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| BSA response to FCA Call for Inputs on Open Finance  Restricted  1 October 2020 |
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# Summary

The Building Societies Association represents all 43 UK building societies and six credit unions.

With the exception of the BSA’s largest member Nationwide, building societies were not part of the nine organisations effected by the Competition and Markets Authority’s 2016 report that introduced a range of remedies to boost competition in retail banking, including the setting up of Open Banking standards.

A number of mutual organisations are already starting to use Open Banking in their systems and processes, in particular for assessing mortgage affordability or collections and helping members to save or plan financially.

Many see Open Banking and open data in general as an opportunity to empower customers to better understand their finances and for them as organisations to provide new solutions for their customers’ needs.

However, members have also identified the below concerns:

**Disintermediation** - There are concerns that Open Finance poses a potential threat to traditional mutual organisations by purely focusing on price and increasing disintermediation. Given the majority of building societies and credit unions have a high street presence and are deeply connected with their local communities, there are also concerns about the impact this effect could have on customers who do not want to operate their finances digitally.

**Lack of trust in digital services** - There are also concerns that it runs the risk of focusing on specific digital services and solutions rather than addressing underlying structural problems, such as a lack of trust in digital services among consumers. FCA support of the establishment of digital identity and verification (digital ID&V) standards and promoting these to consumers could be one option to consider.

**Pan-industry approach on API standards** - The Call for Input mentions the work of other UK industries and Government to open access to data, such as the department for business energy and industrial strategy’s (BEIS) Smart Data report. Some members have highlighted that they would be keen to see Open Finance as part of a pan-industry approach to opening of data rather than a separate standard setting body within financial services. Given the high cost of setting up Open Banking, this would also be a means of spreading costs across sectors and leveraging expertise.

**Questions:**

**Q1: What action can we take to help ensure the potential of open banking is maximised, for instance to support the development of new open banking services?**

Support the establishment of digital ID&V standards and promote these to consumers. The BSA has carried out a consumer survey on attitudes to digital[[1]](#endnote-1) over the last three years and while there is growing interest in digital services, in particular where services provide greater insight into savings or a faster service for a mortgage, there remains distrust when it comes to digital services overall. While our research shows consumers warming to propositions over time, supporting the establishment of digital ID&V standards could potentially help support this.

Allow the UK financial services sector the time to develop new propositions on the new infrastructure that has been put in place.

**Q2: We are interested in your views on what open banking teaches us about the potential development of open finance.**

The limited take up of Open Banking to date highlights that consumers require time getting comfortable with new services and that the true benefits may be for uses not envisaged by either regulators or even the bodies involved in setting the standards.

It also suggests that the current approach with Open Banking has been too narrow to develop compelling propositions for consumers. While Open Finance could be seen as a natural widening of this approach, taking a pan-industry approach to open data (eg Government, utilities, financial services and telecommunications) as seen in other countries like Australia could ensure that new propositions gain traction.

**Q3: Do you agree with our definition of open finance?**

Yes – but that it should be reframed in the context of open data standards across industries.

**Q4: Do you agree with our assessment of the potential benefits of open finance? Are there others?**

Many of the potential services offered by open data are already being developed by Third Party Providers (TPPs) and widening access to other financial services products and other industries will only make propositions more compelling.

Even with a greater range of product data feeding into services, our consumer research highlights a lack of trust towards digital services. Greater focus on promoting standards and trust in digital ID&V services could potentially improve this.

**Q5: What can we do to maximise these benefits (given the considerations set out in paragraphs 3.12 to 3.17)?**

See previous response on promotion of Digital ID&V.

**Q6: Is there a natural sequence by which open finance would or should develop by sector?**

We have no comment.

**Q7: Do you agree with our assessment of the potential risks arising from open finance? Are there others?**

We agree with the potential risks listed. There is an additional competition risk to incumbent firms from focusing purely on price at the exclusion of other benefits such as membership and community engagement. This type of disintermediation has not materialised yet under Open Banking but it remains a potential competition risk.

Given the majority of building societies and credit unions have a high street presence and are deeply connected with their local communities, there are also concerns about the impact any disintermediation could have on customers who do not want to operate their finances digitally.

Likewise, forcing all firms to open their data will have a financial and regulatory cost as well. Many building societies operate savings products with a nominated account. This has meant they do not have to adhere to all of the rules around PSD2, in particular open access to data.

**Q8: Do you consider that the current regulatory framework would be adequate to capture these risks?**

In terms of misuse of data and operational risks, regulators continue to expand provisions within firms to manage new scenarios. However, Open Finance is ultimately a measure to shake up the status quo and exclusion, poor consumer outcomes and negative competition could all result from the very innovation the FCA is looking to promote.

**Q9: What barriers do established firms face in providing access to customer data and what barriers do TPPs face in accessing that data today?**

Members have provided us with examples of a lack of data interoperability between the IT system providers that they use. There appears to be no requirement for IT providers to facilitate the free flow of data between systems. This also will be a barrier to TPPs.

However, one IT provider has also made the point that any standards would need to be set at an industry level and that without standardisation across the board, from regulators to Government, there could be inconsistencies.

**Q10: Do you think the right incentives exist for open finance to develop, or would FCA rules, or any other changes be necessary?**

Yes. Open Banking is relatively new in the market but the business case for utilising the technology in mortgages and savings is motivating firms to bring propositions to market. The incentives are primarily around competition and improving the customer experience.

**Q11: Do you have views on the feasibility of different types of firms opening up access to customer data to third parties?**

Members deploy a range of different and interconnecting IT vendors to provide digital services. These IT vendors are increasingly investing in their own systems to ensure greater access to their customers’ data in the future. However, the cost of developing APIs may still remain a barrier to some firms.

**Q12: What costs would be involved in doing so? We are interested in views on the desirability and feasibility of developing APIs?**

We have had no specific feedback on this. Firms and their technology partners are actively investing in APIs and systems and services are continuing to evolve across the sector. Members are reliant on IT partners developing APIs to third parties.

**Q13: Do you have views on how the market may develop if some but not all firms opened up to third party access?**

Given the high competition in specific product areas like the mortgage market, if the opening up of specific data to third parties had a tangible impact on business volumes, this would naturally compel firms to open up their data.

**Q14: What functions and common standards are needed to support open finance? How should they be delivered?**

As mentioned previously, a viable digital ID&V solution is essential to the development of open data and solutions that utilise it.

**Q15: What role could BEIS’ Smart Data Function best play to ensure interoperability and cohesion?**

Creating standards across industries has been well received by members, likewise as a means of leveraging the cost of setting up infrastructure. Another suggestion was to look at other sectors that have set up standards such as the Water Utilities sectors with the [Worldwide Industry Telemetry Standards](https://www.witsprotocol.org/) or to plug into existing global standards, which would reduce cost where vendors provide software in different countries.

**Q16: To what extent should the standards and infrastructure developed by the OBIE be leveraged to support open finance?**

The setting of common standards seems a logical next step. As mentioned previously, there is a concern that Open Finance would encourage standards and costs to be solely focused within the financial services rather than across industries.

**Q17: Do you agree that GDPR alone may not provide a sufficient framework for the development of open finance?**

We have had no specific feedback on this from our members. However, one of the IT providers to the sector mentioned the difficulty of tracking data where there is open access and how third parties are protecting and passing on data. \_

**Q18: If so, what other rights and protections are needed? Is the open banking framework the right starting point?**

We have had no specific feedback on this.

**Q19: What are the specific ethical issues we need to consider as part of open finance?**

We have nothing to add to the areas identified.

**Q20: Do you have views on whether the draft principles for open finance will achieve our aim of an effective and interoperable ecosystem?**

The general areas look fine but a specific comment has been made about a lack of reciprocity of data between TPPs and data holders.

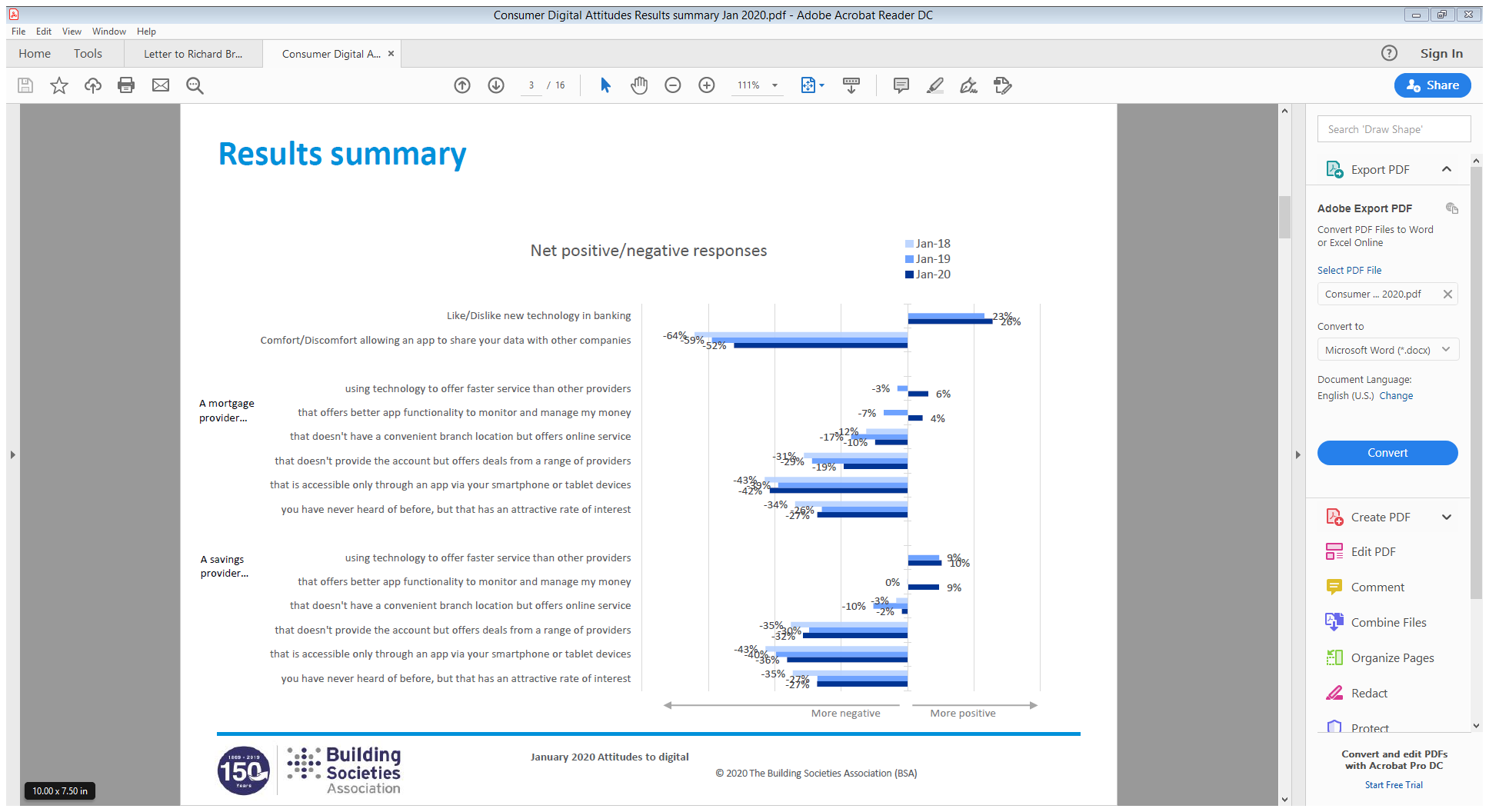
**Q21: How should these set of principles be developed? Do you have views on the role the FCA should play?**

The FCA should ensure any principles are developed in partnership with the industry rather than delegating responsibility to any advisory group.

**Q22: Do you have views on whether any elements of the FCA’s regulatory framework may constrain the development of open finance? Please provide specific examples.**

We have had no specific feedback on this.

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|  | www.bsa.org.uk  The Building Societies Association (BSA) is the voice of the UK’s building societies and also  represents a number of credit unions.  We fulfil two key roles. We provide our members with information to help them run their  businesses. We also represent their interests to audiences including the Financial Conduct  Authority, Prudential Regulation Authority and other regulators, the Government and  Parliament, the Bank of England, the media and other opinion formers,  and the general public.  Our members have total assets of over £420 billion, and account for 23%  of the UK mortgage market and 19% of the UK savings market. |

1. BSA Digital Attitudes Consumer Survey 2020 [↑](#endnote-ref-1)