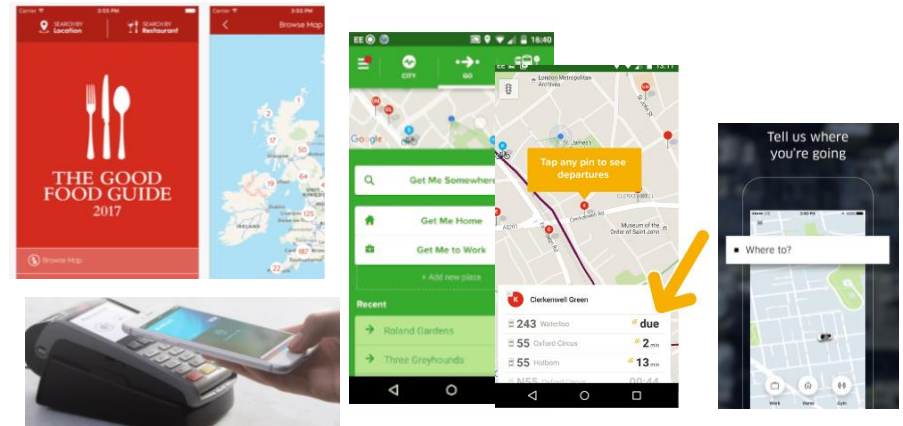
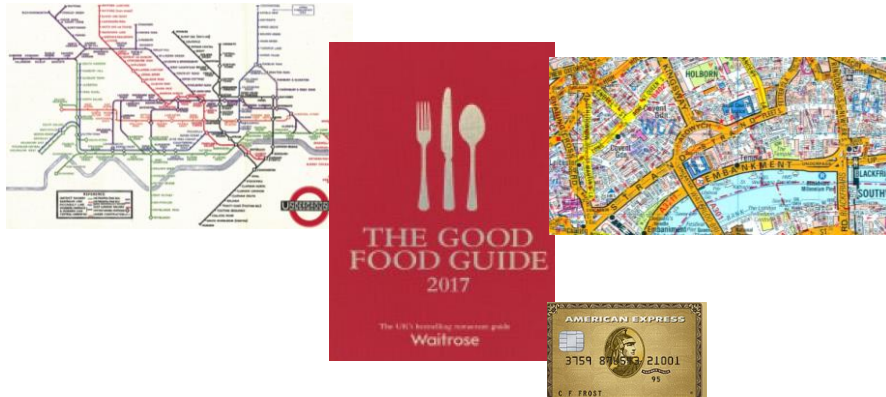
The CMA's market investigation into retail banking led to an adverse finding and, consequently, the need for remedies

The remedies package

Foundation measures		
Open Banking standards Service quality information Customer prompts		
Current account switching measures	PCA overdraft measures	Additional banking measures for small businesses
Better governance of guaranteed switching service Extended redirection of payments following switching Customer access to transactions history Customer awareness and confidence	Overdraft alerts with grace periods Monthly maximum charge (MMC) Improved account opening and switching process	Competition to develop SME comparison tools Loan rate transparency Loan price and eligibility indicator Standard information requirements for BCA opening Sharing of SME information 'Soft' searches Role of professional advisers

Some remedies in the package addressed specific features. Three cut across a number of areas and one, Open Banking, is potentially transformative. This remedy required the industry to adopt common and open standards for application programming interfaces (APIs), data and security.

Open APIs



APIs allow applications to share data and functionality and are widely used in consumer and business contexts. Common and open standards for APIs enable developers to more easily create products.

Open Banking

- Fingleton/ODI Report
September 2014

Data Sharing and Open Data for Banks

A report for HM Treasury and Cabinet Office

- Midata March 2015



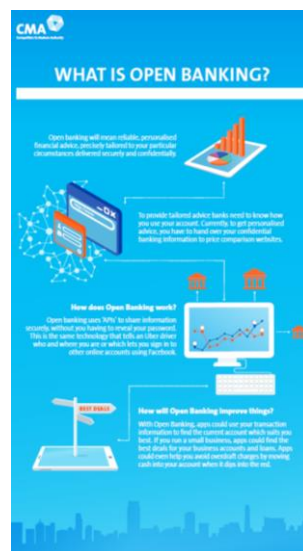
- OBWG Report January 2016



CMA Report August 2016

Competition – press release

CMA paves the way for Open Banking revolution



PSD2 January 2018

Official Journal
of the European Union

L 337

English version

Legislation

Volume 61
22 December 2017

Contents

Legislation

page

REGULATIONS

• Regulation (EU) 2015/2302 of the European Parliament and of the Council of 25 November 2015 on transparency of securities financing transactions and of credit and borrowing (Regulation (EU) No 608/2012) ⁽¹⁾ 1

DIRECTIVES

• Directive (EU) 2015/2302 of the European Parliament and of the Council of 25 November 2015 on package travel, package holidays and package tours (Directive (EU) 2015/2302) ⁽¹⁾ 10

The CMA built on previous initiatives and was able to make mandatory the adoption of open, common API, data and security standards. It also intends its remedies to be compatible with PSD2.

Benefits of Open Banking 1



1 Customer visits comparison site.

knowyourmoney

Excellent ★★★★★ based on 2

Credit Cards Bank Accounts Insurance Loans Mortgages Business

Business Bank Accounts

- ✓ Help your company grow by choosing the right business bank account to suit your business needs.
- ✓ Whether you're looking for your first business bank account or want to switch from your current provider.
- ✓ Compare the UK's top business bank accounts from the high street bank to alternative options.

Select an account by type

Startups

Switchers

No Credit Checks

4 PCW uses transaction data to calculate which product is best for that customer, including rewards and charges

3 Bank checks PCW and sends data securely to it

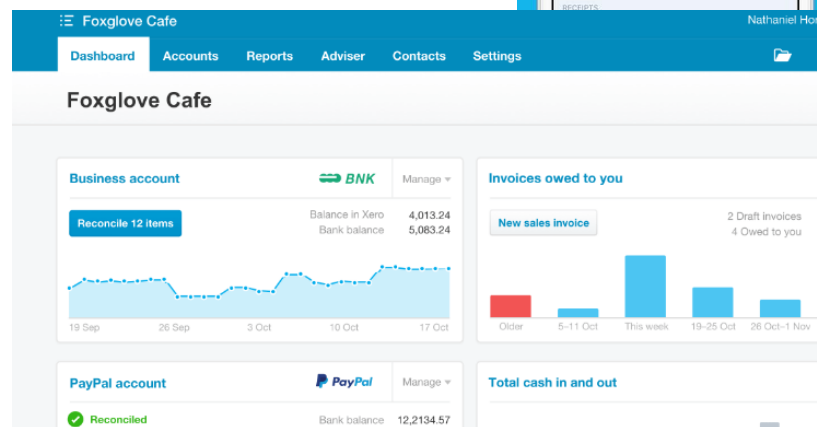
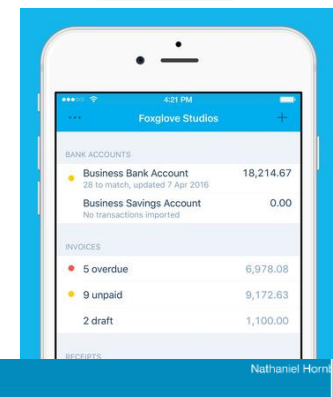
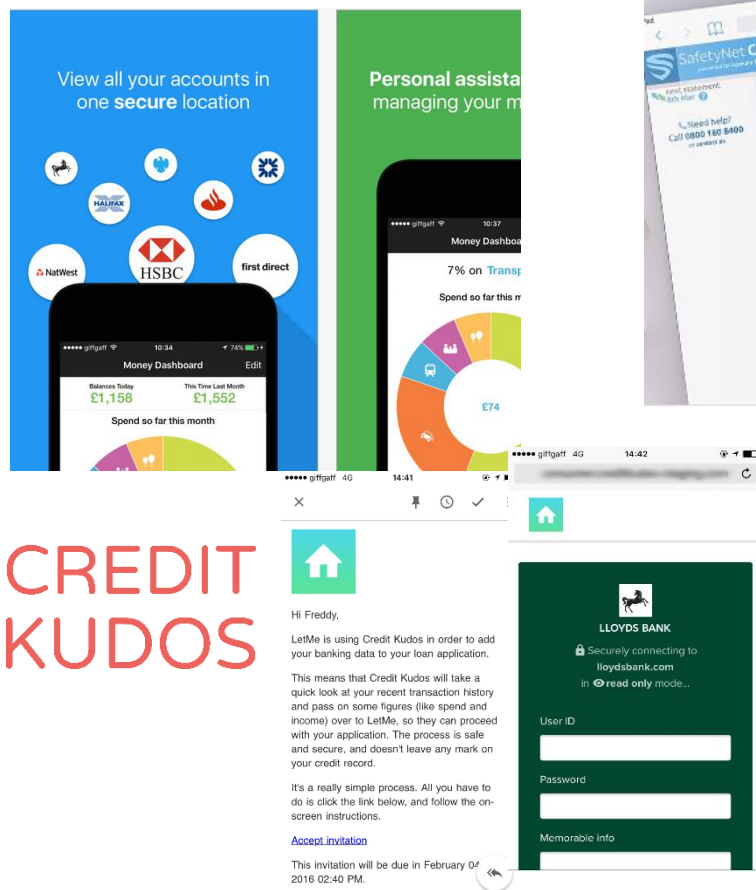
2 Customer clicks through to online bank account and enters credentials. Tells bank to send transaction details to PCW

5 Customer switches account



Secure sharing of data with trusted partners to enable personalised current account comparisons which will help consumers and SMEs find the best products for them. Nesta challenge will facilitate creation of new SME digital loan comparison tools.

Benefits of Open Banking 2



Personal financial management, credit scoring (thin credit files), unbundling overdrafts. Tools to assist debt counselling and money advice. Integration with SME accounting packages – without disclosing online credentials to provider.

Tools to help 'squeezed' and 'struggling' consumers

Use cases



A lack of trust, poor engagement and lower digital skills mean its unlikely consumers in the struggling sector will be early adopters of open banking solutions. However, there are opportunities for open banking solutions to streamline existing guidance and debt advice processes.

Use case	Description	Participants	Key considerations
Budgeting support	Transaction data to populate budgeting tools and services. Payments initiation to move money between accounts. Charge prevention alerts, e.g. risk of using unauthorised overdraft.	<ul style="list-style-type: none"> Fintech – e.g. Squirrel, ontrics etc. MAS DWP universal credit budgeting support Third sector i&A organisations Banks and building societies, payment card providers, credit unions 	<ul style="list-style-type: none"> Need to understand account information (e.g. fees, charges and limits) income streams and expenditure. Bring together information from multiple PCAs/BBAAs. Consider opportunities to include savings, credit and prepaid cards. Facility to facilitate payments to move money between accounts.
Debt Advice	Transaction data to populate income and expenditure tools used by debt advisers (Standard Financial Statement). Payments initiation to facilitate repayment.	<ul style="list-style-type: none"> Debt Advice providers MAS FCA Citizens Advice – regulatory sandbox project Creditors 	<ul style="list-style-type: none"> As above, plus facility to populate Standard Financial Statement from income and transaction data. Payments initiation – for agreed repayments. Possibility of semi-automated debt advice tools?
Benefits eligibility	Ability to see transaction data to understand eligibility for benefits	<ul style="list-style-type: none"> Third sector i&A organisations Government (DWP). 	<ul style="list-style-type: none"> As budgeting support. Sharing of demographic information held by bank.

Monday, 16 January 2017

Use cases



Use case	Description	Participants	Key considerations
Access to credit / credit comparison	Transaction data	Fintech – e.g. Credit Kudos.	<ul style="list-style-type: none"> As budgeting support. Apps may want to combine credit information/eligibility information with transaction data.
Micro Saving	Allow users to save (transfer) small amounts of money into a separate account e.g. save the change, scraping balance at end of period. May be attached to a budgeting app.	All above. NSNI – Help to Save provider (no branches could reach consumers through app.)	<ul style="list-style-type: none"> As per budgeting support. Payments initiation - multiple small amounts that may vary in amount and frequency. Do customers understand where money is being saved, is it covered by FSCS?
Third party support/access	Alternative to bank third party mandate. User grants permission to allow family member/care to monitor account transactions and / or initiate payments.	<ul style="list-style-type: none"> Banks, Building societies, credit unions. Fintech/Healthtech 	<ul style="list-style-type: none"> Choice over what facilities third party can access – e.g. read only, read and initiate payments. Option to restrict payment amount / type of payee.

Use cases



Use case	Description	Participants	Key considerations
PCA/BBA comparison	Access to information about account charges and balance and transaction data to allow comparison of PCA, BBA and prepaid card deals. Combine with credit reference information.	<ul style="list-style-type: none"> PCWs Fin tech – could combine facility into finance/budgeting app Third sector i&A agencies, e.g. MAS, CIA 	<ul style="list-style-type: none"> Overdraft users a group that can most benefit from switching account but people in struggling sector unlikely to engage directly. Intermediary role for the third sector. Poor credit record may limit options available. Apps may want to combine credit information/eligibility information with transaction data. Prepaid cards targeted at this market can these be captured to allow comparison to available BBAs and PCAs.
ID verification /affordability checks	Instead of presenting copy of bank statement or utility bill. Affordability assessment conducted by credit provider.	<ul style="list-style-type: none"> Fin tech Credit reference agencies Creditors 	<ul style="list-style-type: none"> Lack of trust in institutions likely to deter use. Access to personal information held by bank to ease process of id verification. Apps may seek to combine credit information/eligibility information with transaction data.
Provision of alternatives to overdraft	Third party lender may seek to offer alternative to current account overdraft. Monitor transactions, send notification of risk of entering overdraft, make lending offer, push payment into account and initiate repayment when balance rises.	<ul style="list-style-type: none"> Fintech Lenders, banks, building societies, credit unions. 	<ul style="list-style-type: none"> Understanding and agreeing to terms critical. Requires permission for ongoing monitoring of account transaction data. Separate consent for ability to accept push payment of loan and initiate repayment. Could be ongoing agreement to borrow/repay in particular circumstances or separate agreement for each instance of borrowing.

Monday, 16 January 2017

Use cases



People in the squeezed segment are highly digitally connected but while they monitor their bank balance via banking apps regularly many don't plan ahead or review debts. Despite need and digital ability, strategic engagement with finances is limited. Good experiences – cost savings/achievements - of early adopters may encourage others to engage. Key sub-groups to reach are squeezed younger adults, families and couples.

Use case	Description	Participants	Key considerations
Access to credit /credit comparison	The squeezed are very credit dependent and would benefit from credit comparison apps. Requires access to transaction data and information on repayment/revolving balances.	<ul style="list-style-type: none"> Fintech Lenders PCWs 	<ul style="list-style-type: none"> Considering transaction data across multiple accounts/cards. Opportunity to pool family members transaction data/cards? Ability to consider transaction information alongside credit information to determine eligibility. Low engagement but there is a clear need. Where trust/marked application recommends products - the suitability of products for user / market coverage.
PCA comparison services	Access to information about account charges, balance and transaction data to allow comparison of PCA, BBA and prepaid card deals. Combine with credit reference information	<ul style="list-style-type: none"> PCW Fintech – could be combined into finance/budgeting app. Money guidance organisations. 	<ul style="list-style-type: none"> Overdraft users group that can most benefit from switching. Very low engagement of people in segment in switching bank. Extent to which 'trust mark' apps compare best deals in the market.

Use cases



Use case	Description	Participants	Key considerations
Budgeting support / Money management tools	Transaction data to populate budgeting tools and services. Payments initiation to move money between accounts. Charge prevention alerts, e.g. risk of using unauthorised overdraft. Goal/rainyday savings tools. Micro savings tools – as per struggling.	<ul style="list-style-type: none"> Fintech – e.g. squirrel, ontrics etc Money guidance organisations, e.g. MAS, MSE Banks and building societies, payment card providers, credit unions. Student money advisers Workplace 	<ul style="list-style-type: none"> Need to understand account information (e.g. fees, charges and limits) income streams and expenditure. E.g. distinguishing between spending, repaying credit and saving. Bring together information from multiple PCAs/BBAAs. Consider opportunities to include savings, credit and prepaid cards. Facilities to facilitate payments to move money between accounts. Opportunities for personal information held by financial services, e.g. age to power 'life event' nudges. To populate applications for new accounts. One off access. Ongoing access.
Debt Advice	<ul style="list-style-type: none"> Populating standard financial statement Self help tools Payment initiation to facilitate repayment 	<ul style="list-style-type: none"> Debt advice providers MAS FCA Creditors 	<ul style="list-style-type: none"> As above, plus facility to populate Standard Financial Statement from income and transaction data. Payments initiation – for agreed repayments. Possibility of semi-automated debt advice tools?
Benefits eligibility	In work benefits eligibility	<ul style="list-style-type: none"> Third sector i&A Government (DWP) 	<ul style="list-style-type: none"> As budgeting support. Opportunity to distinguish between multiple income streams.

Use cases



Use case	Description	Participants	Key considerations
Third party support / access	Alternative to bank third party mandate. User grants permission to allow family member/care to monitor account transactions and / or initiate payments.	<ul style="list-style-type: none"> Banks, Building societies, credit unions, card providers. Fintech/Healthtech 	<ul style="list-style-type: none"> Choice over what facilities third party can access – e.g. read only, read and initiate payments. Option to restrict payment account /type of payee. Ill-health
ID verification / affordability checks	Instead of presenting copy of bank statement or utility bill. Affordability assessment conducted by credit provider.	<ul style="list-style-type: none"> Fintech Lenders, banks, building societies, credit unions. Estate agents. Utilities Workplace 	<ul style="list-style-type: none"> Access to personal information held by bank to ease process of id verification. Apps may seek to combine credit information/eligibility information with transaction data.
Provision of alternatives to overdraft	Third party lender may seek to offer alternative to current account overdraft. Monitor transactions, send notification of risk of entering overdraft, make lending offer, push payment into account and initiate repayment when balance rises.	<ul style="list-style-type: none"> Fintech Lenders Banks Building societies Credit unions 	<ul style="list-style-type: none"> Understanding and agreeing to terms critical. Requires permission for ongoing monitoring of account transaction data. Separate consent for ability to accept push payment of loan and initiate repayment. Could be ongoing agreement to borrow/repay in particular circumstances or separate agreement for each instance of borrowing.

Organisations like the Money Advice Service have been quick to spot the opportunity that Open Banking provides to create new digital tools to improve consumers' financial capability

Security Fears to Blame for Stopping Half of British Consumers from Sharing Personal Data

Breakdown in Consumer Trust Drives Organisations to Prioritise Personal Information Security

London, U.K., January 25, 2016 – Nearly three-quarters (72 per cent) of UK consumers online are concerned about the level of protection given to the personal information they share with brands and organisations online. This is according to a new survey commissioned by Informatica, the world's number one independent software provider focused on delivering transformative innovation for the future of all things data. Following a string of high profile data breaches, 'The State of the Data Nation' research reveals that British consumers' confidence in the ability of organisations to keep their personal data safe is worryingly low.

TalkTalk loses 101,000 customers after hack



Tesco Bank freezes transactions after cash taken from 20,000 accounts

Bank chief says move is attempt to protect customers and pledges to refund 20,000 current account holders who lost money



Research by Ipsos Mori for Barclays in 2015 showed that, even before people were having products marketed to them, almost 40% would be happy to share their data to receive personal financial management services. Almost 30% were undecided and only 30% rejected the idea

What the Ipsos Mori research highlighted was that 'where a clear customer benefit was identified within a use case, the research participants demonstrated a strong propensity for adoption'.

Study shows need to win consumer confidence over innovation in banking and payments

HSBC internet banking still down after bank reveals it is fighting MORE cyber attacks

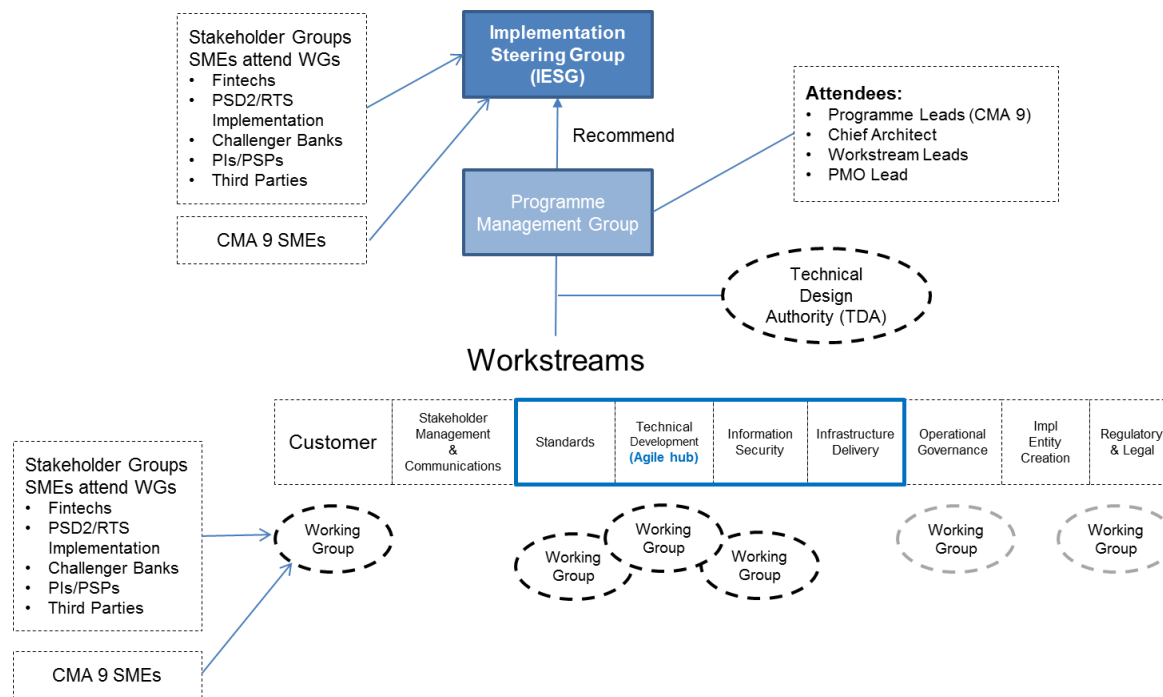
Consumer trust and confidence in security arrangements and providers' liability key to the success of Open Banking

Implementing Open Banking

The CMA required the leading banks in GB and NI to

- (a) set up an entity (the **Implementation Entity**) that will be tasked with agreeing, implementing and maintaining open and common banking standards;
- (b) appoint a suitably qualified, independent person (the **Implementation Trustee**), to act as chair of the Implementation Entity with responsibility for the delivery of the project's objectives;
- (c) use their best endeavours to achieve the objectives of the project within the timetable agreed with the CMA;
- (d) agree to be bound by the decisions of the Implementation Trustee;
- (e) release and make available through an open API by 31 March 2017, and thereafter maintain as open data, specified reference and product information;
- (f) agree with the IT open standards for APIs with full read and write functionality and make available through them PCA and BCA transaction data sets, to be released no later than the transposition deadline of the second Payment Services Directive (PSD2) ie by 13 January 2018.

The CMA had to strike a balance between creating an implementation vehicle with narrow representation, to maximise speed of decision-making, with one which was more broadly based but less agile



The Implementation Entity (IE):

- agile, able to move fast in order to complete its task within the deadline set
- inclusive of the sector's stakeholders eg FinTechs and challenger banks
- focused on the features of the market that we concluded give rise to adverse effects of competition that we identified
- mindful of the requirements of PSD2
- adequately resourced, funded by the 9 providers
- transparent



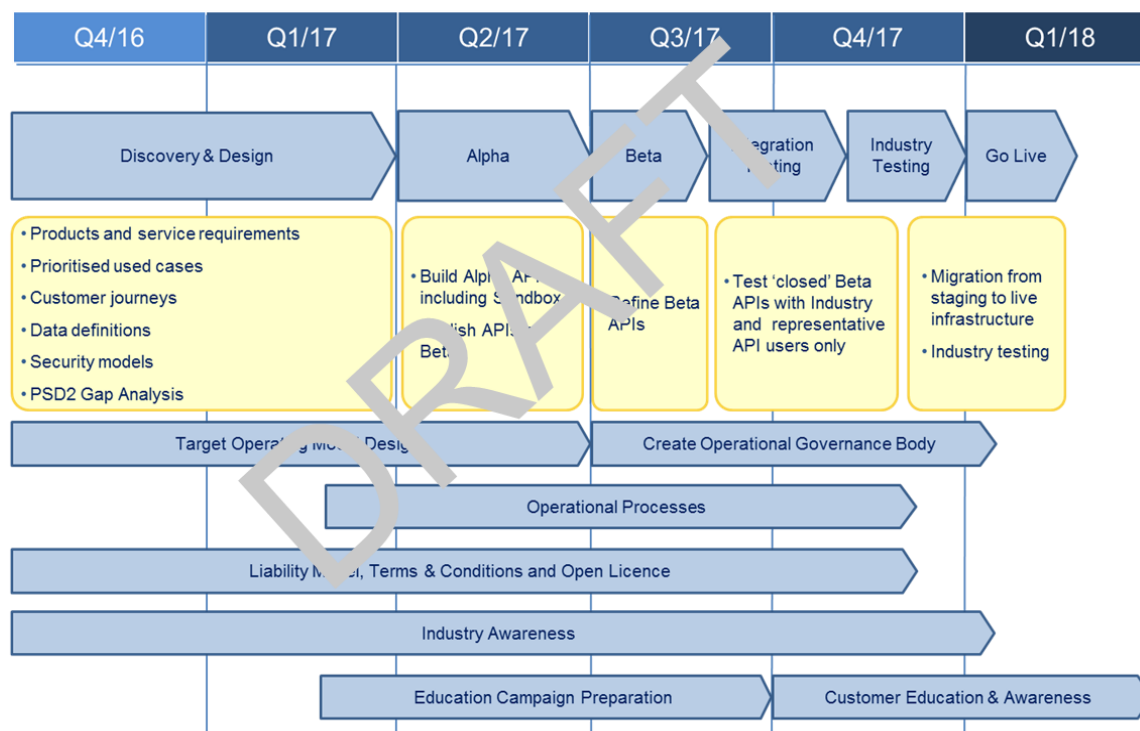
The Implementation Trustee:

- pivotal position: responsible for the delivery of open banking standards within an ambitious timeframe
- has the resources and powers necessary to do the job, including the ability to impose a decision where consensus cannot be achieved

Andrew Pinder appointed in October 2016



OB Read / Write 2018 Overall Plan and Deliverables



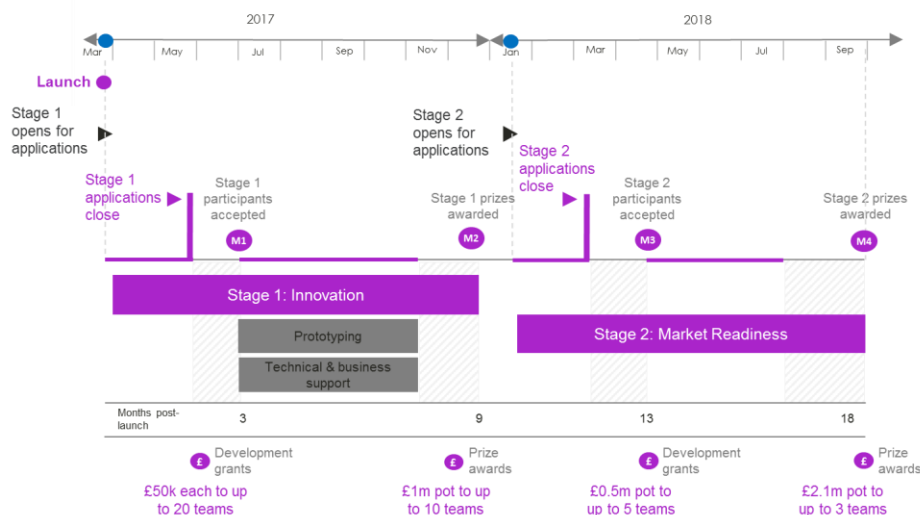
Plans are now in place to hit the March 2017 target and those for read/write and customer transaction data are about to be approved

Back-up

Tools to help SMEs

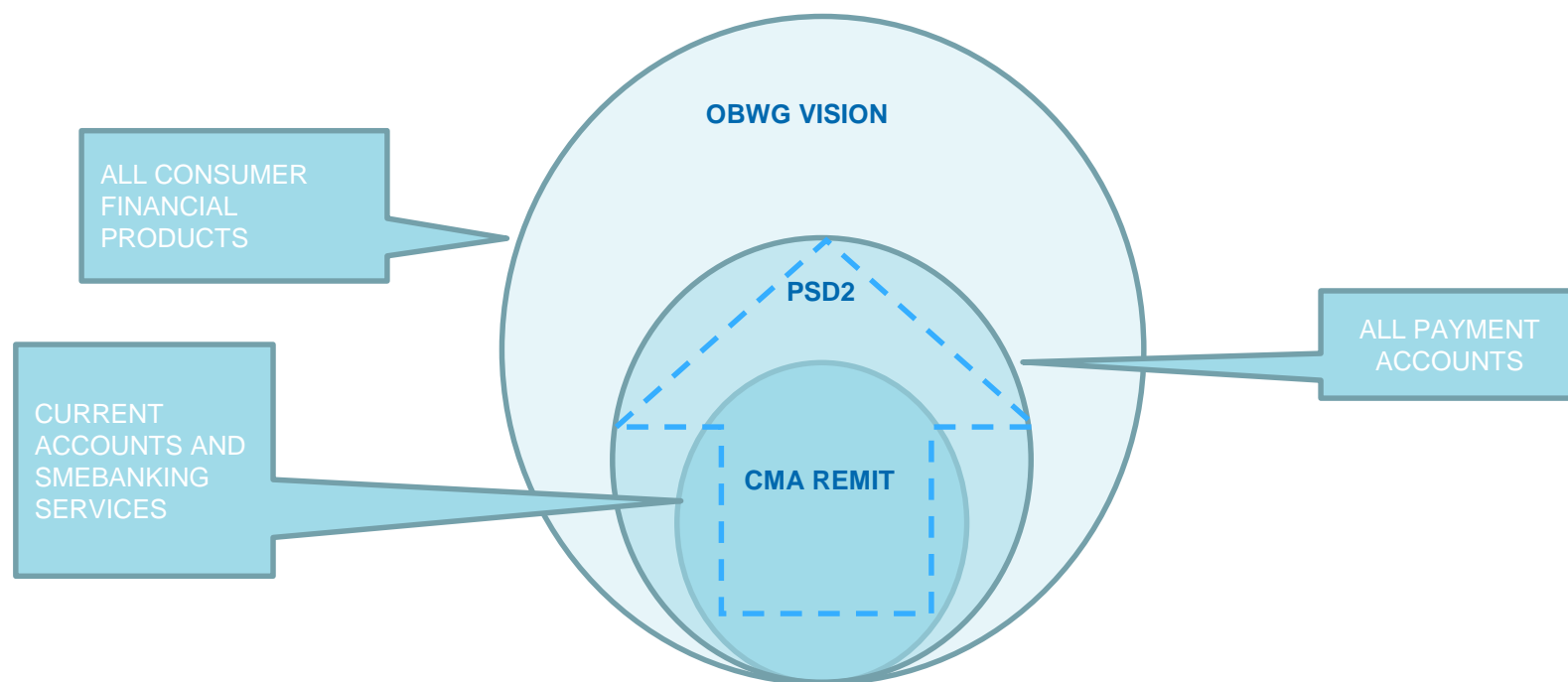


CHALLENGE TIMETABLE



The Nesta Open Up Challenge will reward new solutions that help small businesses to discover and access financial products and services suited to their needs, building on innovative and secure use of data, including data made available through open banking

Looking ahead



We will be working with HMT, the FCA and PSR to manage the evolution of the API ecosystem's regulatory oversight as the technology is adopted by a wider range of products/providers