Open Finance and FiDA next steps

1. Update on the FiDA trilogue negotiations

The Chair noted that Open Finance, as part of the wider European data strategy, is a key lever for fostering innovation across financial services. The FiDA (Financial Data Access) proposal represents a concrete step in turning this vision into reality.

A public representative explained that the central aim of FiDA is to foster cross sectoral data sharing to support innovation and the creation of more tailored and consumer friendly financial products. The FiDA file was retained in the Commission's legislative programme, taking into account the potential role of data sharing and Open Finance in enabling fintech development and innovation in the market. However, the political momentum around FiDA is fragile. The banking and insurance sectors have shown limited support. The trilogues have started. The Commission was asked to produce a non-paper on how to simplify the legal text adopted by Parliament and the Council in 2024, which is overly complex in several areas. The non-paper is expected in the coming weeks.

2. Opportunities and benefits of an Open Finance framework

2.1 Bringing Open Finance into the scope of regulation and supervision

An official considered that FiDA creates clear benefits from a supervisory perspective by bringing unregulated data scraping business models within the regulatory perimeter. It is clear that some market players use data scraping, but it is difficult to understand how widespread the practice is because it is not subject to adequate oversight. FiDA would enhance consumer data protection and address the security concerns associated with data sharing practices. Without a European scale approach to Open Finance, there is a risk of fragmentation. The inclusion of gatekeeper provisions in the Parliament and Council texts is also a positive step, but any gatekeeper assessments must be conducted at European level. The same is true for the supervision of cross-border Open Finance schemes.

Another official expressed broad support for FiDA's innovation and consumer protection objectives, provided that data usage continues to be grounded in sound ethical frameworks and robust safeguards are put in place. First, there needs to be a sufficient level of standardisation to enable integration and interoperability among different financial institutions and third party providers. Secondly, it is important to make sure the costs introduced by the regulation are outweighed by the benefits being delivered. Thirdly, it is crucial to ensure the supervisibility of new activities related to Open Finance and new players such as Financial Information Service Providers (FISPs). FiDA must include clear requirements on the role of NCAs notably in the Financial Data Sharing Scheme (FDSS) and ensure they can supervise FISPs effectively.

An industry speaker agreed that a sufficient level of standardisation is needed to encourage data sharing and for application programming interfaces (APIs) that are costly to build to be used effectively. Learning the lessons of PSD2, there must be a fair compensation model for data access, recognising the cost of sharing data, and a clear liability framework that defines the responsibilities of data holders and data users. These issues will have to be addressed explicitly in FiDA to ensure an efficient rollout.

2.2 A step towards open data

An industry speaker suggested that a redesigned FiDA could be a step towards a more comprehensive open data environment, integrating financial and non financial data sources. The real opportunities will indeed emerge from a broader approach that connects different sources of financial and non financial data. For example, connecting enterprises and customers with official social security and tax data could simplify administrative processes; direct access to data from utility companies could allow customers to better measure their energy footprint; and access to e commerce information could enable financial services providers to offer relevant new services to their customers. It is welcome to see that the European Commission is willing to move towards a more global approach in which these different data spaces are connected, but the key priority is simplification. If the framework is simple, it will enable the development of private initiatives.

An official agreed that FiDA could be a first step towards a broader sharing of data. Although financial data may need to be subject to specific protection, this should not lead to the creation of silos within the financial data ecosystem. The status of Account Information Service Provider (AISP) under PSD2 and the new status for FISPs in FiDA should be merged to simplify the data framework and avoid the creation of additional silos. It is essential to ensure that these providers are located in the EU to guarantee effective enforcement and supervision of the framework requirements.

Another official added that the objective of empowering customers regarding the usage of their data is a positive policy goal, but the implementation of FiDA will need to be balanced carefully to ensure that it achieves its intended outcomes and that the potential benefits of data sharing outweigh the costs. The financial ecosystem also has a responsibility to empower consumers to manage their financial lives.

3. Issues and challenges in the FiDA proposal

3.1 The lack of proven demand for Open Finance services and the high cost of implementation

Several industry speakers emphasised the lack of proven customer demand for Open Finance services.

An industry representative noted that Europe is yet to see any meaningful use cases of Open Banking supported by PSD2, and the same is true for Open Finance. Aggregation services have been adopted by less than 10% of digital users across Europe. This is not a 'chicken and egg' problem, as is often claimed. Focus group research has shown that consumers are consistently unwilling to share their data. There is a risk that FiDA will divert resources from other digital projects that may be more useful for consumers and could contribute more effectively to the EU's goals of competitiveness and simplification.

A second industry speaker agreed that FiDA could create similar difficulties to PSD2. The customer demand for Open Banking enabled services under PSD2 has still not materialised, and the FiDA data sharing framework is also not based on proven demand or driven by specific use cases. The differentiated implementation of PSD2 across the EU was also a significant problem for cross border banks.

A third industry speaker stressed the importance of aligning the data sharing requirements with actual market demand. While innovation is inherently unpredictable, it typically emerges from customer or service provider needs. Understanding what types of data are genuinely valuable to users should guide the regulatory approach. It would be a significant burden to require all banks to develop and maintain APIs with only very limited usage. This would be an ineffective use of resources and would be to the detriment of other digitalisation projects that might better respond to customer need. If the aim of the proposal is to foster innovation, it would be more effective to focus on initiatives to simplify regulation and reduce the burden on companies.

A fourth industry speaker noted that many insurers already collaborate with fintechs and share data to support innovation in services. If additional investment is needed to extend Open Finance, these costs will ultimately be passed on to clients, the majority of whom are not demanding the new services that FiDA aims to enable. Policy makers must determine whether Open Finance can be implemented without a significant increase in costs.

An official agreed that it is difficult to anticipate where innovation will happen. In some jurisdictions, the emergence of new models under PSD2 took some time and happened in unexpected areas, such as linking accounting data with payment services. There is a similar bet to make with FiDA. Hopefully, it will eventually lead to more innovation. Even when multiple actors are willing to work together, cooperation on innovation remains difficult in practice.

Another official observed that although innovation must be demand driven, low consumer awareness and confidence about data sharing tends to reduce the demand for innovative services, as the experience with Open Banking shows. More should be done to increase customer awareness about the benefits of Open Finance and enhance customer confidence.

A public representative agreed that the high cost of building APIs and complying with standardised data sharing requirements is an issue. This could impact consumers and make SMEs reticent to share data. Balancing innovation with affordability is key.

3.2 The risk of hindering innovation with a regulatory approach to Open Finance

An industry representative emphasised that some of the major banking groups were active in Open Finance well before the introduction of FiDA, offering added value services to customers through the secure sharing of a selected range of data with trusted partners. This includes tools that enable customers to optimise utility expenses by comparing their bills with the latest offers on the market and financing solutions that are integrated with third party e commerce platforms. These innovations have been driven by market demand and customer need, not a regulatory obligation.

However, FiDA's regulatory driven approach reverses the natural logic of innovation. In practice, any successful service starts with the identification of an area of added value for the customer. After this stage, a business model can be developed to provide this value. Only once the business model has been developed is it possible to identify the data that need to be shared. FiDA's top down approach does the opposite: it starts with the requirement to share data before considering the potential use cases. This is disconnected from real market dynamics.

The international examples show that regulatory driven implementations of Open Finance have not delivered the expected results. Four years after the implementation of an Open Finance regulatory framework in Australia, only 0.31% of bank customers have active data sharing arrangements. There are high revocation rates, reflecting the short term nature of use cases and limited customer value. The cost to the banking industry was estimated at AU$1.5 billion over six years, which is AU$3,000 per customer. This seems to validate the concern that the upfront investment in these services, which do not correspond to customer demand, will divert resources from more effective digitalisation projects. One Australian bank claims that the implementation of Open Finance took 90% of its funding and people assigned to digital projects, delaying investments in its digital app and core banking system. In Brazil, only 25% of the respondents to a customer survey conducted in 2023 expressed a readiness to share data for tangible benefits like enhanced credit limits. That figure dropped to 19% in lower income groups, indicating that these models may cater only to a digitally literate and affluent minority.

A second industry speaker agreed that the question of whether regulation should be implemented first to foster innovation or whether the market should be allowed to innovate before regulating to address any risks and inefficiencies needs to be answered. The latter option appears to strike a better balance between costs and benefits, ensuring that the framework is not overly prescriptive and does not crowd out private sector initiatives or hinder innovation.

A third industry representative noted that many fintechs believe in the transformative potential of Open Finance to enable new business models, better products for customers and the development of digital cross border services, but it is uncertain whether a regulation such as FiDA will support the development of Open Finance. Existing platforms in the savings market are built on voluntary partnerships and mutual commercial interest, not on mandatory access, cooperation and regulated APIs. There is currently very little demand in the savings market among customers and partner banks for the kind of data sharing envisaged by FiDA. It is not clear that new regulatory measures are needed in this area, given that they do not seem to align with real needs.

3.3 Data security and sovereignty issues and potential impact on existing business models

An industry speaker outlined the key risks associated with Open Finance in the insurance sector: data security and sovereignty, market fragmentation and price uniformisation. Data security and sovereignty is a major area of concern. The level of cyber threat is currently very high and may be further increased with additional data sharing. The issue of data sovereignty is also extremely important. Although GAFAs are due to be excluded from the scope of FiDA, it is hard to guarantee that this will not change in the future if, for example, the US government were to put pressure on the European institutions or if regulatory loopholes were to appear. Therefore, it is essential to ensure that the data gathered and shared through Open Finance platforms does not leave Europe.

Secondly, there is a risk that Open Finance may lead to market fragmentation potentially undermining the social role of insurance. The application of individual level risk pricing through open data has the potential to erode the foundational principle of mutual insurance: solidarity. To safeguard the current system of mutual insurance, which ensures that those living in high risk areas or the most vulnerable customers can benefit from insurance coverage, there must be a level playing field between incumbents and new market entrants. The new entrants cannot be allowed to use data to cherry pick the most profitable clients and allow the remaining clients to fall into an insurance gap.

Finally, the use of digital comparators enabled by Open Finance carries a risk of price uniformisation. These comparators tend to drive clients towards very standardised products and reduce the level of advice provided by insurers. A data driven approach must be balanced with the preservation of advisory services to ensure that all clients are well informed and properly supported.

4. The need for simplification and progressive implementation

4.1 The benefits of simplification

An official placed the FiDA proposal in the broader context of EU legislative priorities, which include the Competitiveness Compass and the Omnibus Simplification Package. FiDA needs to be simplified as part of a larger movement to simplify EU legislation, which might even lead to a degree of deregulation. Legislations such as EMIR and MiFIR already impose a high regulatory burden on firms and FiDA must not increase complexity.

An industry representative emphasised the need for simplification and flexibility in FiDA, particularly in cases where banks offer only certain products, such as savings, through third party platforms. Requiring every bank to build an individual API is highly inefficient. If the data is already aggregated, a single API should suffice. This practical solution is not reflected in the current regulation, however.

A second industry speaker agreed that APIs should be standardised. In addition, the sharing of data should be limited to what is strictly necessary for the service provided, in order to reduce threats to the mutual insurance model. Generally, clients want to use Open Finance for complementary services, not a replacement for their existing insurance protections.

A third industry representative also advocated for further simplification of the FiDA proposal. One way to achieve this would be to remove all legal persons from the scope of FiDA, be it SMEs or large corporates. Including these entities in the framework would introduce complexity, as large groups in relation with Bank Coverage are composed of hundreds of legal entities, most of which qualify as SMEs according to the European definition. If SMEs are subject to FiDA, entities part of the same business group would be treated differently under FiDA, adding unnecessary burden both on the data holder side and the client side. Research shows that Open Banking only improves access to credit for small businesses if they have a prior relationship with a lender, a finding at odds with the financial inclusion goals of Open Finance policies.

An official cautioned that simplification must not come at the expense of market stability, resilience or consumer protection. The rules need to be sufficiently robust to tackle the risks and ensure that supervisors and market participant have sufficient information to fulfil their roles.

A public representative added that while simplification is necessary, it should avoid undermining the initial objective of the regulation, which is to create new and better products and services for consumers. In the upcoming trilogue negotiations, the FiDA regulation must be simplified without undermining its potential with an adequate balance between innovation, feasibility, and consumer benefit.

4.2 Progressive implementation with clear milestones

An official considered that a progressive approach to FiDA implementation is required because not all sectors of the industry and types of data are at the same maturity level. The three priorities should be to ensure fair access to data with the appropriate incentives; to protect consumer data with strong safeguards; and to ensure that the regulatory framework is manageable for supervisors and institutions alike. The use of clear milestones will allow regulators to monitor the development of the schemes. Without interim benchmarks, the industry will wait for full implementation and regulators will be faced with inaction.

A second official suggested that the lessons from the implementation of Open Banking under PSD2 should be taken into account in the rollout of FiDA. The inconsistent transposition of PSD2 across member states led to fragmentation and the introduction of complex security requirements, particularly those concerning actors outside the regulatory perimeter, complicated its adoption. These challenges underscore the need for realistic timelines that reflect the complexity of implementation. If the timeline is not realistic, the intended benefits will not be realised. Many of these lessons have been taken into account during the development of FiDA. The aim of any regulation is to foster consistency in the application of requirements. The use of well calibrated timelines will contribute to effective execution. The timelines must reflect the operational complexity of implementation, and the policy ambitions should not outpace the market's ability to comply. Ultimately, successful implementation depends on building and maintaining trust in the framework. The implementation of FiDA should be phased, but that should be balanced against the need to maintain institutional momentum. While innovation creates many opportunities, it also introduces risks. This demonstrates the need for these regulatory guardrails.

A third official supported a gradual approach to implementing FiDA, noting that some caution is necessary to ensure alignment with market priorities and to safeguard consumer data from potential misuse by third parties. This will also reduce the costs and regulatory burdens for the industry, which will enhance its competitiveness. Standardisation is one initial step that should be pursued independently of regulation. Greater standardisation could facilitate data interoperability and enable data to be leveraged as technology evolves, such as in AI applications.

An industry speaker reiterated that any initiative related to Open Finance must be demand driven and a staggered approach is needed for the implementation.

A public representative acknowledged the mixed enthusiasm for FiDA within the industry and the complexity of the trilogue negotiations ahead. In this context, the Commission is focused on its core objective, which is to deliver better financial products for consumers and improve their ability to manage their financial lives. To achieve the best outcomes for consumers, there needs to be sufficient momentum in the movement towards the sharing of all data. The first step is to improve financial literacy, especially among women. However, it is equally important to reassure consumers about data security and ensure they understand how their data will be used and what they might gain from sharing it. It is not easy to anticipate what will emerge from an innovation like Open Finance, but any progress should at least be based on a clear view of the potential use cases that could arise from improved data sharing and how this might benefit consumers. A focus on these tangible use cases should be based on innovation and fostering public trust.