OPEN FINANCE: FIDA PROPOSAL

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A step closer to open finance with a framework for financial data access

In June 2023, the Commission proposed an important step towards an open data space for finance in Europe. The proposed regulation on financial data access (FIDA) will promote data-driven business models that can benefit financial services customers and financial sector firms.

FIDA aims to put customers in control of their data held by financial institutions. Customers should be free to decide what they want to do with their data: they should be able to grant access to their data and they should know who it is being shared with and why. FIDA gives them this choice and empowers them to grant access to their data for the purposes of obtaining financial and information services.

Customer permission is central to FIDA. No data must be shared unless the customer wants to share it. And only if the customer has given permission to share their data financial institutions will be obliged to grant access to customer data across certain areas of financial services (investments, insurance, pensions, mortgages, and savings accounts). Permission dashboards will facilitate customer control and make it easier to monitor, grant and revoke data sharing permissions.

FIDA builds on the access obligations under PSD2 and extends this obligation to non-life insurance, pensions, investments, loans, savings and credit accounts. However, where financial exclusion risks may outweigh the potential benefits customer data remain excluded from the access obligation. This concerns notably creditworthiness assessments of natural persons and life, sickness, and health insurance.

To ensure responsible data handling, data access is limited to licensed entities. Only licensed financial institutions and licensed Financial Information Service Providers (FISPs) will be able to access customer data in scope. The fifteen categories of entities covered include inter alia insurance providers under Solvency II, investment firms under MIFID and credit institutions under CRR/CRA. A closed data circuit limited to financial institutions and FISPs will ensure the high security of data. They will also be subject to the Digital Operational Resilience Act.

Both data holders and data users will be obliged to join data sharing schemes to agree on the modalities of access, including standardisation, liability rules and compensation levels. To prevent anti-competitive behaviour, compensation levels are modelled on the principles of the Data Act.

On the basis of FIDA data holders can also become data users that access data. In fact, the Commission expects that the majority of data users will be financial incumbent firms. Using machine-readable access, data users will be able to provide improved and innovative services to the customer. While FISPs would only be allowed to provide financial information services, licensed financial institutions will be allowed to provide the financial services for which they are authorised. They can reap efficiency gains by making the sales process for financial services and products faster and cheaper. And they will be able to collect relevant customer data to offer investment, insurance and mortgage products better tailored to the customer's needs.

And also the customers stand to gain significantly: consumers could gain easier access to financial advice or personalised insurance offers and retail investors could get a better overview of their personal finances.

FIDA also requires data holders to make data accessible to the customers themselves. One effective way to achieve this is through digital customer interfaces. We expect that financial service providers without such interfaces will now put them in place. In addition to being beneficial to their customers, this would improve their own efficiency by promoting digitalisation. The digital transformation of financial institutions will also be promoted by enabling their access to customer data held by other data holders. This development could already be observed under PSD2 as banks are nowadays offering payment accounts data aggregation services to their customers.

FIDA promotes innovative data-driven business models to the benefit of customers.

It is now for the European Parliament and the Council to decide how to move forward on FIDA. The legislative negotiations on FIDA are at an early stage. In 2023, the Spanish EU presidency organised several Council working party meetings to discuss key aspects of the proposal, notably: scope, permission dashboards, financial data sharing schemes, and the rules on FISPs. The rapporteur of the European Parliament's ECON committee has presented a draft report on 11 January 2024 with a deadline for amendments set for 30 January.

Once in place, FIDA has the potential to lead to better and more innovative financial services for consumers and businesses, to drive the digital transformation of and boost competition in the financial sector.

JOSÉ MANUEL CAMPA
Chairperson - European Banking Authority (EBA)

Financial Data Access in the EU: an opportunity to build on experience

Open Finance has the potential to empower consumers and businesses to benefit of services better tailored to their needs helping more informed financial decisions and innovation in the financial sector. But Open Finance also brings challenges, such as ensuring the security and control of customer data, and addressing exclusion risks for consumers.

In June 2023, the EU Commission published a proposal for a framework for Financial Data Access (FIDA), also referred to as Open Finance. The proposal aims to enable consumers and businesses to share their financial data in a secure way with third party providers to benefit of value-added services. The scope of the proposed framework covers data relating to loans, savings, investments, pensions and non-life insurance. Payment account data, covered by the Payment Services Directive (PSD2), is excluded.

The experience gathered with the implementation of PSD2 can offer valuable insights to support the development of Open Finance. And we welcome that some of the lessons learnt from the PSD2 are reflected in the FIDA proposal, such as mandating the use of APIs for data sharing. APIs can provide a more secure way of sharing data with third party providers (TPPs, referred to in FIDA as 'data users') compared to other techniques for accessing data like screen scraping.

The EBA also welcomes the provisions on data dashboards, which aim to strengthen customers' control over their data, by enabling customers to have an overall view of all permissions they had granted to third parties to access their data and withdraw access where they so wish via the institution holding their data.

However, there are also aspects in the FIDA proposal that differ from the approach taken in PSD2 and that may raise concerns. FIDA does not include any specific authentication requirements, which is different to how PSD2 introduced open banking, where access to payment account data was accompanied by the imposition of strong customer authentication. In this context, greater detail on security requirements and the allocation of liability between data holders and TPPs is warranted to enhance customer protection.

FIDA drives the EU's innovation and competition, but some aspects need refining.

Relatedly, FIDA requires data holders, when making customer data available to TPPs, to request TPPs to demonstrate that they have obtained the customer permission for access without specifying how TPPs would be able to demonstrate such permission. This would have to be done without impacting the ability of data holders to timely share data with TPPs as required by FIDA itself. Furthermore, it should be consistent with the approach taken in PSD2 and in the PSR proposal, which prohibits account holders from requiring additional checks of the permission given by the customer to the TPP, beyond those foreseen by the regulation such as the authentication of customers.

Furthermore, based on the EBA's experience with PSD2, we believe that more details on the minimum functionalities and performance of the APIs used for sharing data with TPPs are warranted. Such details will provide legal clarity for market participants and for competent authorities responsible for supervising the implementation of FIDA.

A key challenge of the framework will be to strike a proper balance between competing objectives. A clear example will be how to ensure that the objectives of promoting innovation does not come at the cost of protecting vulnerable groups of customers. In this context, FIDA could further clarify the scope of the regulation in terms of the data covered (for instance data not digitally available), and on the perimeter for the use of the data so as to mitigate risks of financial exclusion of consumers with an unfavourable risk profile.

Another area for further clarification is access to financial data in the scope of FIDA by entities with no establishment in the EU in a manner to assure the effective supervision of such access, as well as consumer protection and the preservation of the single market.

CHRISTOPHE BORIES

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Unveiling FIDA: navigating the transformative landscape of open finance in the EU

In the dynamic realm of the global data-driven economy, the financial sector is undergoing a profound transformation, placing data management and data valuation at the forefront of its priorities. This shift is notably exemplified by the rise of Open Finance, a groundbreaking concept designed to streamline access to financial data and foster collaboration across institutions. In the European Union, the proposed Framework for Financial Data Access (FIDA) aims to be a decisive step advancing the Open Finance agenda.

The FIDA proposal presents a promising opportunity to operationalize Open Finance within the EU, extending its reach beyond payment accounts to encompass a diverse array of financial data. A meticulous examination of the implications of such extensive data sharing is of course necessary, acknowledging that certain data categories may offer marginal benefits compared to the costs of defining data formats and infrastructure. However, the potential advantages for consumers and the market are undeniable.

To reach its full potential, FIDA must be seen as an integral part of the overall EU legal framework. Clarity for stakeholders and coherence with existing regulations, including the Data Act, GDPR, and a new regulation replacing and supplementing PSD2, are pre-requisites for its effectiveness.

This approach lays the groundwork for the evolution of data-driven financial services, personalized to individual customer preferences, thus fostering synergy among various financial services, stimulating innovation, enhancing user experiences, refining financial products and services, and empowering consumers to make more informed financial decisions through a comprehensive overview of their financial situation.

Yet, an interconnected financial landscape brings its own set of challenges and risks. Navigating the uncharted waters of Open Finance prompts concerns, from intricate data security nuances to the potential misuse of sensitive financial information. A nuanced and comprehensive risk assessment becomes paramount, ensuring the resilience and security of the financial ecosystem.

While FIDA has the potential to unleash the capabilities of Open Finance in the EU, it is crucial to tackle operational challenges, in particular those linked to API quality and standardization. Indeed, inadequately standardized data and API interfaces are important hurdles in the development of Open Finance, resulting in insufficient interoperability within its ecosystems. Moreover, as FIDA introduces new concepts and roles, establishing clear terminology is vital, especially in the definition and implementation of financial data sharing schemes (FDSS).

Beyond the technical challenges posed by the development of market-driven technical interfaces, such as permission data boards or FDSS, there is a pressing need to address significant political considerations surrounding the FIDA project. Its potential for high disruption lies in its fundamental philosophy of embracing openness and the circulation of retail financial data across various financial aspects, including credits, savings, and insurance. Therefore, a thorough examination of how this innovative approach may impact the industrial positions of European actors in comparison to their non-European counterparts is essential. This critical analysis should pave the way for a fully-informed and comprehensive political debate, on all potential implications of the FIDA proposal.

Drawing from past lessons, the FIDA proposal demonstrates a proactive stance in addressing challenges encountered during the implementation of Open Banking under PSD2. Shifting towards contractual-based data sharing with the FDSS and compensation simplifies the legal intricacies surrounding data access, fostering collaborative interactions and incitation between financial institutions and third-party providers. This transition aims to facilitate smoother and more secure data exchange, contributing to the seamless evolution of the Open Finance ecosystem.

To steer the market in the right direction, FIDA should strive to strike a balance between ensuring security and incentivizing Open Finance.

To steer the market in the right direction, FIDA should strive to strike a balance between ensuring security and incentivizing Open Finance. A collaborative effort, combined with clear regulatory guidance, could pave the way for a thriving Open Finance ecosystem within the EU. This would benefit consumers but also would fuel financial innovation for years to come.

Much work still lies ahead for legislators to overcome the currently unresolved technical and political challenges. The forthcoming resumption of discussions at the Council under the Belgian Presidency is eagerly anticipated, marking a key moment for collaborative efforts to navigate these complexities.

ONDŘEJ KOVAŘÍK

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Is it time to expand from open banking to open finance?

Following the implementation of Open Banking, we've seen a number of benefits, not least the possibility for smaller innovative companies to enter the banking and payments space. This was facilitated by data sharing, enhanced competition and a more level playing field by traditional banking institutions and new companies such as fintechs.

In that sense, if we look on a broad level, expanding open banking to open finance can bring positives to the market, and particularly for consumers who would be able to manage all of their finances through one dashboard. I do see a broad willingness to explore Open Finance in the EU. We have to bear in mind also that data sharing is already happening cross-sector, just not in a structured manner, and the question is then whether the best approach is to develop a fully fledged and ambitious Open Finance framework, for example using FIDA as a basis, or whether to let that market develop more organically.

One aspect that is particularly important in Europe is that we are not left behind in the global data race, thereby losing any possibility of competing with other jurisdictions which are ahead of us on the curve of innovation in data use.

From my perspective therefore, developing open finance should be a priority, but not at the expense of driving potentially competitive innovators out of the market or imposing huge costs on our own home-grown businesses.

Specifically looking at the FIDA proposal from the Commission, I consider the objectives to be well considered. However, it seems to me that the deeper you dive into the proposal, the more potential hurdles or pitfalls you come across. This is why from my perspective it is incredibly important that the legislators take the time to consult with as broad a range of stakeholders as possible before completing the legislative process. From my perspective in the European Parliament, it is a tricky time to make concrete progress on the file, given the fact that in reality we only have one month after EuroFi before we would have to vote on an ECON position, given the run in to the European elections. Any such ECON position would not tie the next Parliament down to accepting it, but gives an indication of where the majorities lie on different issues.

Bearing this in mind, I think that what is important from all sides, whether it be legislators, regulators or stakeholders, is to engage frankly and explore all of the various possibilities for the EU's first foray into a legislative framework of some kind for Open Finance. I think it still remains an open question as to whether the proposal as set out by the Commission - an overarching Act, is the best way forward at this stage. It should be considered whether we take more time both in the drawing up of the text but also in the implementation stages. Perhaps a step-by-step approach could be an alternative. But this all depends on an analysis from industry of the type of proposal that best fits their aims and enhances business and innovation opportunities in Europe, and also greater analysis on the benefits and risks for consumers.

At this stage, I am keeping an open mind as to the way forward, but I do see potential, if we can get it right, for greater interoperability and cooperation between actors in the different financial and non-financial sectors that would be affected. Digitalisation is a reality that cannot be ignored. It will happen continuously and more than likely at a much quicker pace than any legislation. So while FIDA could fit in to adapt to that digitalisation and potentially help firms maximise opportunities, and consumers maximise choice, I don't believe that in itself it would be a driver of greater digitalisation.

Looking into the specifics of FIDA, we have a proposal from the Commission for a mostly market-led approach to developing data access, or in the Commission's draft data sharing, schemes. I believe the ambition for harmonised APIs is good, but I do question whether in practice it would be possible given the fragmented landscape across different sectors such as banking, insurance, pensions etc.

Developing open finance should be a priority, but not at the expense of European competitiveness.

Not to mention the wide variety of EU law which these industries already must comply with, and the differing rules in member states on other related aspects. I see all of these as challenges to overcome, and once again I think time will be critical to allow all players in the ecosystem to do so. I am not very much in favour of the Commission devising their own data access schemes and you will have seen in the amendments I tabled to the Parliament's draft report that I consider a better option is cooperation between everyone from the outset, with sharing of information on schemes that work well, are developing well and are not overly burdensome for industry.

In my view, the Commission, competent authorities on the EU and national levels, and national administrations should all be working with industry from day one to maximise the opportunities of the data-driven economy in Europe.

MARC ROBERTS
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Open Finance and the Financial Data Access proposal

The terms open finance and open banking are most commonly used in the context of financial information management services. Many of the legislative initiatives are based on the premise that regulated institutions have a large repository of data that could be harnessed by innovative Fintechs to create new products and services for customers. PSD-II opened up payment accounts for payment initiation and account information services. FIDA will extend the information services to further products, including mortgages, loans, savings products and certain types of insurances. Indeed, there are successful companies that offer services integrating payment initiation on APIs into existing app or website structures. Such services help to improve the user experience and make it easier to offer services without media disruption.

However, open banking goes beyond regulated access to data, it also includes bank cooperations with Fintechs. If we look at some of the most successful ventures - particularly in Europe - in the financial sector over the past years, there are also other companies that are data driven. Many of them do not focus on the regulated access to data under PSD-II, but on cooperation with banks or other Fintechs. Open finance in such a wider sense includes many cases, in which products or services, which are for different reasons not core to an institution, are provided via integration of third party products or services. There are numerous reasons for such cooperation including:

- A product may be new on the market and therefore requires special knowledge and technology that are offered by third party providers.
- The cost for incumbent players to develop new products may be higher. In case of a separate development the fixed cost can economically be shared between several service recipients.
- The products can be rolled out quicker as companies specializing on a product provide these to other market players who then act as distribution partners.

The potential scope of such arrangements is as large as the banking sector itself and may be relevant in all parts of the value chain. This covers the more known areas of the payment sector, where the use of third party payment initiation, may even help create the basis for compliant identifications, but also sectors such as the savings, credit and insurance. Raisin for example offers a savings platform for deposits and investment. This allows around 300 banks to offer their deposits on market-places in Europe, the UK and the US. It also allows large banking groups to offer their customers best in class savings products.

Open banking goes beyond regulated access to data, it also includes bank cooperations with Fintechs.

Such integrated services are also highly beneficial to the customer. They allow for a larger variety of products. Some products - such as wealth management - were previously only available for the richest clients and can now be accessed by many more. Open banking on a cooperation basis also makes cross border offerings of financial products substantially easier and last but not least the products can be offered cheaper as the development costs can be shared among market participants.

The Commission's proposal on financial data access now goes another step and includes further financial products, such as savings, credit business and certain types of insurances into the perimeter of data access rights for third party providers. The rules on the technical integration are different from PSD-II as they require a membership in a data sharing scheme. Further, data holders are obliged to implement a permissions dashboard that gives customers the possibility to decide to grant access to their personal data to service providers. While addressing important and large financial markets in the EU the regulation - similar to the PSD-II regime - does not address open finance based on cooperation. For example, financial market participants using platforms for certain products - together with other players - should have the clear possibility to use already existing mechanisms for aggregating customer data. The regulation should address platforms as a potential means of fulfilling the obligations under FIDA.

As with PSD-II one of the main challenges of FIDA will probably remain the technical implementation and the incentivization of the data holders / regulated entities. The rules of the membership-based financial data sharing schemes will cover these topics. The market players, but also consumer associations, shall be represented and decide on rules for the access to the data and a model to determine the maximum compensation for sharing data. The rules allow for the establishment of more than one scheme and it remains to be seen whether this will effectively lead to a uniform market standard for institutions across sectors and jurisdictions.

BARBARA NAVARRO

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"In for a penny, in for a pound": a strong political will for a renewed data sharing framework

A strong political will for a renewed data sharing framework FiDA marks a significant step forward in the evolution of the financial services landscape. By empowering consumers, enhancing transparency, and fostering innovation, FiDA has the potential to revolutionize the way we interact with our finances. As the EU embarks on this transformative journey, it is crucial to address potential challenges while embracing the opportunities that open finance presents. To fully unlock the benefits of data-sharing, FiDA must be a step further towards a cross-sectoral, customer-centric, open data end-game scenario.

In June 2023, the European Commission unveiled its vision for a comprehensive Open Finance framework, embodied in the proposed FiDA Regulation. It aims to establish a harmonized approach across the European Union, empowering consumers to access, share and control their financial data with trusted third parties. In the context of the European Data Strategy laid out back in 2020, FiDA comes together with other set of regulations such as the DMA (Digital Markets Act – the open data from the so-called bigtechs categorised as gatekeepers), Data Governance Act, Data Act (IoT data) and AI Act as the overarching file that completes the data-sharing and model building panorama.

Importantly, having as base a very welcome market-driven approach and vital elements (i.e. incentives and liability frameworks for sharing data), it still falls short in relevant aspects: it only covers the financial services related data, probably deepening the asymmetry with other sectors started with PSD2.

While FiDA offers a promising framework, there are still some challenges that need to be addressed:

- **Cross-sectoral approach:** In the provision of financial products and services it is the combination of data from different sectors holds the greatest potential. As a matter of example of open data use cases, combining financial data with energy consumption, carbon footprint, digital behavior or public administrations activity could let financial services companies build more accurate lending solutions, carbon offsetting or fraud mitigation use cases, impossible or hard-to-build nowadays under current data-sharing constraints.

The combination of data from different sectors holds the greatest potential.

- **Ensuring consumer awareness:** Consumers need to be aware of the benefits of the broader data economy (important data literacy) and their rights and responsibilities under FiDA to fully benefit from the regulation.

- **Establishing the data sharing schemes:** While the market-driven approach is a great opportunity for ecosystem participants to really focus on clear use cases, it´s important that the regulation gives to this endeavor the necessary time to be deployed (initial proposal of 18 months is not considered feasible for any stakeholder).

- **Incentive Model:** Also, adding core elements such as a compensation model and a liability regime also brings incentives for data holders to participate more actively and, in the end, benefit the customer through more innovation and competition.

- **Addressing security concerns:** Data users need to implement robust security measures to protect consumer data from unauthorized access or misuse. The reference to the Digital Operational Resilience Act (DORA) here is much welcome.

Global trend present in every jurisdiction

The FIDA Framework is still in its early stages of development, but the momentum for Open Finance is gaining traction across the globe. Several countries, including the United Kingdom, Australia, México, Brazil, and Singapore, have implemented, or are exploring Open Finance initiatives.

In the United States, the Consumer Financial Protection Bureau (CFPB) has proposed a rule on data access and portability, which could pave the way for a more open financial system in the country.

Epilogue

Imagine a world where your financial data is no longer locked away in silos, inaccessible to you and third parties and the innovative services that could be built to help you make better financial decisions. That's the promise of Open Finance, a concept that has the potential to democratize finance, boost innovation and put the power in the hands of consumers. This revolution is spearheaded by a groundbreaking regulation known as the Financial Information Data Access (FiDA) Framework that needs to be followed applying its openness to other productive sectors. Only this way we can build together an open data economy and promote a true lever of growth and competitiveness for Europe.

DIANA PAREDES
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Key operational considerations for a successful FIDA implementation in the EU

The Financial Data Access (FIDA) proposal, presented by the European Commission on June 28, 2023, marks a significant stride toward bolstering the digital capabilities of the EU's financial sector. It delves into the realms of open finance, encompassing critical aspects such as data sharing incentives, data quality, and standardisation. By addressing these key components, FIDA endeavours to establish a secure and transparent framework for accessing customer data, extending beyond payments, and paving the way for innovation and competition in the EU financial sector.

FIDA strives to address the challenge of incentivising data sharing by granting data holders with the right to request fair compensation from data users. This proposal calls for an objective, non-discriminatory methodology for calculating compensation, directly tied to the costs of data accessibility—a marked departure from the preceding Payment Services Directive (PSD2) open banking regulations. Furthermore, FIDA mandates that data holders and users participate in one or more Financial Data Sharing Schemes (FDSS). These schemes are responsible for governing access to customer data in compliance with FIDA and other applicable EU rules, crafting uniform standards for data sharing and interface requests, defining contractual obligations for members, and instituting effective dispute resolution mechanisms.

However, while FIDA holds immense promise, it also raises complex challenges in the realms of data protection, foreign entity supervision, and practical data sharing. Despite the growing acceptance of data-driven services and the willingness of many customers to share their data, a significant portion still lacks trust in their ability to control and limit data use. Moreover, uncertainties persist regarding the supervision of foreign Financial Information Service Providers (FISPs), particularly those operating outside the EU while accessing EU data. The European Data Protection Supervisor has voiced concerns over the broad definition of customer data under FIDA, and questions loom regarding the practical safeguarding of sensitive business data and trade secrets. FIDA's broad scope covers a wide array of customer data and financial institutions, potentially introducing complexities during implementation.

The challenge lies in ensuring that all participants can actively engage in the open finance ecosystem.

The implementation of effective open finance systems in the EU, as envisioned by the FIDA framework, hinges on addressing various operational aspects, including the adaptability of IT systems, interoperability, digital identity, and more. Agile IT systems are essential for financial institutions to swiftly adapt to evolving requirements, integrate with emerging technologies, and offer innovative services in response to dynamic market demands. European financial institutions exhibit significant disparities in digital maturity, with some leading the charge in digital transformation, while others grapple with less flexible legacy systems. The challenge lies in ensuring that all participants can actively engage in the open finance ecosystem. Consequently, ongoing investments and upgrades in IT infrastructure are indispensable to fortify systems, enhance security, and accommodate the demands of open finance.

Interoperability is also crucial in facilitating seamless integration across diverse systems and applications across the financial sector. While the EU has made notable progress in promoting interoperability, achieving full compatibility remains a great challenge due to the diversity of systems and standards in use. Consequently, continued efforts are required to develop unified standards and protocols that bolster interoperability, with FDSS playing a pivotal role in this endeavour.

Furthermore, heightened data sharing mandates a robust cybersecurity posture. Financial institutions must be well-prepared to counter the increased risks of data breaches and cyberattacks. Aligning with regulations such as GDPR and ensuring compliance with emerging frameworks like FIDA is also essential for the successful implementation of open finance. Additionally, a robust digital identity framework is imperative for secure and efficient customer authentication and authorisation processes within open finance systems.

In conclusion, the EU is making substantial strides in establishing a framework for open finance. However, operational challenges, including the assurance of agile IT systems, interoperability, and a unified approach to digital identity, persist. Overcoming these hurdles necessitates collective efforts from regulators, financial institutions, and technology providers. It is an ongoing process of evolution and adaptation to ensure that the EU's open finance ecosystem is secure, efficient, and advantageous for all stakeholders. This transformation will enable Europe's diverse financial sector to offer data-driven products and better cater to customer demands in the data economy.