

OPEN FINANCE: INNOVATION POTENTIAL AND POLICY PROPOSALS



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The FIDA proposal: balancing innovation, security and societal objectives

In June 2023, the EU Commission published a proposal for a framework for Financial Data Access (FIDA), often also referred to as 'open finance'. The proposal extends the obligation to provide access to financial data beyond payment account data to also cover loans, savings, investments, occupational and personal pensions, and non-life insurance. The proposal covers customer data that financial institutions typically collect, store and process as part of their normal interaction with customers, who can be either natural persons or business customers. This includes, for example, data collected for the purposes of carrying out an assessment of suitability and appropriateness for investment products and for creditworthiness assessments for mortgage products. The aim is to establish rights and obligations

to manage the sharing of such data – if the customer wishes so – within the entire financial sector, to enable the development of innovative financial products and services for users, and to stimulate competition.

While the FIDA proposal can therefore be seen to be a continuation of PSD2, it fundamentally differs from it in the sense that it would not impose uniform obligations for all products in scope right from the start. Instead, firms in scope would need to agree on an industry 'scheme' first. This is a market-based approach that offers significant opportunities for data-driven innovation in the EU financial sector, in a way that avoids otherwise extensive legal requirements with which all financial institutions would have to comply.

FIDA's novelty in that regard is that the eventual success of the proposed framework would depend on the industry to agree, within a period of 18 months, on several issues, such as the liability regime and the functionalities that should be met by the access interfaces used for data sharing. We have seen with PSD2 the challenges arising from the respective starting positions of data holders on the one hand, and those of third-party providers whose business relies on accessing data held by data holders. One should also keep in mind that the FIDA proposal covers a much wider range of data compared to PSD2.

Another key success factor for FIDA is the trust that consumers will have in the proposed regulatory framework. Here, too, the experience acquired in the implementation of PSD2 will be important. Let us remember that the strong customer authentication requirements that were imposed from 2018 have significantly reduced fraud in the payment industry, for some payment instruments as much as by 60% or more. FIDA's current proposal requires data holders and data users to comply with new Digital Operational Resilience Regulation (DORA) but, unlike PSD2, it would not mandate any security requirements for the authentication of customers.

Relatedly, the requirements in Art. 10(1)(d) of the FIDA proposal prohibits financial data sharing schemes to "impose any controls or additional conditions for the sharing of data other than those provided in [FIDA] or under other applicable Union law".

This appears to limit the possibility of data holders to decide on the applicable security requirements for sharing data in scope of FIDA.

Negotiations should also allow to further discuss the nature of the data that is in scope of FIDA and the 'data use perimeter' in Art. 7 FIDA, as well as the delineation between the data collected as part of a creditworthiness assessment of a consumer (Art 2(1)(a)). The same Article would mandate the EBA to develop guidelines on how data within the scope of FIDA can be used to assess the credit score of a consumer, which based on the recitals, would include the objective of mitigating risks of financial exclusion of customers with an unfavourable risk profile. This will be an opportunity to discuss trade-offs between the objectives of promoting data-driven innovation and those of protecting vulnerable groups of customers. Given their importance for society overall, some thought may be given to how best to mitigate these issues in the 'Level-1' legislation directly.

FIDA continues the EU's welcome drive for innovation & competition, but some aspects need refining.

Finally, FIDA would be a good opportunity to reassess the rationale for keeping different legal regimes applicable to account information service providers, which under PSD2 are subject only to registration, as opposed to financial information service providers, which under FIDA would be subject to authorisation, even though their business models look very similar if not identical.

The EBA looks forward to the FIDA proposal being finalised and stands ready to assist the co-legislators as necessary in the process.



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Open finance framework - opportunities and challenges

In Swedbank we are committed to be there for our customers when and where they need us. This includes personal relations as well as offering the most relevant digital services and creating personal finance overview. Thanks to open banking and PSD2, we create new possibilities for our customers using APIs. Payment accounts from more and more banks can be added to create a personal finance overview for the customer in the mobile app or the internet bank. We foresee that open finance will lead to new opportunities in building innovative financial services, rightly designed leading to increased financial literacy among EU citizens. A broadened regulatory framework will support the banking industry to proactively continue the development of relevant services as well as strengthening customer protection and people's financial health.

Even though the potential is high, there are challenges to consider. The proposed EU legislative framework, the Framework for Financial Data Access (FIDA), must be carefully developed. It is vital that cyber resilience and

customer protection are ensured. Also, it is crucial that the framework supports innovation whilst ensuring sustainable business models for all parties. The data integrity of our customers will always be our responsibility. Handling customer data is as important as handling their financial assets and it must be done in a long-term sustainable manner. In Swedbank, our ambition is to take part in and to encourage improved and easy-to-use digital services, produced by us as well as by third-party providers. Albeit, without ever compromising customer integrity and safety.

Opening data to third-party access increase privacy risks and create vulnerabilities. This is concerning especially given the geopolitical situation and the security situation in Europe, where banks are attacked daily. The demands for operational security and technical robustness have increased, for example through the Digital Operational Resilience Act (DORA) and banks work persistently on security. At the same time, customers may not always fully understand what data sharing entails and where privacy risks arise. In practice third parties may include approvals "buried deep" in agreements which are difficult to detect, creating opportunities for organized crime. This means that requirements for participating in the data sharing framework, including the contractual liability of the members of the data sharing schemes, must be high.

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Permissions dashboards that provide an overview of shared data, can help customers keep control of whom they share data with in a secure and trusted way. Yet, the information displayed in the dashboard will reflect a contractual relationship between the third party and customer. As a bank, it is difficult to take responsibility for data that exists between the customer and the third party and ensure that it is also accurate. Therefore, we would welcome clarifications from the EU Commission related to the allocation of responsibilities.

Voluntariness and fair compensation models are essential for a well-functioning and innovative financial market. The data to be shared should be based on a real business case and a customer demand. In this regard,

it is crucial to learn from the PSD2 implementation where the regulatory framework did not lead to the high level of innovation as expected. Innovation driven by clear business cases have a higher probability of success to create value for customers and society while building a base for regulatory development.

Introducing a gradual approach with different timelines for each data category would reduce the risk of potential problems and provide better preparation for addressing the challenges that may arise. Such approach could also facilitate the process of identifying relevant business cases and give participants an increased possibility to focus on the long-term value creation, for the benefit to customers, society as well as service providers.

Finally, cross-sector data sharing is essential if real opportunities for the EU economy are to be seized, as this could help identifying new innovative use cases for the benefit of society – not least within the area of sustainability. One example is data sharing between the energy sector and the financial sector. In Sweden for example we have already seen some good innovative solutions for tracking energy consumption with the aim to support the reduction of energy consumption and energy transformation process. Data sharing will be mandatory within the financial sector but not in other sectors.

Data from other sectors will be valuable to unlock the full potential of innovative solutions, tackling and solving issues within a multitude of areas thus creating a better tomorrow.



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Open Finance: empowering data- led innovation

Open finance (OF) emerges as a revolutionary concept, poised to transform the financial industry by leveraging the power of data. By facilitating secure data sharing between financial sector intermediaries and third-party providers, OF unlocks a treasure trove of personal and non-personal customer data. This, in turn, enables the provision of enhanced financial products and services, fosters healthy competition, and propels financial inclusion to new heights. Nevertheless, to fully harness the potential of OF, addressing the challenges of data privacy and security, API utilization, and data standardization becomes imperative. Armed with collaborative efforts and a steadfast commitment to responsible data sharing, OF leads to a new era of data-driven innovation, ushering in a customer-centric and highly competitive financial landscape.

OF brings an array of significant benefits that extend to customers, financial service providers, and supervisors, fostering an effective drive towards data-led innovation in the finance sector. OF opens new horizons for customers, offering enhanced financial products and services tailored to their needs. It empowers them with an aggregated view of their past, present, and future financial situation, enabling more informed decision-making.

Additionally, the streamlining of data collection and processing activities makes it easier to compare prices and features, facilitating seamless product or provider switches. Financial service providers stand to reap rewards from heightened customer satisfaction. By collaborating with fintech startups, they can also co-create innovative solutions and optimize their operations.

OF additionally enables them to conduct more effective creditworthiness or insurability assessments, fostering better risk management practices. Finally, OF provides unparalleled visibility to regulatory authorities and supervisors into the financial system. With access to aggregated data from various institutions, they gain comprehensive insights into market trends, potential risks, and customer behaviors. This information equips them to implement more targeted and effective policies, enhancing the stability and resilience of the financial sector.

However, OF implementation introduces new risks and challenges. The increased flow of customer data between multiple parties increases the potential for data breaches and unauthorized access, putting customers' sensitive financial information at risk. This necessitates robust security measures and strict adherence to data protection regulations to safeguard customer trust and confidence in the system.

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Moreover, certain financial institutions are cautious about sharing customer data, seeing it as a vital competitive advantage for customizing services to individual needs. They worry that OF could disrupt their revenue streams and market position while granting competitors access to valuable insights. Another challenge lies in API usage, as they play a crucial role in securely sharing data between financial service providers. Collaborative efforts are essential to establish common API standards, promoting efficiency and reducing implementation complexities. Additionally, data standardization poses a hurdle in the development of OF.

With multiple data formats and structures used by various institutions, aggregating and analyzing data becomes

more challenging. Standardizing them would enable better data integration and utilization, more accurate risk assessments, improved customer profiling and advanced financial modeling.

Therefore, establishing an EU open finance framework entails crucial considerations to unlock these benefits and drive data-led innovation in the finance sector. Key areas of focus include data ownership and consumer protection, both of which play pivotal roles in shaping a trustworthy and information-secure environment. As such, explicit consent should be mandatory for data access, allowing individuals the flexibility to withdraw their consent when needed. Additionally, stringent security requirements, including robust authentication measures, must be in place to fortify data protection. To provide a solid foundation for the responsible management of data within the OF ecosystem, clear liabilities must be defined for data accessing, processing, sharing, and storage.

Moreover, achieving a level playing field and equitable sharing of costs and obligations among the various stakeholders participating in and benefiting from OF is paramount. Finally, standardization of data, technical interfaces like APIs, and operating principles holds utmost significance in fostering efficient OF ecosystems. While industry-driven initiatives can address API standardization, regulatory involvement becomes crucial to ensure uniformity and establish minimum standards.

Leveraging existing regulations and standardisation projects further strengthens the underpinnings of OF, promoting seamless collaboration and innovation across the financial industry.