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Open Banking in the UK
Setting the record straight

Across the world, governments, regulators, banks and fintechs are talking about open banking, and also trying to follow the progress and success of UK Open Banking. They sense excitement, threat and opportunity, and there is much talk about innovation, security, standards and risk.

But are we all talking about the same thing? What *is* 'open banking'?

The UK 🇬🇧

There are two worlds in UK open banking. There is the world which existed before 14th January 2018, and the world which existed after 14th January 2018.

Before 14th January 2018, the UK was remarkably similar to many other open banking markets in terms of market penetration of open banking (per capita), and the retail banking and regulatory landscape more generally.

Two things happened on the 14th January 2018 which changed that:

1. PSD2 came into force in the EU
2. The 9 largest current account providers in the UK (including some specific to Northern Ireland) tried to implement a PSD2-compliant journey through a coordinated programme of technical delivery through standardised APIs. In this regard they have been 18 months ahead of the rest of the EU, and therefore the focal point for discussion.

The programme borrowed the generic name 'open banking' from our industry and called itself Open Banking. (NOTE: This has caused a degree of confusion, as we were referring to open banking long before this programme, and it encompassed other methods of data access, such as credential sharing through to screen scraping). The programme has been delivered by a vehicle called the Open Banking Implementation Entity (OBIE), which is often used to distinguish Open Banking from open banking!

So far, PSD2 has had the greater impact of the two. By some distance. The certainty that a bank or credit card provider is no longer legally entitled to either block aggregation or force contracts for access has led to a massive inflow of firms and new capital in this space. Circa US$3.3bn of Fintech Venture Capital came to the UK last year, with only the US and China attracting more.

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The open banking story has been at the heart of that, with a number of market vectors converging to take advantage of the greater customer insights available through data as a Third Party Provider (TPP). That the legal right has been backed up by a well funded and well organised API standardisation programme has provided the industry with great encouragement about the direction of travel.

So far, there have been 200+ TPP firms connected to Open Banking via making themselves known to OBIE. There seems to about 130+ still winding their way through the regulatory process. The others are able to connect and go live as they wish. In addition to the TPPs, several other banks and credit card providers (known helpfully as Account Servicing

Payment Service Providers, or ASPSPs) have also set themselves up to consume the APIs in the same as Fintech TPPs.

TPPs can operate until 14th September 2019, without being newly regulated, *if* they were in the EU member state market before 14th January 2016. They cannot access the central access directory of OBIE until they are regulated. This means that firms that are awaiting confirmation of regulation, are by definition still all using credential sharing (through to screen scraping) methodology, typically via a 3rd party aggregator service.

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As a very rough guide number (which has not been properly tested for over a year) we estimate that some 7,500+ new customers per day are added to Fintech firms via account aggregation of some description. We further estimate that over 90% of this growth is currently *not* from the Open Banking API. However it would be completely wrong to say that Open Banking / open banking in the UK is failing.

So why are commentators suggesting that it is?

One obvious reason (at least to us as market participants) is because many people with a tangential interest have not quite grasped that open banking is not Open Banking. Open Banking is an organisation; open banking is a *movement*. It is the plumbing; the regulatory shift; the customer data right; the booming new industry.

It is *not* something that a consumer or small business consumes. You can't 'download' open banking. You can't open banking your way to better financial health. Customers don't touch open banking, but they definitely make use of Third Party Services that use it internally to develop insights that are in turn used to help customers solve important real life problems.

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One other strange reason is that the connotation of the word 'open' is leading readers to perceive that their data might be shared without their permission. This is, of course, nonsense. In the context, 'open' means available for competition and innovation, where the customer is in complete control of the services they choose, and not their incumbent provider. It is a controlled 'open' with rules, regulations and protections, not a free for all.

So let us lay to rest the idea that there is not customer demand for open banking. There is massive demand for the services built on top of open banking. People use websites all the time, without needing to know how the web is constructed.

This is no different. They use bank cards and don't know how schemes and settlements work. They will use the various mechanics and components and protections of open banking, but without needing to know about it. They just need to find services they value.

Does FDATA rate Open Banking/OBIE? And the UK's API? And the standardisation process?

As the Fintech trade association representing firms interested in open banking and open finance across many markets, we are the greatest and most vocal critic of some elements delivered by the large banks through OBIE, and by some of the decisions taken by OBIE.

That is because we have had to fight our corner and continually advocate for the best possible standards and processes.

That said, FDATA is also the strongest supporter of OBIE and its work. That is because it is designed to pursue the best market facing outcomes. So when market commentators and researchers from non-UK markets get hold of our papers documenting short fallings and challenges, this should not be taken as a sign that because there are serious issues, the programme is failing.

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It is succeeding precisely because of the level of market engagement and governance structures that allow it to take on board feedback and continually respond in a positive fashion. It is a healthy and vibrant culture, open to constructive feedback, with everyone working to a better outcome. Some of the challenges are tough. In going first, the UK has also taken on a responsibility to share its unvarnished experience of what has worked and what did not. As a global player and thought leader, FDATA has a particular role in sharing that learning without a sugar coating. We don't find that inconsistent with being a massive advocate for open banking. It leads to better outcomes.

In short, we are massive fans of the process. 2019 is going to be a bumpy year, with lots of new requirements coming from EU regulation, and honestly not nearly enough time for these to succeed. There is a lot riding on us managing our way through the issues that are coming, working as an ecosystem to help get the jobs done and reduce complexity, risk and cost. The leadership and coordination of OBIE, working alongside the FCA, is critical to

maintaining some order and managing, as best we can, the various risks and challenges of implementation.

Indeed, had it not been for the Competition and Markets Authority choosing 'open banking' as a vehicle to improve competition in retail banking, OBIE would not have been set up and the whole raft of excellent designs and implementation capabilities the market currently enjoys to aide PSD2 delivery would not have developed. That the governance was set up at the outset to seek wide stakeholder engagement has been critical.

Adoption of Open Banking or Transition to the API

For very sensible or technical reasons, many firms in the open banking domain are still mainly using the older technology, known as credential sharing (through to screen scraping).

There are numerous reasons for the rate of transition or adoption:

1. There are many firms in the regulatory 'hopper' and have either recently dropped through or are still awaiting their permission. Those that are awaiting cannot use the OBIE standard API as exposed in the secure directory of regulated actors. The production environment is restricted to regulated actors.

2. For those who have been successful with their regulatory application more recently, they are waiting for Version 3.1 of the specifications to be implemented for March 2019. There is little point on them working towards V1 or V2, given that much richer functionality is due out soon.

3. The stability and responsiveness of the APIs over the first year has been somewhat inconsistent. It is now improving and the operational guidelines and experience of the banks (gained over the first year), should see the maturing of the environment. Confidence to switch customers is beginning to come through. The firms who have switched soonest, have typically been newer firms without large revenue books or perhaps customer numbers connected to the old tech. Their risk of going early has been more manageable.

4. Some of the facets of EU regulatory thinking have also impeded adoption. One of these (Name of the Account Holder) has recently been solved but not yet implemented. The other (90 day reauthentication) remains as a blocker. Firms have not suffered these in the older technology, because they have only as yet affected the new technology and do not come into force (if at all) until September 2019; they are not choosing to suffer a deterioration in customer access, because they don't have to.

5. Conversion of new customers and maintenance of existing customers have been easier on the 'old tech', but that is now changing. In March 2019 we will have App-to-App connections, rather than only web based API journeys. Given the predominance of smartphones in Fintech, this is a major breakthrough. In addition more prescriptive customer experience guidelines will come into force, which make it easier for firms to convert customer journeys in the API than has previously been experienced.

6. There is still a material scope issue. PSD2 is for payment account types. As we get right down into the risk management, technical choice and financial decision conundrums that face each TPP, we can see that they will have to maintain the 'old tech' and tech partnerships that underpin aggregation for all non-payment accounts. For example, an accountancy software provider for small businesses may get access to current/checking account via the API but still have to scrape the savings accounts. Each of their customers will typically have a savings account with the same provider. Providing two customer journeys to aggregate the same account provider is not happy customer customer experience, and firms may prefer to maintain their existing process until the new one supports a better flow.

7. The upcoming timetable across 2019 for the Regulatory and Technical Standards (RTS) that apply to PSD2 flow from the European Banking Authority to national regulators. The RTS is creating a number of opposing forces. For example, some banks may switch their current/checking accounts to API only, but at the same time and for different rules and reasons, unintentionally block access to data types (such as savings) which are not even caught by the regulations. TPPs that only need payments data will begin pushing through into the API regimes as they become available and mature. Firms that need more data verticals to support their customers are scratching their heads and appealing to regulators to avoid creating a cliff edge. This remains a danger.

Whilst Open Banking (the API from the large banks) has had to date low market impact in terms of customer volumes, it is very well supported by the Fintech market. When OBIE consults on important issues such as technical standards, hundreds and sometimes thousands of people respond. The measures now put in place by OBIE to improve the quality of the experience for Fintech firms have been learned through tough experiences, generated without too much to learn from in other markets. All sides of the market are learning and improving. By late 2019, the significant market demand for resilient and functional APIs, coupled to the established customer demand for the services supplied by the Fintech firms, will see a massive transition to the improved UK Open Banking API and supporting capabilities.

The remaining 'inhibitors' - that have yet to have a clearly articulated solution - derive from EU legal text in directives. FDATA Europe and others are working hard to reduce the

damage these will do and actively manage the risks in transition. OBIE is clearly at the heart of the effort to coordinate the best market facing outcomes.

OBIE has put in place the correct building blocks and extracted the correct learnings. Whilst one can always point, in a massive and complex industry programme, to things that could do with improvement, it is well supported, well led, well funded and has the ability (due to the regulatory support and set up) to keep driving improvements. It should be clear to everyone, Open Banking in the UK is far from failing. End customers will never directly consume the effort, but great numbers will enjoy the benefits of that effort in 2019.

Summary

The UK is making a good fist of delivering Open Banking. That is not to say everything is perfect. The really big banks have had a tough job. The process has been like digital boot camp, and has tested their resources and energy. They are emerging much fitter and are getting better week-by-week, but it has been difficult for them to transition their cultures and processes. OBIE has a number of items that they would certainly improve on with hindsight, but given the complexity of the journey, that seems quite normal.

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The regulatory landscape has also wrestled with complexity, and typically suffered unintended consequences and knock-on effects that were not anticipated. TPPs have been faced with suddenly having to get organised and help to orchestrate their feedback, whilst maintaining the trajectory of businesses of all shapes, sizes and business models.

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Other markets may review the challenges of the UK and decide to go in a different direction. At FDATA, we respectfully suggest that it is worth going through the various challenges. The end state looks like it will be an excellent result for customers, whilst markedly reducing risks, costs and complexity for the market actors. Moreover, other markets don't have to simply experience all of the mistakes made in the UK. They could look to what it has now put in place to fix the earlier problems and simply miss out the painful learning in the middle. The only items that are still a struggle are flowing from directives that were written long before the experience of implementation exposed their weaknesses.

The two things that have never been missing in the market are smart people delivering great innovations on top of the open banking data, and large volumes of customers looking for a better outcome and prepared to try these great innovations.