Purpose of this note

The advisory group was set up to provide advice which informed the FCA's Call for Input on open finance and to feed into the FCA's strategy towards open finance. This document is one in a series of three advice notes produced by the advisory group.

Advice from the 'open finance working group on incentives' to the FCA

Area of consideration for this group

This Working Group was challenged by the FCA to examine the incentives of participants in relation to access to data. In particular, in the context of the open finance markets (General Insurance, Consumer Credit, Mortgages, Pensions, Investments & Savings), the Group was asked to consider:

a) Incentives/blockers on firms to provide open access to data voluntarily?
b) Incentives/blockers on firms to utilise that data and deliver compelling user propositions/products?
c) Incentives/blockers on consumers to adopt these user propositions/products?

Preliminary conclusions

Overall, the Working Group reached the following preliminary conclusions on these questions.

- In the absence of compulsion, firms are ***unlikely*** to provide open access voluntarily to the core data required for open finance.
- If access were to be opened up, firms would be ***very likely*** to utilise open data to deliver compelling user propositions/products.
- Provided consumers can see value in the new open finance products/services, it is ***very likely*** they will adopt them.

More detailed comments underlying these preliminary conclusions are provided below.

Underpinning assumptions

In our discussion, we agreed on a few underpinning assumptions about open finance that had implications for the discussion of incentives:

First, there may be different levels of open finance.
- At its 'core', open finance involves opening up basic access to consumers' personal data, to any participating third party, on the basis of explicit consumer consent. Some additional non-personal data (such as unique transaction IDs) may also need to be opened up as part of this core to enable key open finance use cases.

- There is potential for 'Premium' levels of open finance to develop, which offer additional data-sharing and functionality, which could be built on top of this core. The 'core' should be designed to enable such commercial 'overlay' services.
- The nature of open finance - what it comprises and also how it is financed - may be expected to change over time, as markets and technology evolve.

Second, there may potential for non-open forms of data-sharing, such as 'bilateral' or 'closed loop' data-sharing amongst a limited set of participants. Such initiatives may offer some of the benefits of open finance, but are unlikely to generate the levels of innovation, competition and positive consumer outcomes that we would expect fully fledged open finance to deliver.

Third, in terms of data-sharing, firms receiving consumers' personal data should not be sharing this to further parties without explicit consumer consent. It is recognised that this may be happening today, but this should not be viewed as an acceptable monetisation route.

Fourth, it could, and probably should, be mandated that any firm with access to open finance data be conduct-regulated.

a) Incentives/blockers on firms to provide open access to data voluntarily

We agreed that firms had some incentives to provide open access to data voluntarily, but that these were likely to be outweighed by the identified blockers to such action.

There may be more potential for the development of bilateral or closed loop data-sharing approaches, but these are unlikely to deliver the full innovation and competition benefits that open finance is expected to bring.

(i) Incentives

- **Reciprocity by other firms:** Firms' are more likely to provide data access to third parties if they expect to benefit from reciprocal access to the data of these third-party firms, and especially if these include their competitors.
- **Enhanced customer insights and products:** Firms may be more willing to open up data on a voluntary basis if they have the potential to receive valuable customer insights or products back from the third-party firms that gain access.
- **New solutions to thorny problems:** Third party providers may be able to contribute towards solutions for issues that are difficult for any one provider to solve. An example might be a new industry-wide solution to providing access to cash.
- **Mitigation of security/fraud concerns:** Firms already share data for security reasons, for example to address fraud, cyber and money laundering risks. In that sense, security concerns can drive firms to release data.

- **Avoidance of screen-scraping:** Firms currently face liability risks due to third parties using screen-scraping methods to access their customers' personal data. If open finance were to be put onto a more formalised and regulated basis, this would legitimise access to such data, but alongside improved security and ideally greater clarification of liability.
- **First mover advantage:** With ever-accelerating digitisation of the economy, there is a risk that firms which don't participate early in data-sharing initiatives could miss an opportunity to shape the resulting ecosystem. Early entrants may also be able to tip markets in their favour. Firms that are reticent to engage in open finance may be more vulnerable to disruptive entry by technology firms.
- **Consumer-led demand:** If firms' customers value the propositions that are delivered as a result of data sharing, then consumer led-demand could encourage firms to open up access to their data voluntarily.
- **Monetisation of basic data access**: Firms should not be able to charge for consumer data, given that this is clearly the consumer's to command. Firms could in theory charge for providing technical access through APIs to such data. However, there is a risk that such charging would inhibit the development of open finance. Such monetisation now basic data access is therefore not recommended. In Japan, although standards for Open Banking have been agreed and implemented, the banks are charging high fees for connectivity, and this is significantly limiting take-up.
- **Monetisation of 'Premium API':** Even if firms do not charge for basic data access, they may be able to build enhanced data offerings on top of the core open finance infrastructure, which they could charge for. Such developments are starting to emerge in Open Banking. The Group also pointed to the development of the New Payments Architecture, which will comprise a core network functionality, but will be specifically designed to facilitate the emergence of commercial overlay services
- **Low ongoing costs:** Firms are more likely to give access to data if the ongoing costs of doing so are low. This has implications for any ongoing central charges for oversight and development.

(ii) Blockers

- **Initial set-up Cost:** The cost of developing and implementing standards for data-sharing may be relatively high. Open Banking required substantial investment. The bulk of this related to implementation, rather than designing standards. These implementation costs may be likely to be lower for future open finance initiatives, given the lessons learned from the earlier initiative, but they may still be substantial.
- **Collective action problem:** Even if firms stand to benefit from reciprocal access to data, there may be a collective action problem with different firms being unable to agree and implement a coordinated approach due to conflicting interests, for example in terms of standards or timelines. In New Zealand, the industry itself has asked for Open Banking to be mandated in order to break a current deadlock in cross-industry negotiations. In the UK, the banks' voluntary implementation of the

Government's 2011 midata initiative was slow and ineffective, which was why Open Banking was needed.

- **Free rider problem:** The initial costs of setting up open finance tend to fall on existing firms, but the beneficiaries will include future entrants. Without a way to extract a contribution from these future entrants, this will tend to reduce incentives to voluntarily introduce open data-sharing. [Requiring all participants to be regulated could potentially help solve this issue, since they could then be required to contribute at least to the ongoing monitoring and development of Open Banking.]
- **Prioritisation of the 'regulatory stack':** Financial services firms have a heavy workload associated with regulatory requirements (the 'regulatory stack'). Prioritisation of this mandatory work can mean that other initiatives are often de-prioritised, even if they would be net beneficial. This was another factor underpinning the New Zealand request for Open Banking to be mandated.
- **Preference for providing access to data on a closed loop basis:** Although there may be benefits deriving from reciprocal access to data, it is less clear how firms benefit from sharing their data on an open basis as opposed to within a closed loop of approved firms. Sharing on a closed loop basis is also more likely to encourage reciprocity than open sharing. In the US, the 'Open Banking' that has emerged to date has in fact been closed, and includes just one TPP and two major banks. Such closed loop data access would generate some of the benefits to be derived from open finance. It could potentially also create a technological infrastructure that may facilitate the implementation of more open data-sharing over the longer term. However, it is unlikely to generate as much innovation, or as quickly, as fully-fledged open finance. Nor is it likely to open up the market to as much competition.
- **Preference for providing bilateral access to data:** Firms can secure innovation, consumer stickiness and protect their business model if they remain at the centre of the data-sharing hub. An incumbent firm, if given the choice, may therefore prefer to act as a 'hub', whereby it provides data access to specific innovative products (spokes), perhaps in return for incorporating these into its own product/business model where profitable to do so. For example, incumbent firms in the retail banking market might wish to integrate aggregators/budget tools into their product in order to compete more effectively with the services offered by newer digital banks. Again, such data access would generate some of the benefits to be gained from open finance, and could help to create a technological infrastructure that would facilitate the future development of open finance. However, the benefits are likely to be more limited, and slower, than under open finance. There are also risks that different hub and spoke networks using differing standards, thus hampering the future potential for introducing interoperability.
- **Threat to existing business models:** Firms typically want to protect their existing business model, and this may be threatened by high levels of innovation, especially where this is driven by third parties. There is a particular concern that more highly digitised firms – possibly the big tech

companies - will extract a substantial share of incumbent firms' rents, with the latter left struggling to fund a legacy asset base, such as networks of branches or ATMs.

- **Fraud and security risk:** While sharing data can help to mitigate fraud and security risk (see above), security concerns could also lead firms not to share data, for example to avoid data leaks.
- **Liability and redress:** For firms that have shared data, there is a risk that any claim relating to data security/fraud/other consumer harm would end up with them and not the third party. This could occur because the liability framework is not clear, or if the third party goes bust. This risk is sharpened by the fact that the ICO now has powers to fine firms up to 4 per cent of their annual global turnover.
- **Reputational risk:** As highlighted in a recent Ctrl Shift Report (2018) Data Mobility: The personal data portability growth opportunity for the UK economy – if data is ported to the wrong parties or used in ways in which harm consumers, incumbent firms face a reputational risk, even if they are not at fault, and even if there is no liability or redress aspect.
- **Consumer complaints servicing:** In the event of consumer complaints, and irrespective of whether the incumbent firm is required to pay redress, it may well face costs of having to explain the issue to consumers, as well as assessing and resolving who is at fault. In addition, a laborious process could lead to consumer dissatisfaction.

b) Incentives/blockers on firms to utilise that data to deliver compelling user propositions/products?

(i) Incentives

- **Direct monetisation of open finance products:** Firms could monetise the products they create utilising data by charging users. For example, a firm might charge individual users either a monthly/annual subscription fee for their personal financial management app. Other costlier subscription plans may be available for professionals such as financial advisors.
- **Indirect monetisation through enhanced offering:** Incumbent firms might incorporate new open finance -based services into their wider offering. This may allow them to increase their charges generally, or alternatively to gain/retain market share, without specifically charging for the open finance product.
- **Direct monetisation through sales to data providers:** Firms utilising the open data may also be able to sell their products and services, such as budget trackers or improved consumer insights back to the firms providing the data.
- **Direct monetisation through cross-selling/commission:** if a third party Personal Finance Manager encourages consumers to switch, then that firm may well receive commissions from any new provider. (See below for potential negative aspects of this.)
- **Direct monetisation through onward data-sharing:** Firms could monetise consumers' data by sharing data onward to further parties.

Where this involves sharing anonymised or inferred data, there is no legal restriction on this. Where it involves personal data, it requires explicit consumer consent. The extent to which this is happening currently is unknown, but there is potential for legal monetisation of such onward data-sharing, so long as consumer consent can be made meaningful.

- **Indirect monetisation through related products:** Big tech firms may be able to utilise data to support another aspect of their business. In particular, they may be able to utilise data to improve targeting of advertising or personalised product recommendations. This means that big tech firms may have additional incentives to develop new products, and thus encourage consumer data-sharing, relative to traditional incumbents in this marketplace or even more specialist fintech companies. They may even have an incentive to deliver use cases that would not economical for other types of firm.

(ii) Blockers

- **Uneven quality of access to consumer data:** The success of different use cases may depend on the extent and quality of data access provided. For example, a proposition that monitors consumer finances and suggests switching (for example, of mortgage provider) may only need to make an API call once a month. However, some applications like aggregators will need data available and updated on an ongoing basis as a pre-requisite to incentivise firms to provide the product.
- **Uneven roll-out:** A recent paper by the Reserve Bank of Australia (2019) highlighted that slow and uneven rollout of functionality by existing players (in this case the functionality of the New Payments Platform) could undermine positive network effects and act as a disincentive for other entities to invest in developing new overlay services. This could be the case with regards data-sharing in an open finance context.
- **Regulatory blockers:** For example, to the extent that some background switching apps (insurance/mortgages) may lie dormant without notification for months before making a recommendation, the 90-day reauthentication rule (PSD2) may discourage firms from providing such products, as consumer uptake/continued use may be low.
- **Consumer led demand:** If potential entrants sense that consumer take-up will be low, or even just slow to take off, then they will be more reticent to invest in developing products.
- **Data security/fraud risk and associated reputational/liability risk:** Many firms have received negative press for their use/misuse of data in recent years. In addition, the penalties for the misuse of data have increased in the UK and globally. Firms may also be concerned about a lack of clarity over liability in the case of breaches.
- **Poorly aligned incentives of new product providers:** There is a risk that the incentives of new product providers may not be aligned with the consumer's best interest. For example, a product provider may have an incentive to encourage consumers to keep switching, in order to extract commissions from suppliers, even if this is not in the best interest of the consumer. Would this need to be regulated?

c) Incentives/blockers on consumers to adopt these user propositions/products?

(i) Incentives

- **Some compelling propositions:** Convenience could be a real driver. Onboarding with applications (insurance, mortgages and credit) could be made much easier. A Which? (2018) Report: Consumers and their Data highlighted that consumers are willing to share their data if there is benefit in doing so. Two key benefits were highlighted: saving money and saving time.
- **Smooth interaction across financial providers:** Different standards across different sectors could lead to less adoption. Consumers don't think about writing a will, as different from buying insurance or buying a mortgage. Consumers would be encouraged to adopt open finance if the data from these different financial areas were interoperable.
- **Clear privacy management:** Consumers are increasingly uneasy about privacy, and how their data is being used. Such unease would likely to be reduced if consumers had greater transparency and control over their data, through access to a single consent portal. This would log all the companies which the consumer had shared data with, and allow consumers to recall any data they no longer wanted to share. It was noted that requiring consumers to opt-in to continue sharing their data after 90 days could create significant disruption. Such a portal could potential simplify this opt-in process and reduce the disruption. It could also facilitate firms in differentiating in terms of privacy, by enabling consumers to see more clearly the implications of differing privacy policies. Some firms may wish to offer enhanced privacy policies while others may wish to obtain explicit consent to be able to share forward consumer data to help finance their activities.
- **Teaser Rates:** Consumers can be subject to present bias. Firms entering the market to provide open finance products may therefore encourage consumers to share data by offering, for example, products that are initially free or financial rewards for sharing data.
- **Lack of awareness/underestimate value/heuristics:** Consumers may lack awareness of what data they are sharing or may underestimate its value. They are therefore likely to use heuristics to decide whether they wish to share data. These may act as an incentive or a blocker. However, underestimating the value of data, or the extent of the data being shared, will most likely act as an incentive.

(ii) Blockers

- **Privacy concerns:** Consumers have privacy concerns regards sharing their data. Indeed, it was noted that the more consumers are aware of how much data they are sharing, and what use is being made of it, the more concerned they are.

- **Security concerns:** Consumers need to be reassured that there is protection in place to ensure the security of any personal information being shared and understand the procedure for redress should their personal information be hacked. There are potential externalities across firms in the area of privacy/data security, as a bad experience with one firm can reduce consumer trust more widely.
- **Negative impacts on consumer outcomes:** Consumers may be concerned that they will face negative outcomes from data-sharing. For example, data-sharing across from consumer current accounts that reveals excessive purchases of 'riskier products' such as alcohol/cigarettes could result in a higher premium for insurance products. Consumers may therefore want to 'blank out' some data or have it categorised in a manner that conceals some information (ie. categorise alcohol spending as spending on 'leisure'). There may be a role for a third party that can offer a trusted intermediary service that filters data and alleviates such concerns, acting on behalf of the consumer.
- **Consent concerns:** Consumers may be particularly concerned that their data may be sold on without their awareness or explicit consent. Consumers may also be unaware of their rights to consent or recall data under an open finance framework.
- **Redress Concerns:** Consumers may be concerned about their access to redress if things go wrong (especially if their data is shared outside of the FOS perimeter).
- **Costs of setting up data sharing:** If setting up data sharing arrangements takes time, or involves significant hassle, then this could significantly discourage consumers from taking part. An example of this difficulty is a process by which a consumer has to authenticate every account on an aggregator using a different authentication standard, this could also make revocation of data harder too. Digitalised ID could help to reduce this journey or alternatively there are providers who aggregate APIs to make customer consent easier. Financial costs of subscribing to services could also act as a disincentive to consumer take-up.
- **Lack of compelling propositions:** Of course, consumers may not be attracted by the propositions on offer. For example, within a personal finance management tool they may feel that the level of granularity provided is insufficient to make the tool valuable.
- **Lack of awareness:** There's a great deal of misinformation in the market. Consumers may be unduly fearful of sharing their data, or may lack awareness of the benefits of service propositions built using open finance.

Disclaimer

The FCA is committed to encouraging debate on all aspects of open finance. As part of this commitment, the FCA established an independent advisory group on open finance to inform its strategy. This publication is the advisory group's advice to the FCA and does not necessary reflect the views of the FCA. It is however one source of evidence that the FCA may use to inform its views along with responses to the Call for Input.