

OPEN FINANCE: AMBITION AND POLICY APPROACH



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The success Open Finance is mainly dependent on the industry, not regulation

If PSD2 cannot as such be considered as the final achievement of Open Finance, since it only covers part of the financial data by focusing on the payment data, its recent implementation in EU countries teaches a lot about what the future opportunities and challenges associated with open finance.

Given the format of the article, I will limit my comments to three issues: the need to further harmonize industry standards, the need for the industry to define a viable business model and the role of any future regulatory framework.

First, for open finance to be a success, the industry should work on further harmonizing standards allowing an efficient and secure exchange of

financial data. In that respect, PSD2, while remaining technology neutral, supported the development of APIs.

The industry engaged into elaborating PSD2 APIs market standards, such as the Berlin Group or STET API standards, but their implementation was left at the discretion of each bank.

Without a harmonized level of services offered among banks at European level or even within a domestic market, the implementation of these standards has created several challenges for account information service (AIS) and payment initiation service (PIS) providers and required many clarifications by authorities, in particular the European Banking Authority via guidelines, opinions and 100+ PSD2 questions and answers.

Given the investments already made by market participants for the PSD2, the industry should aim at building on the PSD2 APIs standards to develop the access to other financial data in the context of open finance. Nevertheless, the industry main challenge is now to streamline the implementation options left at each market participants discretion to converge towards a minimum standardized level of services to support the development of open finance.

The success of open finance is dependent on the industry capacity to convert the PSD2 try.

Second, the industry should work on defining the conditions for a viable open finance business model. PSD2 relied on the assumption that the costs of building interfaces for accessing payment data will be exclusively supported by the account servicing payment service providers (ASPSP). Such decision was required in the absence of dialogue between ASPSP, AIS and PIS providers. It eventually resulted in the setting up of interfaces offering a limited access to the minimum data required by the regulation.

For making open finance a success, the industry should again rely on the PSD2 experience, with the development of

“premium” PSD2 APIs allowing ASPSP and other entities holding financial data to recover part of the interfaces infrastructure cost. This is an essential condition for them to provide a scalable access to value-added data by third parties.

Third, from a regulatory perspective, the experience of PSD2 demonstrates that the regulation has been a clear success by bringing the AIS and PIS providers under supervision, making sure that they comply with minimum security and internal control standards. This was necessary to provide the level of confidence toward these new players storing banking credentials. In France, half of the licensed payment and electronic money institutions since the implementation of PSD2 in 2018 have now incorporated an open banking component in their business models.

However, PSD2 regulation also teaches us that regulation is not the best solution to define solutions in the absence of industry standards. Indeed, technology evolves far more rapidly than the regulation is able to change. When PSD2 was adopted, account information services (AIS) were principally services that “provide the payment service user with aggregated online information on one or more payment accounts held with one or more other payment service providers and accessed via online interfaces of the account servicing payment service provider. The payment service user is thus able to have an overall view of its financial situation immediately at any given moment.” Nowadays, account information services allow collecting online payment data on behalf third providers offering corporate accounting services, credit risk assessments or even loyalty programs based on payment data.

Regulation is therefore more efficient when it comes into play to impose a standard designed by the industry, as it was the case for the Sepa credit transfer or direct debit standards.

To conclude, to refer to a rugby analogy, the success of open finance is primarily dependent on the industry capacity to convert the PSD2 try. As a priority, the industry should work on further harmonizing industry APIs standards, in order to avoid the regulator to be prescriptive in that field.



TSVETELINA PENKOVA

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Open finance can boost competitiveness and customer engagement

The next logical step in the development of open banking is open finance. It broadens its scope and boosts benefits for users, third parties, and financial institutions. Open finance is an increased access to banking and financial data beyond the bounds of only payment data, which is already in existence for many years.

Open finance refers to the idea of gathering all of a user's financial data in one place, such as bank transactions, purchases made with digital wallets, payments made with insurance and retirement accounts, investments, money transfers, cryptocurrency transactions.

For both consumers and businesses, open finance has the potential to provide wider opportunities. However, it also introduces new challenges.

Providing more data to product and services providers, start-ups, scale-ups, and SME's will undoubtedly result in the introduction of novel services and goods to the EU's internal market.

Higher expansion of data will result in more innovative product diversity that meets clients' needs and demands.

Open finance will introduce bigger transparency to investors and customers. The latter will have the opportunity to improve their credit scores based on all financial data, not just bank financial information. It is equally beneficial for investors as it offers more opportunities for implementation of lower risk strategies.

All this will guarantee a more stable and secure financial market, with much lower probability of unpredictable market shocks and collapses of specific financial instruments or asset classes. This is a necessary step to ensure the building and the functioning of a stable Capital market union within the EU. The current pressure on the global financial markets once more re-iterates on the need to establish a strong and secure financial markets in the EU, driven by the technological enhancement, customers' protection and an adequate regulatory framework.

The next logical step in the development of open banking is open finance.

Banks and insurance companies are complex and highly competitive businesses, subject to considerable transformational pressures to survive on the market. At the same time, we should make sure enough information is provided to consumers, especially when it comes to two main aspects. First, the digital literacy for the proper use of the new technologies, should be a priority of both the service providers and the regulators. Second, data protection and fair usage of personal data is key to ensure a just and competitive market functioning.

Open finance certainly has the potential to boost the financial sector and transform the way services are being delivered. Hence, the implementation of proper regulatory frameworks will facilitate and encourage trust in open finance, while ensuring minimisation of the risks associated with it.

Unlocking more data that will encourage a bigger competition between the market participants and will open more opportunities not only for the already established financial institutions, but also for smaller players and FinTech newcomers to the market.

However, opening more and more data to circulate on the market carries certain risks, especially with respect to cybersecurity and the protection of personal and confidential data. For this reason, the EU is constantly working to improve upcoming legislations in these fields.

Issues such as data security, a clear and precise legal framework, customer mistrust and cyber-related risks require special attention. These challenges must be addressed before any open finance implementation can proceed.

The latest adoption of the Data Act is a prime example of introducing a fair balance when it comes to data by taking into account the interests of all stakeholders involved, protecting business interests while safeguarding customers' rights.

Likewise, PSD2 is a great example illustrating how to ensure security standards for the protection of customers' financial information while processing customer's data in electronic payments. Extending PSD2 to open finance has certain positive merits that cannot be denied.

However, a standardised approach for sharing data and a high level of trust among actors is essential. In order to achieve that, particular emphasis on the collaboration between the public and private sectors is necessary.

The EU needs to promote further the financial industry's digital transformation while managing the potential risks. By doing so it will stimulate more companies to engage in the market, which will lead to new and innovative financial services to emerge.

Open finance has the potential to foster a new financial transformation. Nonetheless, proper regulatory and technical measures have to be implemented in order to ensure a high level of customer and business protection and trust.



SHELDON MILLS

Executive Director for
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Authority (FCA)

The UK's approach to open banking and open finance

Open banking is an excellent example of an area where the financial services industry can, through competition and innovation, bring tangible benefits and transform the experience of consumers and businesses.

In the UK, over 7 million consumers and over 600,000 small and medium-sized enterprises (SMEs) are already using innovative open banking-enabled products and services to better manage their money and make payments. The trend continues to accelerate with open banking-enabled payments having grown at a rate of 500% year-on-year.

As a financial services regulator, the FCA has been supporting innovation and competition that are in the interest of better consumer and market outcomes.

We have authorised or registered over 270 firms that can carry out account information services and/or payment initiation services. This has allowed over 8 million successful payment initiations to be made in January alone and, since May last year, over a billion successful API calls a month.

Some of the benefits of open banking are already being realised, from empowering users to make better-informed decisions, to improving access to financial services and choice of services and products. We have seen charities using open banking-enabled products to advise consumers with debt issues; SMEs managing their budget and estimating their taxes more efficiently; and consumers being offered loans they can repay based on more accurate information about their finances.

In the UK, we have taken the approach of mandating all account servicing payment services firms (ASPSPs) provide access to third party providers and enforcing a single standard for the largest ASPSPs. This allowed the ecosystem to overcome some significant coordination challenges. But we recognise that there is more that can be done to deliver the full benefits of open banking and the technology that underpins it.

Today, over 7 million UK consumers and SMEs are using open banking-enabled products and services.

This is why we have been working with other public authorities in the UK, to define a common vision for open banking and the framework for industry-led developments in the ecosystem. Together with HM Treasury, the Competition and Markets Authority, and the Payment Systems Regulator (PSR), we formed a new joint regulatory oversight committee, which I co-chair alongside the PSR's Chris Hemsley. The committee plays a role in shaping and setting expectations on the future of open banking, in consultation with the industry and other stakeholders including end user representatives. We want open banking to become sustainable and to scale beyond its current scope, with an industry-led entity leading and promoting open banking at its heart.

We have also been considering about whether changes to the broader regulatory regimes may be necessary. We conducted a call for input on open finance and, in November last year, held a policy sprint on open finance policy sprint. We have been working with the UK Government on potential legislation around smart data, which is expected to give consumers and

businesses more control over their data and has the potential to extend the benefits of open banking to other sectors of the economy.

We also support firms that innovate and provide new services and products in other ways. Our Sandbox provides firms with access to regulatory expertise and gives firms the ability to test products and services in a controlled environment. Our Innovation Pathways service involves guiding firms on regulatory matters through one-to-one discussions with a dedicated case manager assigned to provide feedback on their business model. We have supported many firms using open banking technology through these initiatives.

Open banking and open finance cannot succeed without the cooperation between industry, regulators, end users and other stakeholders. This is why we welcome dialogue and close collaboration from across the UK and internationally. I very much look forward to speaking with many of you at the Eurofi conference this year.



JACQUES BEYSSADE

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Groupe BPCE

Open finance - A market reality, let's foster it!

With its “Digital Finance Strategy for the EU”, the European Commission sends a strong message to consumers that the promotion of data driven innovation will benefit them and will lead to better products, services, and prices, as well as better personalization, and better access financial services. Cooperative banking actors, such as Groupe BPCE, place their customers at the center of their values and strategy. We, therefore, welcome a holistic European approach to data. This is essential to preserve our competitiveness while at the same time avoiding further fragmentation of national regulations.

In that regard, the open finance framework announced by the Commission should be fair and viable for all stakeholders. In order to do so, it is crucial to learn the lessons from the revised Payment Services Directive (PSD2), the right of access and the liability regime that were introduced. This directive has indeed been a first attempt to share and use customer-permitted data in the financial sector. While the emergence of some third-party providers (TPPs) has been facilitated by PSD2, it should also be noted that banks have borne most of the costs related to accounts management, payments processing,

and investments in infrastructure to share payments data with TPPs.

Additionally, innovation remained limited for most customers. Broadening the scope of shared data beyond payment data via new access rights, following the example of PSD2, would therefore be an unfair option, both for banks in terms of level playing field, and for customers, who would bear the final costs without any certainty of further innovation.

To ensure an optimal framework for all stakeholders, it is essential to be aligned with current regulatory developments and business practices. The Data Act, for example, introduces a principle of compensation for the data holder. This fair distribution of value constitutes a good incentive, as compensation allows the data holder to maintain the infrastructures available to the data user by covering the cost of collecting, structuring, storing, and sharing the high-quality data needed for innovation.

Furthermore, imposing a right of access is not the unique option to increase data sharing. The open finance framework should preferably promote voluntary initiatives in the banking sector, like the development of models based on an open architecture to facilitate the collaboration with external partners, including Fintechs. Bank as a Platform (BAAP) and Bank as a Service (BAAS) are two examples that should be considered in their capacity to enhance the sharing of financials data and services. With BAAP, customers of the bank could benefit from an enriched banking offer, with the integration of financial and extra financial innovative services from external partners.

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With BAAS, the bank provides its core banking or services to third parties (e.g. payments, fight against fraud). Here again, this would benefit customers through embedded finance. Where a right of access approach would only allow financial services providers to develop a small number of new and targeted services, a platform approach offers a greater potential and creates value for the overall ecosystem. Groupe BPCE and its entities are part

of this movement on both BAAP and BAAS models.

Data sharing is already the subject of an important payment industry workstream, bringing together all stakeholders from the financial sector. Notably, the work of the SEPA Payment Account Access Multi-Stakeholder Group aims at facilitating the voluntary sharing of high-added value payment related data (premium services) beyond the minimum required by PSD2. This would be achieved through the establishment of common rules, practices, standards, and principles related to compensation and reversibility for example. The open finance framework should help to promote this collaborative and market driven approach, supporting the emergence of strong European market players in the field of digital finance and that would maximize innovation collectively and benefit European customers.

As the trust of customers is key for enabling open finance, data protection should be the key priority. The anteriority of PSD2 over GDPR has given rise to some interplay difficulties. Any future framework should be aligned with the values and vocabulary of the GDPR and aimed at maximizing the user's control. However, the risk of “consent fatigue” of customers should also be mitigated. This could be done by using all the GDPR legal basis.

And, when consent is the most appropriate one, user-friendly tools and interfaces should continue to be adopted at the initiative of all stakeholders, such as the Groupe BPCE Privacy Center, that helps the customer assume his central role when it comes to data sharing.



ALEXANDER VOLLERT

Chief Operating Officer -
AXA Group & Chief Executive
Officer - AXA Group Operations

Opportunities and challenges of the future Open Finance framework

As insurers, we rely on information to build our risk expertise and accompany our customers in moment that matters, for claims payment or assistance for instance. Emerging technologies, such as artificial intelligence, blockchain or cloud computing, bring new opportunities to develop data-driven insurance solutions.

Access to more diverse datasets can help improving customer experience when switching services and or by benefiting from more tailored and responsive services. For instance, last year, AXA has launched a Digital Commercial Platform offering insurance and risk management services. One objective of this on-going project is to ultimately offer the possibility to our corporate consumers to monitor the safety of their assets and building across the world, by analysing in real-time data from connected devices and third parties' digital solutions. It would enable to alert them in case of a problem and identify flaws to prevent potential damages.

Providing relevant data to consumers on their insurance contracts can also help

improving their experience thanks to more transparency and customization. For example, AXA has developed a solution called Computable Contracts enabling customers to quickly know if they are covered or not. This helps reducing the information asymmetry between insurers and insured and ultimately closing the protection gaps.

The Commission has taken important steps to encourage data sharing in Europe, including with the Data Governance Act or the Data Act. Building on these cross-sectoral rules, the Commission will soon publish an Open Finance framework to foster financial data sharing.

From my perspective, the opening of insurance data is not just about enhanced data flows. It may also drive important structural changes to the way we deliver insurance and to the current EU competitive landscape. Therefore, "open insurance" solutions as a component of open finance can be the premise of exciting projects benefiting to EU customers, under the appropriate safeguards. I identify three main pre-requisites to support the uptake of collaborative data exchanges across Europe.

The Open Finance framework could foster data-driven innovation to the benefit of EU consumers.

Firstly, given the sensitive nature of insurance data, including life or health data, all actors should be subject to clear and harmonized legal conditions regarding data sharing and usage. Building on existing rules, it is important that consumers have absolute confidence in their personal data security and full control over what data is shared with whom and for what purpose.

Secondly, since the use of data is foundational for insurers, we expect open finance rules to ensure fair competition conditions between all players, including new market entrants. It is crucial to respect the principle of "same activities, same risks, same rules" regarding data access and usage.

Lastly, upstream efforts to deploy adequate technical infrastructures for secure and efficient data sharing initiatives should be taken into consideration when designing the

scope and implementation timing of open insurance measures. The standardization of APIs and certain datasets would be a necessary first step ensure a consistent approach across EU countries and unlock data-driven innovation in financial services.

So far, open insurance solutions have been successfully driven by industry-led initiatives where insurers decide on their cooperation partners and what generated data they are willing to share. However, depending on the intent of EU public authorities, compulsory data sharing scheme could be introduced in parallel to, or in combination with, these voluntary approaches. In this case, it would be crucial to clearly define these data sharing rules.

Any open insurance solutions should, first and foremost, meet consumers' needs. Therefore, rather than introducing a broad industry-wide framework, a step-by-step approach focusing on specific use cases would enable insurers to develop solutions bringing clear benefits to EU consumers. In addition, to fully leverage the potential of open insurance, EU authorities should adopt a cross-sectoral data sharing approach, rather than focusing on insurance data only. From an insurer's perspective, it would also ensure reciprocity in terms of data exchanges and thus, fair competition conditions, especially vis-à-vis new market players.

Finally, when defining the scope of data sharing rules, a distinction should be done between personal raw data controlled by the consumer, and insurers' proprietary information created by processing or enriching customer data. While all actors would benefit from an easier access to standardized raw personal data, upon customer's explicit consent, any mandatory data sharing scheme encompassing proprietary data, such as risk profiles, underwriting or claims performance models, would introduce an unlevel playing field.

Summing up, adequately designed, the publication of an Open Finance framework, could foster data-driven innovation in financial services to the benefit of EU consumers.



TARUN KOHLI

Head of Delivery Services -
Swiss Re

Open finance can be a game-changer for the insurance industry

Open finance, the standardised and secure exchange of personal and non-personal data between financial institutions and trusted third-party providers, is of growing relevance for the insurance industry. It has the potential to improve pricing and underwriting, help fraud detection and prevention, identify trends that improve safety and reduce accidents – in short, to lift our industry's growth prospects via innovation squarely focused on benefiting consumers.

The upside to tapping data from beyond our industry ranges from the prosaic to the profound, from simply pre-filling questions on forms to streamline applications to more complex processes like supporting delivery of tailored services or acting as a risk-scoring proxy. Ideally, what will emerge will be a seamless, safe transfer of data across platforms to enable our risk management tools to operate more effectively.

Such a shift towards open frameworks also may raise concerns over data security risks or cyber threats, as well as interoperability challenges. A shift toward open finance in insurance

demands a reckoning with how this will impact liability, ethical issues like potential for financial exclusion of some groups, and broader consumer protection risks. Also, a lack of common standards, combined with inconsistent data quality, are hardly trivial hurdles to taking advantage of open finance's full promise.

With this in mind, the development of open finance frameworks must carefully address the benefits and risks that inevitably accompany this shift. We must create a level playing field for all participants, one that facilitates healthy competition between insurers, third-party data sources, and large technology companies that will contribute to lifting the quality of our industry's protection products.

Open finance adoption globally has been uneven, with both market-led as well as regulatory-driven approaches like those advancing in Brazil and Australia.^[1] In Europe, there's no legal framework yet, with data sharing until now developed via market-driven new business models and by private sector initiatives. The European Commission has announced plans to issue a legislative proposal for an open finance framework in Q2 2023.^[2] A step-by-step approach focused on developing use cases could help maximize the benefits while minimizing potential risks.

Open finance frameworks must balance data protection and competition to foster healthy innovation

Telematics insurance is an area that could benefit from open frameworks. Full portability of data generated by connected or automated cars could address data bottlenecks between insurers, car manufacturers and original equipment manufacturers (OEMs) that now limit insurance innovation. Vehicle manufacturers often act as in-vehicle data gatekeepers, limiting sharing by consumers. Absent progress here, insurer access to in-vehicle data is incomplete and reliant on agreements. Swiss Re's Luminar partnership - to access data generated by Advanced Driver Assistance Systems (ADAS) and autonomous vehicles - is one example of equipping underwriters with data to make better decisions about risks associated with highly automated cars.^[3] More open frameworks could accelerate such efforts, with benefits

accruing to consumers in the form of greater safety and risk pricing.

Additionally, Swiss Re's Rapid Damage Assessment (RDA) platform^[4] relies on catastrophe modeling to estimate potential losses from events like hurricanes, earthquakes, and wildfires. Tapping sources like satellite imagery, social media and other public data sources to understand historical weather patterns, topography and building codes via open frameworks improves our models' accuracy and speed.

As our sector digitalises, open frameworks can help us leverage vast new sources of data to improve decision-making. Interoperability between insurance and non-insurance firms will foster greater competition and innovation. Simultaneously, policymakers must ensure a favourable risk-benefit profile.

The promise of open finance is clear: Seamless, better-connected worlds that lift convenience for customers, lead to a safer environment, and promote growth by helping us manage risks more effectively. That's why it's critical to strike a fair balance between data protection and competition while encouraging innovation, efficiency, and consumer protection.

[1] *Brazilian Private Insurance Authority (SUSEP) initiative, Open Insurance – SUSEP - Superintendência de Seguros Privados (www.gov.br); United Kingdom Government Smart Data review initiative, <https://www.gov.uk/government/publications/smart-data-review>; Australia's Customer Data Right, <https://www.accc.gov.au/focus-areas/the-consumer-data-right>.*

[2] https://commission.europa.eu/document/download/9143c562-f4c7-4a41-ab46-c2f5aa35adcd_en?filename=cwp_2023.pdf

[3] <https://www.swissre.com/reinsurance/property-and-casualty/solutions/automotive-solutions/evaluate-vehicle-sensors-real-life-safety.html>

[4] <https://www.swissre.com/reinsurance/property-and-casualty/solutions/property-specialty-solutions/rapid-damage-assessment.html>