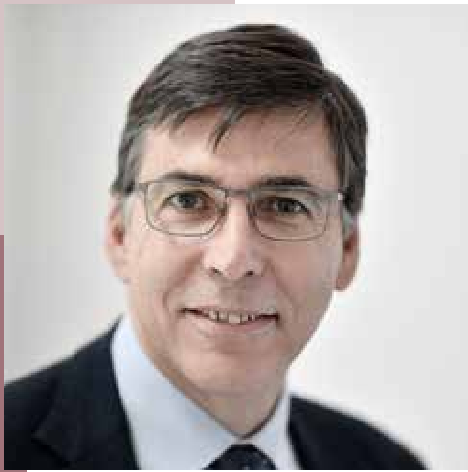
OPEN FINANCE: POLICY NEEDS



DENIS BEAU

First Deputy Governor - Banque de France

Open Finance: moving beyond payments to embrace the current digital transformation [of financial services]

The pandemic fostered the adoption of new digital habits and spurred a dramatic movement toward online financial services. With so much more of their lives spent online, Open Finance holds many promises for consumers and SMEs, notably by helping them manage their finances more effectively and benefit from improved products and services. At the same time, users of financial services must be protected against new risks stemming from increased reliance on digital finance.

The European Union pioneered Open Banking with the second Payment Services Directive (PSD2), which triggered the development of open banking services in the EU by giving a legal status to account information service (AIS) and payment initiation service (PIS) providers, and established the free access to payments data held by banks.

However, while the PSD2 gives European citizens more control over the data they choose to share with third parties than they ever did before, the path to Open Banking –and more broadly to Open Finance– has not been fully achieved and many use cases are yet to mature.

A key priority should be to support the creation of a European financial data space, including enhanced access to data and data sharing. These are prerequisites that will encourage the creation of innovative products for consumers and businesses, while supporting broader policy objectives, such as the creation of a single market for data. It will also contribute to facilitating access to data needed to channel funding in support of sustainable investments, notably for the Capital Markets Union.

Europe should seize the opportunities of the data-driven revolution to move forward as a global digital player.

It is therefore both appropriate and welcome that this priority stands at the heart of the EU digital finance strategy. Nonetheless, as supervisors, our number one priority remains to ensure that data openness develops within and across sectors in compliance with data protection, AML and competition rules, data ethics and consumer protection measures. For consumers, having a clear understanding of where and when their data is used, with whom it has been shared, and the ability to withdraw their consent when they wish to do so is absolutely paramount. Moreover, while Open Finance promises new opportunities and more modern payments, increased data sharing also makes the risk of soaring scams, cyber attacks and fraud very real. Hence, putting appropriate safeguards and regulations in place, as well as having a clear understanding of what happens when data is misused, is a crucial point for us.

Yet it is up to the industry to reap the full benefits of this on-going data revolution.

Though necessary to guarantee security, a level-playing field and an orderly implementation, open data regulation is only a means to an end, as Open Finance will only bear fruits if the whole industry embraces it. Fortunately, there is a strong awareness in Europe of the strategic nature of data in today's economy. Indeed, APIs hold great potential to improve customer experience and streamline back-office operations way beyond payments, in areas such as mortgages, securities, or pensions. Combined with e-ID, or push payments prompted by Request-to-Pay services for instance, Open Finance may unlock unexpected consumer benefits while balancing the potential risks.

As of now, I note with satisfaction a progressive paradigm shift from a passive regulatory approach to a more proactive and market-driven outlook: specifically on payments, the development of new frameworks building on – but moving beyond – PSD2 will contribute to creating a fully integrated market, for instance through the SEPA Payment Account Access scheme which intends to incentivise all stakeholders to cater for new market needs and maturing services. With such examples in mind, and seeing our vibrant fintech ecosystem, I am confident that the coming years will open exciting opportunities for European economic actors and renew central bankers' challenges.

European authorities have to support this digital transformation of finance in the coming years, while regulating its risks. Embracing the ongoing data-driven revolution proactively is key to move Europe forward as a global digital player.

ONDŘEJ KOVAŘÍK

MEP, Committee on Economic and Monetary Affairs - European Parliament

We must embrace the innovation wave to help Europe's financial sector grow

As we look at the landscape for payments, open finance and banking, it is clear that the traditional models will have to adapt, and there are already some new players in the financial services field doing just that. Don't mistake me, I still see a role for traditional banking and finance, as there will be many of our citizens who will not be comfortable with online banking or interacting with an automated voice rather than a person when they wish to place a stock order with their chosen financial service.

I see some realistic scenarios playing out in the coming years, and some ambitions scenarios, which may work and unlock huge potential in financing in Europe. Equally, they may not, and we need to be ready to deal with those scenarios that fail.

In a realistic scenario, there will be always the need for high street banks, high speed trading floors and traditional local services such as mortgages, car loans etc. These would in my view fall more towards the traditional and currently existing financial services models. The risk with these types of traditional models is that they are crowded out by the more trendy and appealing banking services, which offer products beyond those even considered by traditional retail banks.

These more ambitious financial service providers, those companies which like to take risks with their financial services models, not simply by creating online digital banks in Europe, but also by scaling their services up from simply banking to include investment, savings and portfolios (including crypto assets). They could also entice clients through advantages such as discounts at certain retail stores, lounge access at airports, online shopping discount and more. The ambition of innovative financial services knows no bounds and the sky is the limit.

The question is, what happens if the sky comes falling down, or regulators come calling down to highlight some questionable practices or a simply unforeseen event brings all the ambition crashing to the ground. This may or may not happen, but with the risks that these companies are taking, and the plethora of new financial services regulation targeting specifically digital banking models, these seem like scenarios which could well be plausible in the coming years, and indeed scenarios that we as legislators have to address to the best of our ability.

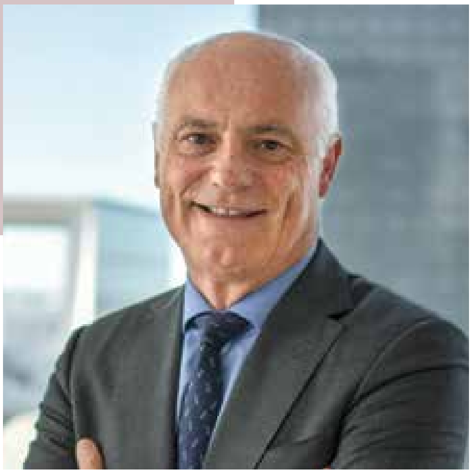
A personal digital ID in financial services would encourage more cross-border bank accounts.

DFS have a large range of use cases, from e-money accounts and crypto wallets, to digital financial identification. I could go on, but let me take a moment to focus on what I see as important for cross-border investment and banking in Europe. That is a digital ID in the financial services field. A personal digital ID in financial services would encourage more cross-border bank accounts, both traditional and innovative. Financial service institutions would have access to information from clients from across the EU at the touch of a button, or in this case the reading of a card. The digital ID card will contain the essential financial information needed in order for consumers to set up a bank account in any country in the EU.

I believe that existing financial institutions need to begin to adopt a more innovative approach to finance. We are seeing examples of some traditional banks taking on new initiatives, using new technology such as DLT in order to speed up transactions while making them more secure. Customers throughout Europe, especially on a local level trust their own bank. As long as these banks are able to modernize their services through banking apps, exchange services and also investment services which would cut costs for clients, I believe that they still have a strong role to play and can attract new customers as well as more traditional customers.

We also need to be cautious when it comes to regulating the innovator, We are currently dealing with legislation which sets the framework for how to manage the entry of crypto and big tech companies into the world of financial services. These pieces of legislation are the 'Markets in Crypto-Assets Regulation (MICA)' and the 'Digital Markets Act' (DMA). These regulations look at how best to integrate financial models into technological models and vice versa. When it comes to MiCA, we've been examining how to deal with big tech companies opening wallets for their customers to use to acquire goods or services. We've been working on ensuring that the tech and crypto companies are sufficiently supervised, while consumers adequately protected.

For the DMA, we have been considering how financial services companies can be adequately supervised when they are processing transactions of billions of Euros per day across not just Europe, but the whole world. What these two regulations have in common are that they will have a global reach, and we will need to work closely with partners from across the world to ensure that the markets are well regulated, consumers are well protected and the legislation is a success. This applies to all open finance and payments markets as a whole.



JOSÉ MANUEL CAMPA

Chairperson - European Banking Authority (EBA)

Open finance: what prospects and policy needs

The revised Payment Services Directive (PSD2) set a global precedent in establishing a legal framework governing the access to customers' data, including the related security measures. The requirements aimed to enhance competition in the payment services market vis-a-vis banks. Three years after the application of PSD2 more than 400 non-bank third party providers are now authorised to provide the new services based on access to payment accounts held by banks (and other account servicing payment service providers).

These services, so-called payment initiation and account information services, have allowed for the introduction of alternative payment solutions and the development of value-added services based on customers' data.

At the same time, the safety of consumers' data was ensured by the requirements for strong customer authentication (SCA), identification of third-party providers through the use of qualified certificates under the eIDAS Regulation, the provision of services based on user's explicit consent and others. Evidence exists that the security measures appear to be achieving the effect envisaged by the Directive. The preliminary analysis of payment fraud data of 2019 and 2020, which the EBA published last month, suggests that fraud rates were 40-60% lower for transaction where SCA was applied compared to those where SCA was not applied. Furthermore, SCA requirements were not fully enforced during this period across all 27 Member States and we should expect further improvements in security once enforcement has become widespread.

The next natural step will be to move from open payments to open finance. Opening access to a range of banking and financial data that goes beyond payment accounts data to cover data on savings, investments and insurances. Such an extension would allow customers to seize the benefits of new and innovative services based on customer's data that can be offered by market challengers.

As the EU Commission is progressing with this work, it will be crucial to clearly define the specific scope of data that could be accessed, the process for providing consent for the data access, and the applicable security measures. It will also be important to carefully align the Level-1 text with the EU General Data Protection Regulation in order to ensure data privacy and to mitigate associated risks. In addition, future regulation will need to set out clear requirements for the interfaces that firms are to use to access the data, or possibly explore the viability of a single EU-wide interface.

Moving from open payments to open finance, we need strong security and account access standards.

Other, wider topics, that any EU proposal will need to consider are the potential need for further enhancements of security measures to mitigate the most recent types of fraud, the potential use on EU-wide electronic identity for customer identification, and the education of consumers to make them aware of these developments. EU policy makers should leverage on the knowledge and experience accrued through the implementation of PSD2.

CHARLOTTE HOGG

Executive Vice President and Chief Executive Officer - Visa Europe

The future is open

Over the past two years, we have seen consumers and businesses adopt digital solutions to manage their lives and their businesses through a changing maze of Covid-19 infection waves and social distancing and operating restrictions. As businesses move to e-commerce, they are less dependent on people passing their door and deciding to come in and shop, and consumers are able to manage a much greater proportion of their lives without having to leave their homes.

The financial ecosystem has risen to the challenge, with banks and payment networks offering new products and services and creating more seamless experiences through the use of digital solutions. Open banking puts consumers in control of their financial data, creating more tailored and relevant financial products and services such as enhanced individual credit scoring and tailored financial management tools.

Perhaps for the first time, consumers will be able to aggregate their financial lives in one – virtual – place and make decisions about how they want to pay, save, borrow and prepare for their financial futures with that information in hand. In what has been an uncertain external environment for so many, open banking offers consumers the ability to be in control and armed with a much more complete set of information.

However, the discussion about open Banking often centers around financial services like account switching and payments. It tries to define open banking in traditional financial services terms. But by doing so we are looking at the world through the wrong end of the telescope and putting our thumb on the lens.

A foundational element of open banking is that it empowers consumers as they make their own choices to bring their data together from multiple sources, and then use that information to make plans, structure their financial decisions, or streamline processes. With the consumer's consent, uses of that data can be myriad, while the data shared is dependent on the use case.

As Visa, our participation in the open banking ecosystem is guided by our data values.

The regulations that facilitate open banking have more impact on day-to-day consumer and business services than may initially meet the eye. For example, the revised Payment Services Directive (PSD2) allows businesses to upload payments data to their accounting software to reconcile their invoices and bills and better and more quickly figure out their cash flows and profits. The use of permissioned bank data can digitise the mortgage application process for consumers as well as improve a merchant's or bank's ability to quickly assess a consumer's potential to borrow and pay in instalments at point of sale.

Open banking, through use of open standards, holds the opportunity to remove barriers to entry for those who can create compelling new solutions for consumers and businesses. We can see these beginning to emerge, as there are now about 500 Account Information Service Providers (AISPs) and Payment Initiation Service Providers (PISPs) across the EU serving many different needs. However, open banking does still face barriers that need to be addressed.

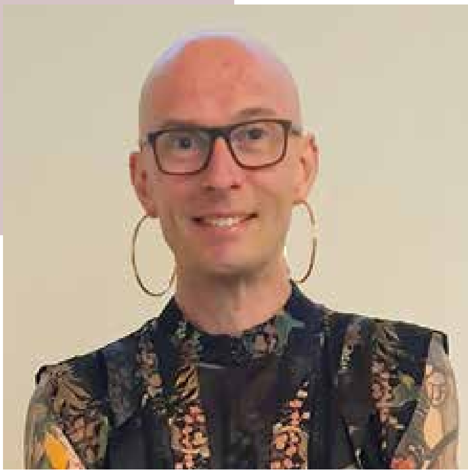
Firstly, open banking's success depends on resilience and continuous availability of APIs. In this always-on digital world, our expectation is that services always work. However, open banking APIs may still cause reliability problems for third party providers and consumers, with services either unreliable or ultimately abandoned. As a leading global payments network, we are contributing to the development of API standards that meet high performance and availability requirements, crucial for the development of new business use cases.

Secondly, consumers need to gain confidence in the use of their data, and it should be clear how value is being delivered. In that regard, it is fundamental to have an efficient, scalable and forward-looking approach to obtain consumers' consent to use their data. That is why we are leading the development of industry-wide consent management specifications that set high security and transparency thresholds for consumer consent dashboards that will contribute to informed consumer consent and enhance consumer trust in the digital ecosystem.

Thirdly, security of data sharing is key for trust in open banking services. Open banking and more generally the move towards open finance presents an increased risk of fraud if consumer data is held by firms with poor system security. This is an area where trusted partners, such as Visa, can leverage experience in cybersecurity, encryption technology, tokenisation technology, fraud and risk monitoring to drive security and trust in the open payments' ecosystem.

As Visa, our participation in the open banking ecosystem is guided by our data values. We are committed to using data responsibly and ethically, in a way that protects and respects consumer privacy and gives them control. A key element of this is our belief that consumers should benefit from data-driven innovations, and it should be clear to consumers how that value is delivered.

As we work towards unleashing the full potential of open banking within these core principles, we see Europe leading in the development of open standards and clear outcomes. The vision of enabling consumers and businesses to have more control, more security and more choice in financial services is one we can all aspire to, and in an increasingly digital world, one we need to move expeditiously towards.



JAMES MOFFATT

Business Development Senior Project Manager, Strategy Development - Zurich Insurance Company Ltd

The journey towards Open Finance

As part of its ambitious Digital Finance Strategy the EU is committed to developing a data driven financial sector. Legislation to deliver Open Finance due later this year will be a key part of that strategy and offers an important opportunity to encourage innovation and development of new products and services for consumers across the financial sector, including insurance.

From easier cost comparison to more bespoke personalized insurance products, there are already a range of customer benefits being provided through the use of Application Programming Interfaces (APIs). With the right regulatory framework in place, to reinforce customer trust, protect market integrity and ensure fair competition, the pace of innovation will accelerate, and new opportunities will emerge. To realize that goal, it will be critical to get the design of the open finance framework right.

In addition, it is important to recognize that Open Finance is just one element of wide set of European legislative initiatives aimed at delivering the benefits of digital transformation through the creation of clear and trusted framework for data exchange and flows within the economy. For example, proposals such as the upcoming Data Act will be critical in defining the broader framework for data exchange in Europe, whilst Operational Resilience requirement will underpin resilience and trust in the system. Ensuring that Open Finance is aligned with this wider framework of data regulation will be essential if the initiative is to be successful in encouraging innovation.

With that in mind, there are three key principles that Zurich believes should be enshrined in the upcoming legislation:

1. **Consent and transparency must be secured:** Open Finance data sharing should rely on the principle that customers control the data they supply or directly generate. Access or sharing of such data requires the customers' explicit consent and a fully transparent governance process. In order for a consent-based approach to work there will need to be a clear distinction between 'raw' customer data which are portable and 'processed' or enhanced data which are not portable and where financial services firms have invested their own intellectual property. The framework for use of non-personal data to provide guidance on how non-personal data can be shared, under which conditions, and on who can decide on it will need to be enhanced. Further, in order to ensure efficient interoperability, there will need to be a centrally agreed framework of minimum API standards.

With the right regulatory framework... innovation will accelerate and opportunities emerge.

2. **Trust in the integrity of the market must be protected:** Trust must be preserved throughout the value chain. Trust is at the core of the customer relationship in financial services and therefore the user must be at the center of the data framework. This also means that the party working with the data must be able to rely on its integrity and accuracy but must itself be able to deliver security. To achieve this, the future regulatory framework should establish and apply industry-wide common security standards for data exchange and set-up common incentives to protect data effectively including clear liability allocation. The Financial Services industry will be subject to robust cyber risk security standards under the Digital Operational Resilience Act legislation, and it will be important for obligations introduced under the Open Finance initiative to be compatible with those obligations.

3. **Incentives to innovate must be preserved:** Data sharing within the financial sector and across sectors should be driven by consumer propositions and use cases. Investment in data sharing should be linked to credible commercial ends rather than carried out for its own sake and the costs of obligations under the new framework must remain proportionate. Also, if investment in innovation is to be encouraged it will be important there is regulatory level-playing field for both financial and non-financial firms and competitive distortions avoided.

Adopting these principles should ensure that Open Finance is effective in delivering innovation, but this approach will need to be embedded in a broader context given digital transformation will not stop at the EU's borders. With data flows becoming the lifeblood of economies – whether advanced data analytics, parametric insurance, or smart contracts - addressing the governance of data access across borders will also be necessary. A global digital rulebook covering cross-border data flows may still be someway off, but it will be needed if economic promise of Open Finance and the wider digital transformation is to be realized.

ARNAUD MISSET

Chief Digital Officer - CACEIS

Digital Banking is no longer a "digital topic"

As part of the Strategic Plan - A Europe Fit for the Digital Age - the Digital Agenda, published in September 2020 by the European Commission, sets out 4 main priorities:

1. Removing fragmentation of the Digital Single Market,
2. Adapting the EU's regulatory framework to facilitate digital innovation,
3. Promote data-driven finance, and
4. Addressing the challenges and risks of digital transformation, including strengthening the digital operational resilience of the financial system.

Aware of the issues at stake, the banking sector has been taking ownership of digital topics and addressing these priorities for years. It has in fact become a top priority for most of them. If we take a look at the expected benefits from both bankers and clients sides, they are pretty clear. On the one hand (banker), an opportunity to differentiate yourself from the competition via customised client experiences, an increase in operational efficiency and security via the use of cutting-edge technologies and finally a new showcase including subscription tools for your products and services. On the other hand (clients) time and cost efficiency, self-care opportunity and an increase in the accessible service range. Now, let's face the truth, Digital Banking is no longer a "digital topic". This might sound easy but having a look at what happened on the tech side over the past few years, we can clearly see that the path to full digital banking is now paved with a lot of powerful and reliable digital solutions.

Fintechs' and digital solutions' offers have never been so large, the whole value chain is now covered and open finance leads the way to seamless interconnections between the involved parties. Consequently, the question slides from 'who is able to provide me with a solution?' to 'who has got the lead on what?' and 'who is responsible for what?' This situation, where there is no more one single producer but a fragmented ecosystem, highlights risks and compliance issues for the one that is client-facing. No doubt that end-clients are expecting this full digital journey but what happens when we start talking about data ownership, data protection and responsibilities at every step of the process?

From our perspective there are 3 main drivers to respond to those questions: transparency, standardisation and regulation.

Question slides from 'who is able to provide me with a solution?' to who is responsible for what?

Transparency: it is now common that for a given product or service, multiple parties will provide different parts. Just like in other industries, if one plays a leading role assuming the global relationship with the client, full transparency on the sub-contract chain is mandatory to define limits and responsibilities. It is of high importance for the end-client to fully understand who will access and manage his or her data and who will be responsible if something goes wrong. Full disclosure and transparency is also participating in the harmonisation of processes between the producers, everyone being aware of who is doing what and, who relies on what to deliver its service. In a nutshell, digital and open finance disrupted the full in-house model to bring what a few years ago we use to call "the best of breed model" back to the fore.

Standardisation: Directly linked to transparency is standardisation. We are all aware that for each new tech promise a lot of differing standards will compete and only a few will survive to finally define the basis the whole industry is going to work on. Don't get us wrong, we are not saying that products have to be standardised but we believe that tech layers do need it. Standardisation of technologies and protocols is the best way to avoid breaches in service delivery and ensure continuity. In case of a default by one of the providers, if tech layers are standardised it shouldn't be painful to find an alternative solution but for a full proprietary model it could lead to data losses and service interruption. It is also obvious that standardisation is helpful when we consider audit and controls.

Regulation: when talking about digital, regulation is needed as both a door opener and an enabler for adoption on a global scale. It is important to keep in mind that technology and regulation are not evolving at the same pace. The sandbox approach certainly contributed a lot to bridging that gap for the adoption of new solutions, allowing some kind of "test and learn" opportunity at scale. The role to play for regulation is now much wider and will definitely form the cornerstone and the final piece of the puzzle. Trust, in the end, is not only a question of technology but much more of clear guidance and sets of rules commonly shared by all parties. Simply put, for financial players to move towards and increasingly digital future, it is essential to understand what is permitted by regulation and what is not.

In that area, we expect a lot of guidance from incoming regulations such as AI regulation, the MiCA regulation, the Pilot Regime regulation, and the Digital Services & Markets acts.