

# Open finance: what prospects and policy needs?

## 1. Open finance: what does it mean?

A regulator stated that open finance is an opening of the access to banking and financial data, beyond information and data on payments, which already exist.

An industry speaker stated that open finance is not new. Thanks to PSD2, it might have boomed over recent years. Open finance is a no brainer from a client perspective. Clients clearly ask for the provider to build a customised solution based on open finance principles; this is becoming business as usual, at least in the business-to-business (B2B) business.

## 2. Open finance brings several benefits

### 2.1 A greater diversity in products and players

An official started with the motto of the EU, 'united in diversity'. 'Diversity' does not mean the fragmentation of the internal market, but rather the intervention potential that new players, fintechs, start ups or small and medium-sized enterprises (SMEs) can bring to consumers or users in general. Member states have seen that new products and players have entered the market when the payment market has been opened by Payment Services Directive 2 (PSD2).

This diversity has brought more choice for consumers or businesses that are able to deal with information about payments more effectively. This innovation is not only brought by established financial institutions, but also by newcomers in the market like IT companies that are able to provide services to customers in new ways. They already focus fairly specifically on the needs that customers have, and they are expected to be able to deliver interesting products that were not seen before in the market.

An official suggested saying, 'more diversity in our products that will be provided or offered to consumers'. The Digital Finance Strategy (DFS) could bring this. More players are expected to enter the financial market in the EU, and they could be newcomers with fresh ideas. These newcomers could not only be big technical companies like big techs; local companies' focus, or specific needs could also enter the market and evolve to provide cross border services. This has been seen due to open banking in the payments field in central Europe and other parts of the EU.

An industry speaker stated that a wide range of offerings are coming from fintechs, banks and IT providers. The different statutes of the provider already constitute a question in themselves. It is even possible to find solutions that are still looking for their problems.

A public representative stated that the consumer perspective of potentially having broader access to a much broader range of products and services is where the value added of a European approach can also be seen. This enables enhancing cross border access to products and services. In Europe, that possibility is still lacking.

### 2.2 A door to innovations, not only in finance

An industry speaker explained that he sees this as open data and not just open finance. It is necessary to see genuine, horizontal access to data. The insurance industry is deeply embedded into all industries in some respects and affects all individuals. Restricting it to finance restricts consumers' access to the benefits that they might otherwise see from open data. The focus is on reduction of friction, which is where the real innovation will be seen.

An industry speaker stated that she is very excited about all the solutions that could come out of this, including the ability to enter into a mortgage without needing to have several pieces of paper and being able to set controls on how someone spends or saves. Businesses can also manage their business better because they can begin to upload transactions onto their accounting software through open banking. Institutions will continue to see innovation and opportunities by making the systems more resilient and secure, setting clear expectations for consumers around what consent is going to look like, and being held accountable for the principles and the ways that they operate.

A public representative stated that value could be added by looking from this cross border perspective and creating more opportunities for businesses, including those that are already active in the financial services and others entering the scene using open access. This could also be an important part of ensuring that they are able to go beyond their national markets, scale up if possible, and use the full benefits of the single market, which is very often one of the shortcomings seen in practice.

A public representative stated that this deal shows that it is possible for a third party to allow access to clients' data. It is not just possible to access their data; it is possible to perform actions and initiate payment. When looking forward, it is really important not to self limit in terms of what should be opened.

A public representative stated that an inherent part of a successful digital strategy in financial services for Europe is the digital euro. The ECB is well advanced in this regard. At the beginning of 2023, the European Parliament also expects a proposal from the European Commission on the digital euro. This can enhance innovation in this regard, enrich the entire landscape and help Europe lead when it comes to an implementation and the practical deliverables when it comes to the provision of digital financial services. This important aspect should not be forgotten when

speaking about the digital strategy, its potential benefits, or its future success.

### 2.3 A better control over financial decisions

An industry speaker stated that it is exciting that open banking is going to give consumers or businesses the ability to be in better control of their financial lives for the first time. Instead of several little pots that they cannot quite remember the location of, they are finally able to aggregate their financial information and have the power to pay, save, make the bigger financial decisions in their lives and be in greater control. That is incredibly important in an environment in which the cost of living is rising, and the plethora of services and solutions is increasing. The heart of this is putting consumers, and then businesses, at the centre of that decision making and those solutions.

An industry speaker stated that she is delighted that real conversations regarding resilience, fraud prevention and cybersecurity, have started because that is the basis of any kind of trust. Significant trade offs will need to be made between items like data localisation and fraud prevention. Access to global data better protects European citizens from fraud and cyber risk.

### 2.4 A way to reinforce European strategic autonomy?

The Chair stated that one of the benefits of the move towards open banking is strengthening and reinforcing European strategic autonomy.

A public representative stated that open strategic autonomy is currently spoken about more often, perhaps in order to align it with open finance, but the proposal on the Data Act that the Commission published on 23 February is also a part of the puzzle. If it is possible to ensure that the data provided by Europeans are stored and used in Europe, it is also one part of tapping more into the potential and benefits of such a strategy. This is somewhat beyond a pure financial service; it is more of a discussion of the vertical and horizontal access to data. However, it is definitely part of discussions, or it should be in future.

An industry speaker stated that the developments on digital identity are very positive in terms of where the EU is going. The combination of digital identity and the potential consumers can leverage through use of open banking data can be really powerful when making a more seamless and accessible environment. It is necessary to go beyond General Data Protection Regulation (GDPR) as corporations and in terms of government policies. This will allow people to think through what a great permission based system is going to be, what consent is going to look like in the future and how to properly inform it.

## 3. Open finance is still facing challenges

### 3.1 The need for a clear framework to ensure a smooth transition

A regulator stated that a number of areas will be crucial to clearly define in order to maintain the level playing field and ensure that there is an adequate transition into this

new scenario. The specific scope of data that can and should be accessed is one such area. Second, the data is probably owned by the customer, so it is advisable to be clear on how that customer can provide their consent for the use and access to that data. For the PSD, this has been an ongoing, intense discussion. Third, it is also important to clarify the security measures to comply with and the obligations for how the market incumbents and new market players can grant access to the use of that data.

A regulator added that clarity is needed on how to empower supervisory authorities to enforce the security requirements for that area. It is also important to provide guarantees on how this progress towards open finance is consistent with the European GDPR because most of the discussion about open finance reads 'open data', so it means giving open access to data on financial information from EU customers.

A public representative highlighted standards that he used to access payment accounts. Different standards are still used. When an organisation is thinking about standards, it always sees that as a kind of contained innovation, but it is indispensable because it lives in the market of network effects. Therefore, it is necessary to take some mainstream innovation and introduce standards outside technical ones for business processes and practices.

The next item to draw attention to is consistent regulation. It is very important for integration, and there is an interplay with GDPR here. It is very important to solve many issues before implementation because reducing everything is costly for the market and detrimental to users.

### 3.2 A standardisation supported by a cooperative role for the public and private sectors

The Chair stated that one of the issues, which might also be a lesson from PSD2, is that there is a role for the public and private sectors. He asked what is required from these sectors. An important theme is cooperation between the private and public sectors to develop the necessary building blocks, particularly on the issue of standards.

An industry speaker stated that the real questions are who to work with and what their responsibilities will be in the whole value chain. Several players along the value chain will act. CACEIS develops new products or offerings immediately while defining user experience and customer journey. In terms of regulation, this is a significant change of mindset, but it is advisable to try to move from a product and services approach to a customer journey one in terms of regulation. It will be much easier to cover everything and eliminate this problem of responsibility. In the end, the client is the client of a bank who will benefit from the services from other providers. However, the bank is still managing the client facing, so the important question is who is responsible if something goes wrong.

Standardisation is at the heart of the topic when discussing technical subjects. It is definitely necessary to rely on the standard format and protocol, which will help the whole ecosystem to build on them. 'Standard format' does not mean a standardised offering of services; it virtually means the opposite. There will be some standard format and protocol, but there will also be some evolution and innovations.

An industry speaker stated that the principle called 'same activity, same room' is fundamental. He fully agrees that the sandbox approach has been very important; it has helped creativity and helped new services to go on the market. However, 'same activity, same rule' is fundamental. All panellists will have to rely on the same set of regulations. If they do not, it will be a mess.

A public representative stated that, with this type of EU wide strategy, it is always advisable to consider how to implement it, how to enforce it, how to supervise and how to ensure that the approach from regulators and supervisors is harmonised because that is also one part of the equation. If this is not the case, then it undermines the potential benefits of such a strategy on the EU level and ends up in national markets again.

An industry speaker stated that customers are going to be exposed to new products, services, and ideas as part of the integration. Within that integration is a strong role of ensuring that customers understand what they have access to. Many people will have experienced the benefits of PSD2 without even seeing or understanding it.

A public representative stated that the public and private sector interests here are not opposed. There might even be much more urgency for cooperation than before. The public sector can create conditions that are clear, principle based and predictable into which the businesses can fit while also being strict on the key priorities from the public policy and public interest points of view. For the private sector, it is also advisable to make use of the technology to show that there are solutions that can meet the requirements of the public sector while still empowering consumers and bringing benefits to them.

There are still some gaps in the supervisors and regulators. If the digital strategy is to be taken seriously, it will be necessary to ensure that there is enough uptake of digital technologies on the side of the supervision and regulators so that they keep pace and are able to make use of those technologies to make their work more efficient with fewer frictions. This should be done together with the private sector.

An official highlighted the European Digital Identity (EDI) framework. Cooperation between private and public sectors should be very intense here because a completely new ecosystem is being built and will be built for decades.

### **3.3 Trust challenge: how to cope with data and cyber risks**

An industry speaker stated that there is a question of how data can be shared under GDPR. The Data Act will help to get closer to determining what data can be shared and when.

It is important to empower the consumer and the customer with the ability to decide who they share data with and why. As part of this, innovation will happen when industries and players allow access from a broad and diverse array of markets, countries, and backgrounds. Zurich Insurance Company Ltd sees an opportunity for the EU to show leadership here. GDPR established principles for data security that have been paralleled in many markets around the world, and the same could be seen with open data.

An industry speaker highlighted the risks associated with making it too easy or convenient for external parties to encourage customers to share data they were not aware that they had access to or that they did not need to share. There is a chain of consent. It is advisable to allow external companies from outside the EU to participate, but there needs to be a chain of consent wherein a European organisation is told that consent has been given. The question of how to demonstrate and prove these matters then needs to be asked. It is also necessary to see a regulatory level playing field based on reciprocal data, open access and the principle that the intention is to remove friction for consumers.

A public representative stated that the key factors are data and access to services. The European Parliament is discussing initiatives such as electronic identification that are also part of this. It can make use of the open finance strategy. Cyber resilience is a very important issue if gaining trust is really desirable. It is also linked to the issue of data privacy. It is not only a case of fear of data compromised by cyber risks, but also one of reassurance for those who are providing the personal data that they will be dealt with in full compliance with existing norms.

An industry speaker stated that it is necessary to split data between the producer, the entity that will disseminate the data and the entity that will use it. However, it is very complicated. There could be an open finance world in which there is one producer, one entity that will disseminate and another that will use. Some can do everything. The regulators' guidance will definitely be necessary.

An industry speaker stated that it is going to be an important time to agree on what level of availability is desirable and how to create trust in a world in which the cyber environment is worsening.

### **3.4 The legislative elements are still under construction and there are some challenges with technical standards**

A public representative stated that some parts of the digital finance package that the Commission put forward in September 2020 are not fully in place through the legislation process. However, some individual pieces of legislation should fit into the puzzle. The Distributed Ledger Technology (DLT) Pilot regime has already been agreed between the co legislators and can be implemented. The Digital Operational Resilience Act (DORA) is very advanced and is very much linked to the cybersecurity aspect. The European Parliament is also finalising work on Markets in Crypto-Assets (MiCA).

This regulation should fill the gaps when it comes to the regulatory framework, but many important points also need to be presented. The European Parliament is the electronic identification part of the puzzle. The legislative proposal on open finance and the initiative on the Data Governance Act (DGA) are also important.

A regulator stated that, when confronted with PSD2, there are challenges around whether it is advisable to write the technical specifications. The European Banking Authority (EBA) chose not to do so, but probably for the wrong reason that it only had a 12 month period to deliver on its mandate. However, it turned out that it was better not to do it.

The outcome of this choice was that the EBA during months received questions, complaints and concerns from customers and third party providers about whether they have the right access or not, or whether their financial institution is providing it to them. Customers also have concerns about claims from the credit institutions that they are providing the access, but then putting some 'sand in the wheels' or preventing the access in other ways.

A regulator stated that there is no straightforward answer. The public sector should facilitate the implementation of technologies. On network approaches, it is very important that common standards are being built. There might be a process of dynamic creation of those standards.

An industry speaker stated that Visa Europe believes that EU regulators should promote a more outcome-based approach in the next iterations of PSD2. In Strong Customer Authentication (SCA), consumers are seeing a fair abandonment rate and are not having positive experiences at point of sale. That is not positive for the businesses around Europe that are trying to sell goods digitally at a very difficult time. Visa Europe increasingly wants outcomes in terms of fraud and consumer experiences, rather than inadvertently creating friction that was never intended. Visa Europe can align and debate on standards and outcomes, but it needs to draw back from too much technical implementation.