TISA

TISA-EY Joint Report on Open Finance **2022**

EY

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TISA-EY Joint Report on Open Finance

Contents

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Foreword

Open finance continues to gain momentum as a powerful force in the financial services sector. Governmental and regulatory interest is now well established, with the Data Reform Bill officially announced in the UK and both primary and secondary legislation in proposal form. Many countries around the world are also actively developing regimes to make it easier for customers to take control of their data and share it freely with providers of their choosing, including banks, insurers, and wealth and asset managers.

Many senior executives across the industry have accepted that open finance is a matter of *when,* not *if.* After all, open banking has been in place in the UK since 2018, with initial outcomes and regulatory responses confirming that it's here to stay, even if adoption has been slower than hoped. The Pensions Dashboard Programme is in delivery and, following the inclusion of smart data in this year's Queen's Speech, legislation for the wider open finance regime will now begin to take shape and move forward.

It is widely expected that the Department for Business, Energy & Industrial Strategy (BEIS) will recommend a regime to cover the remaining scope of retail financial services, and from consultations between the Financial Conduct Authority (FCA) and the financial services industry, some shared expectations regarding the future of open finance are emerging.

Despite this progress, no research base has been established to document what is known about market and industry responses to open finance, what is likely to drive adoption and how to make initial offerings most valuable for customers. There has also been little, if any, formal discussion about the design and governance of a central oversight authority for industry participation, though it's clear that such an organisation or organisations would play an important role.

This report, developed jointly by The Investing and Saving Alliance (TISA) and Ernst & Young LLP (EY), aims to address these gaps. We would be delighted to discuss these findings in more detail, to learn about other studies not referenced here, and to hear your reactions to our thoughts on **the governance approach**.

In the meantime, it is our sincere hope that you will find the following **report** useful and valuable as your organisations prepare for the future of open finance, which is drawing nearer every day.

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About TISA

The Investing and Saving Alliance's (TISA) ambition is to improve the financial wellbeing of UK consumers by bringing the financial services savings industry together to promote collective engagement, to deliver solutions and to champion innovation for the benefit of people, our industry and the nation. Our more than 240 member firms include the UK's major investment managers, retail banks, online platforms, insurance companies, pension providers, distributors, building societies, wealth managers, third party administrators, Fintech businesses, financial consultants, financial advisers, industry infrastructure providers and stockbrokers.

TISA is leading the Open Savings, Investments and Pensions Programme (OSIP), which aligns to the aims of open banking by opening up access to all savings, investments and pensions through the development of industry open standards and associated APIs. The Programme team works closely with the Government, the FCA, the Money and Pensions Service and its Pensions Dashboard team, as well as open banking Limited, in the delivery of this project to ensure all participants are working towards the delivery of an interoperable environment. TISA is also developing a federated Digital Identity scheme for financial services that will enable consumers to set up and manage an individual identity for use across the sector.

About EY

What makes EY distinctive in financial services.

Over 84,000 EY professionals are dedicated to financial services, serving the banking and capital markets, insurance, and wealth and asset management sectors. We share a single focus — to build a better financial services industry, one that is stronger, fairer and more sustainable.

Executive summary

During early 2022, TISA and EY conducted a robust survey of publications on open finance and qualitative research through structured interviews and a survey with TISA members to inform the outlook for open finance within UK financial services. Our study findings were also enhanced by primary research with consumers carried out by **TISA's Open Savings, Investments & Pensions (OSIP)** programme, the findings of which are cited throughout this report.

This report references work from a wide range of industry analysts and consultants, regulatory bodies and government authorities, and other stakeholders. Their inclusion should not be considered an endorsement of their views, but rather a representation of the wide range of perspectives, as well as certain areas of consensus, regarding open finance.

Much of the research and thought leadership we reviewed covered open banking, which is no surprise given that we have nearly five years of market experience from which to glean lessons learned and leading practices that might be applied to open finance. There is ample reason to believe that open finance in its earlier stages will follow a similar trajectory to open banking – that is, steady growth in adoption that falls short of the most optimistic projections and careful assessments by market players in terms of the best ways to enter the market.

The following pages are informed by the evidence and inputs from each phase of our research, the literature review, interviews and survey. Collectively, they present a cross-sectional view of the attitudes and expectations of regulators, industry participants and other stakeholders for:

- The regulatory and government vision
- Customer adoption to date and future use cases
- Customer benefits
- Customer risks and barriers to uptake
- Industry response and in-flight initiatives
- Risks to industry participants
- Principles for success
- Commercial principles and models for industry governing bodies

About our research

We conducted interviews with more than 20 senior executives from across the UK financial services industry - including from pension, wealth and asset management firms, FinTechs, software providers and regulatory agencies.

Our objective was to understand their attitudes to open finance, identify the key drivers of customer and industry adoption, and define key principles for success, as well as principles that should underpin central governing bodies for open finance.

Based on these interviews, we developed an online survey for the full spectrum of TISA members

We compiled an extensive bibliography of open finance publications, based on the recommendations of our interviewees and survey participants, as well as a comprehensive literature search..

Lastly, we developed an illustrative commercial model to highlight how the various possible fee structures for central open finance bodies would impact different categories of participants.

While we've primarily considered these factors in the context of open savings, investments and pensions, we believe the insights are relevant to the full spectrum of open finance. We call attention to the last section in particular (see page 28). We believe that one or more industry-wide standard-setting and co-ordinating bodies will be necessary for open finance to gain traction among both consumers and industry participants. Further, the design of such industry bodies and utilities is critical to achieve any measure of success. Our initial suggestions for how industry governing bodies could be organised, managed and funded are just that – suggestions; we hope the commercial principles and potential funding models we put forth will spark ongoing dialogue and generate inputs from industry stakeholders. As the industry stands on the threshold of the open finance era, it's certainly not too soon to begin considering the many important details.

Works cited

In the research we conducted, we reviewed many other documents, but the following are cited in our report. (See page 35 for a full list of footnotes.) There is a limited amount of research on open finance specifically, though plenty of studies and thought leadership have covered open banking. We expect this gap will be addressed in the near future. *(**Note**: account registration or log-in may be required to view some documents.)*

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The open finance vision and ambition

The vision for open finance is ambitious and centred on consumer benefits and promoting innovation.

Broadly speaking, open finance can be viewed in the context of government efforts to 'modernise consumer markets' and 'improve competition in regulated markets, such as financial services.'[i] The FCA defines open finance as 'the extension of open banking-like data sharing to a wider range of financial products, such as savings, investments, pensions and insurance.'[ii] Open banking, or PSD2 (Second Payment Services Directive), enables customers to share payment account information with third-party providers, enabling those companies to offer new services (e.g., managing payments) or recommend new or better solutions.

In practice, that means improving access to financial services, expanding the number of product options, and promoting greater convenience to users.[iii] Similar high-level objectives are outlined in the Consumer Manifesto for Open Banking,[iv] which speaks of shifting from a 'battle to 'own' the customer' to 'products and services that truly 'serve' the customer.' That publication also emphasises that the benefits of open banking must be available 'to all types of people and small businesses, not simply the more sophisticated or tech savvy;' that includes those 'on the margins' and the 'asset-rich,' as well as both sole-trading and single-proprietor small businesses and mid-sized firms with employees.

A common vision around the world

This vision is generally consistent across geographies. For instance, the US Consumer Financial Protection Bureau (CFPB) has cited 'promoting competition, promoting choice, allowing new entrants to be able to challenge dominant players, [giving] people more options' as critical goals.[v] Government authorities in India have described open finance in terms of the 'the democratisation of data and shift the power over data accessibility and usage to owners of data rather than the holders of data.'[vi]

Specifically, authorities are aiming to help individuals and small businesses take greater control of their finances and increase access to the financial system as a whole for currently underserved populations (e.g., mandating access to pensions). In this sense, regulators hope open finance will lead to a more inclusive financial services system, with less pricing discrimination.

Along with many other industry stakeholders and observers, the FCA has expressed the hope that sharing data with third-party providers will prompt innovation and enhance the customer experience, ultimately enabling individuals to make more and better decisions.[vii] Specifically, it views the benefits for small businesses and individual consumers as:

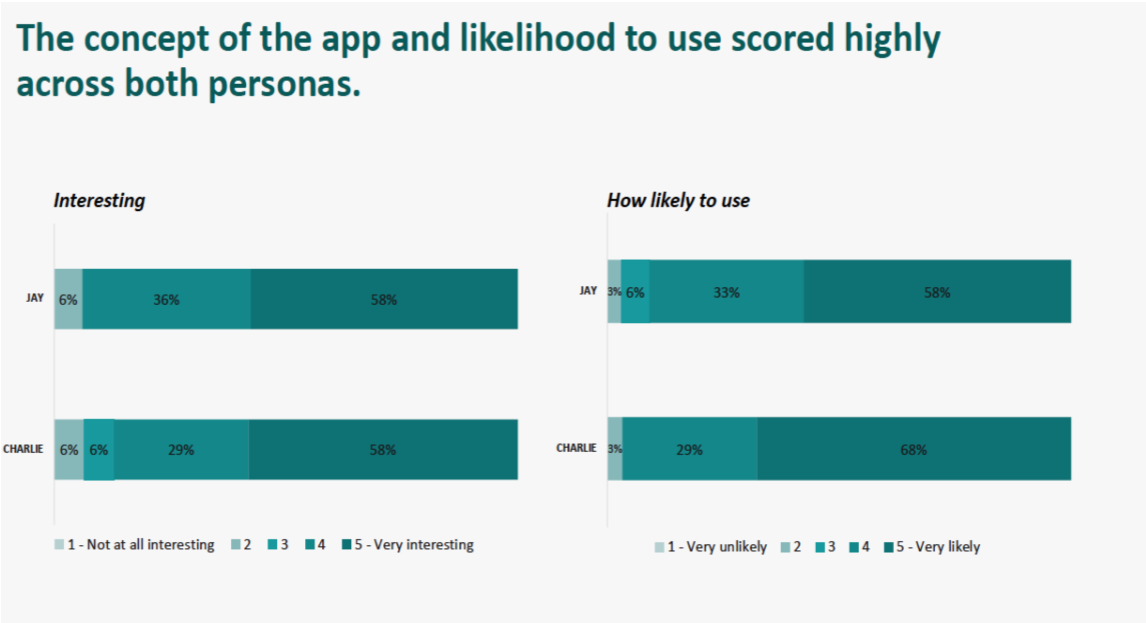
- Greater control over their own data
- Better engagement with their finances and increased empowerment to make better financial decisions
- Easier access to a broader range of products and services
- Improved financial health

Positive signs from early initiatives and testing

There is some evidence that empowered customers will switch to better value deals. According to the FCA, a trial program for customers of regulated energy markets resulted in 22% of consumers switching to a cheaper deal (compared to 2.6% in the control group). Notably, a quarter of the switchers were over 75 years old,[viii] which belies the conventional wisdom that open finance, and all digital financial services, are only of interest to younger consumers.

More broadly, there is clear consumer interest in open finance tools. In TISA's prototype-based study (conducted with Hargreaves Lansdown, Open Money and Offspring), about 90% of participants said they were very or somewhat likely to use open finance apps that gave them consolidated views of their finances, provided their data was secure and that their financial services providers participated.

CHART 1:



For reference, here are the personas used in the research:

'Jay'

- Aged 25-39
- 50/50 gender split
- Used mobile phone to check bank account at least once a month
- Used mobile phone to make payments and/or check individual transactions
- All had at least some level of cash savings (pensions and investments were optional)
- All earned at least £10,000 per year

'Charlie'

- Aged 40-55
- 50/50 gender split
- Used mobile phone to check bank account at least once a month
- All had at least some level of cash savings (pensions and investments were optional)
- All earned at least £10,000 per year

According to the Draft Blueprint for Open Finance in the UK, other ambitions for open finance include:

- Improving understanding of markets and customer behaviour
- Protecting customers and sanctioning bad actors
- Refining the liability model via regulation to accelerate the opportunity for innovation in financial services
- Increasing speed and efficiency and reducing costs via automation

These regulatory ambitions were driven to a large extent by rising customer expectations and increased customer demand for new financial services models. As Tink has noted, 'even before the European Union enforced the General Data Protection Regulation (GDPR) and the revised PSD2, bank customers were starting to demand that the industry shifts towards a new model.'[ix]

Data security is at the heart of the vision for open finance. According to the WEF, more than 120 countries have enacted data protection legislation.[x] Their report also argues for clear guidelines for the appropriate use of customer data, noting that 'Both customers and businesses deserve the opportunity to benefit from the expanded use of [customer] data.'[xi] More effective use of customer data could bring new customers into the financial system and enable more effective financial management for customers with multiple products.

One key ambition is to balance regulation and innovation: 'While a lack of customer data safeguards can weaken trust, over-regulation can also hinder innovation by restricting development of products and services that customers want.'[xii]

Tactical and technical ambitions

Regulators have also expressed a range of technical and tactical ambitions, including more efficient digital tax filing.[xiii] Another objective has been to extend data portability rights established in GDPR. For instance, the 'GDPR provides rights for data portability,' while 'The Consumer Data Right (CDR) in Australia, for example, goes beyond open banking by giving consumers the right to give third parties access to their mortgage and deposit accounts.'[xiv]

Open Banking Implementation Entity (OBIE) is setting standards for API development and Competition and Markets Authority (CMA) addresses pricing discrimination.[xv] Collectively, these efforts have helped drive market activity.

Regulators have also sought to address the challenges of digital ID verification beyond the requirements of PSD2. In Sweden, digital Bank IDs developed by banks have been adopted by the government, allowing 'companies, banks and government agencies to identify and conclude agreements with individuals over the internet in a simple, secure and consistent fashion.'[xvi] This shows how regulatory ambitions are not necessarily at odds with private market objectives and why private-public collaboration is essential to the success of open banking.

TISA is leading an initiative to develop a federated Digital ID scheme that will enable consumers to create a single Digital ID that can be used across UK financial services and that is licensed under the Government's Digital Identity and Attribute Trust Framework. A critical building block for open finance, this programme includes the development of required standards (to meet the regulatory requirements), technical architecture and a trust framework incorporating the scheme's rules and policies.

Customer adoption to date and future use cases

Though lower than initial estimates, open banking adoption in the UK is significant, with future use cases, particularly in the realm of financial decision-making, likely to drive broader growth.

Since open banking launched in 2018, the number of participating UK customers has grown to an estimated 4.5 million,[xvii] slightly less than 10% of the adult population.[xviii] According to OBIE, there are currently 109 live open banking products and services in the UK.[xix] More than 135 new providers offering account information services and/or payment initiation services have registered with the FCA since the introduction of PSD2 in January 2018.[xx]

Interestingly, nearly half of the UK's small and medium-sized enterprises have adopted open banking. As of 2020, these consumers were served by 300 firms, with another 450 developing open banking offerings;[xxi] in other words, the ecosystem is healthy, even if current adoption levels fall below early estimates, some of which predicted uptake of 60% or more,[xxii] an order of magnitude too large.

That does not necessarily mean the core value proposition to consumers has changed. Indeed, the majority of executives we surveyed and interviewed remain bullish, with 70% expecting a positive consumer response. As one put it, 'Open finance can bring what consumers want.' OBIE's impact report found that the dominant use case has been improved financial decision-making, which represents an estimated 60-70% of all API calls.[xxiii]

4.5 million: number of UK consumers regularly using open banking, up nearly 60% from December 2020

70%: UK financial services executives who think consumer response to open banking will be positive

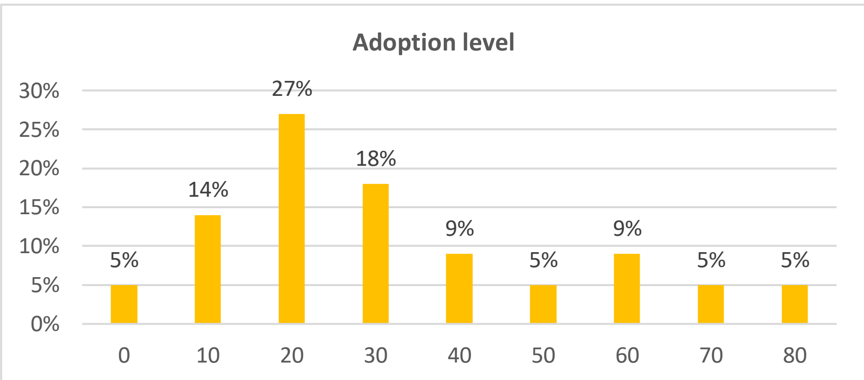
60-70%: proportion of all API calls dedicated to improved financial decision- making

Looking ahead to future growth

The high proportion of younger open banking users also suggests that broader adoption is only a matter of time; a 2020 Youtility report found that while only 5% of UK adults had used apps enabled by open banking, 46% of 25-34 year olds had done so.[xxiv] The US illustrates the growth potential, with almost 50% of consumers using a FinTech solution.[xxv]

A large proportion of our survey respondents would view open finance adoption levels of 20-30% within five years as a sign of success, though many expect slow growth in the beginning.

CHART 2: *What would you regard as a successful adoption level of open finance solutions five years after launch?*



Certainly, different segments of consumers are expected to adopt open banking at different rates. There is a clear 'generational split with younger people happy to disclose information and biodata,' noted one executive. But levels of financial literacy and engagement also matter. And those with experience in using online tools are likely to be among the early adopters and fast followers.

Open finance use cases

Our survey results confirmed that pensions are viewed as the most likely 'useful app' – or the first product type that can deliver value. One respondent added that 'commodity insurance would be easy to implement' in open finance environments.

What TISA members and survey respondents say:

'Once consumers see the benefits, the response will be positive but awareness of these benefits needs raising first.'

'Use cases will mature from a single use (a mortgage, for example) and broaden into wider money management. As the reasons why consumers engage with open finance is more publicised, the adoption rate should accelerate.'

'It will take a long time to get enough product providers to integrate and even longer for customers to see the benefits.'

There are many potential use cases. The BEIS Smart Data Consultation[xxvi] highlights the following:

- 'Aggregation services that allow consumers to view multiple current accounts and credit cards in a single app, move funds between accounts and make payments
- Services that use transaction data to monitor a consumer's expenditure and regular payments (for example, mortgage repayments, TV subscriptions or utility bills) and find better deals
- 'Sweeping' services that move cash into and out of current accounts automatically to avoid bank overdraft charges and provide a higher rate of return on cash balances
- Tools for businesses that can track business expenses and manage VAT and tax self-assessments
- The assessment of eligibility for mortgages or legal aid, without consumers having to provide physical bank statements
- Tools for debt advisors that use a client's transaction data to populate financial statements. These can help advisors provide better support and do so more efficiently'

The FCA's feedback on the Open Finance Call for Input[xxvii] highlights similar types of services, including:

  - 'Personal financial management dashboards
  - Automating switching and renewals
  - New advice and financial support services
  - More accurate creditworthiness assessments'

The FCA views Open Banking use cases in terms of those that have been envisaged and those that have been developed, or are still in development.[xxviii] Account aggregation, account data access to inform lending decisions and financial management for both individual consumers and small- and mid-sized businesses are among the most common use cases already developed, along with money transfer between accounts.

According to the FCA, use cases that weren't envisioned as being part of first-generation open finance schemes include applications to promote financial inclusion, protections for the financially vulnerable, legal aid and welfare advice and support and retrospective Gift Aid claims. Automatic product switching, management of credit card balance transfers, the sweeping of high balances, cashflow optimisation, interest maximisation and merchant payments are use cases the FCA defines as 'envisaged but not yet developed or in early stages.'

The consumer view

Consumers may help the industry come up with new ideas and applications, too. TISA conducted research featuring a prototype smartphone app that showed users all of their savings, investments and pensions portfolios in one interface. One participant wondered if and when foreign accounts could be incorporated. Another was attracted to open finance as a means to look after the finances of his elderly parents.[xxix]

This finding aligns with research from several other organisations. The Pensions Dashboard Programme has concluded that younger users are interested in personalised dashboards providing 'big-picture' views of their finances, which are a baseline for informed decision-making.[xxx] Such dashboards could integrate other tools that, for instance, allow people to track down 'lost' pensions and forecast their possible income in retirement.

As Youtility sees it, 'Open finance could allow the creation of real-time money management dashboards which consolidate data to offer a complete picture of a customer's finances. These dashboards could help thousands of people who struggle to fully understand and engage with their finances.'[xxxi]

In TISA's end-user study, consolidated views were rated as the most popular feature, but the ability to set a goal, compare offerings, access financial guidance and top-up accounts were all considered 'interesting' by at least two-thirds.[xxxii]

Our survey respondents believe that all open banking use cases and applications must include the following features if consumers are to adopt them at scale:

- ✓ **Simplicity**
- ✓ **Security**
- ✓ **Ease of sign-in**
- ✓ **Regulated**

One survey respondent emphasised the importance of 'Single sign-on across multiple organisations, which will be really useful for opening new accounts, and the simplicity and common approaches for key transactions.' Reaction to TISA's Digital Identity Proof of Concept supports this view.

Focus on security

It's impossible to overstate the importance of security. TISA's prototype testing found that 94% of users would use open finance apps if security could be guaranteed.[xxxiii] Participants in the same study were often assured of the underlying security if trusted financial institutions were involved. The general opinion was that if their financial services provider has trust in the service, then so would they as a consumer.

More than one survey respondent observed that open finance can help many consumers become more financially informed and resilient. 'Open finance is aspirational in educating the people around overall finance. The majority of the public could benefit but those not actively engaged with their finances will be the hardest to get on board.' Suffice it to say, open finance is a long game; in the eyes of one executive, 'Initially this will be quite niche as most individuals won't be ready for this level of sophistication.' History shows that such a trajectory, with early adopters giving way to fast followers before broad adoption, is typical for new services.

Awareness and education for consumers seem essential to achieving broader adoption. But ensuring consumers can see enough of their data to build a comprehensive picture of their finances is also critical. Mandating participation by financial services providers may well be a necessary step to drive adoption at scale.

Customer benefits

The range of potential benefits from open banking is potentially huge, and early returns suggest they are achievable.

The adoption of open finance will be closely linked to customer perceptions of the benefits and the value they receive. It's safe to say that the more use cases that can be delivered effectively, the larger and faster the adoption will be.

The digitisation of financial services in other markets shows that broad-based adoption often grows from an innovative service proposition that captures customers' imaginations, offers an immediate benefit and then acts as a gateway to a wider range of services. For example, in China, when an app virtualised the sharing of *hong bao,* the monetary gifts exchanged at Chinese New Year in red envelopes, massive adoption of other online payment and investment services soon followed.

On a macroscale, the annual benefit from Open Banking has been estimated at £12bn for consumers and £6bn for small business users in the UK.[xxxiv] That value will be realised in the form of more competitive interest rates, optimised cashflow, reduced fees and access to credit. The positive macroeconomic impact should be counted as a benefit, of course. One analysis suggests 'the broad adoption of open-data ecosystems could range from about 1 to 1.5 percent of GDP in 2030 in the European Union, the United Kingdom, and the United States, to as much as 4 to 5 percent in India.'[xxxv]

£12 billion: estimated annual consumer benefit from open banking

However, the same report finds that in the US and EU, only a fraction – less than 10% – of the potential value can be captured. In the UK, that figure is estimated to be 30-40%. Increased data standardisation, a high degree of trust in open financial ecosystems and a strong digital infrastructure are the keys to capturing more of the potential value in the future, according to the authors. Early efforts in the US and Canada seek to address some of these barriers.[xxxvi]

What consumers want

According to our survey respondents, the top-three benefits for customers are:

- ✓ **Control**
- ✓ **Insights**
- ✓ **Accessibility**

While it's straightforward to understand these concepts and why they matter to customers, the challenge facing firms is how to translate them into individual experiences that give customers more tangible benefits, such as finding better deals on mortgages, credit cards and other financial products and accessing helpful advice on retirement planning or long-term investments. Again, adoption will be driven by use cases delivering value.

One key question is whether propositions should focus on one product area or attempt to meet the full range of customers' financial needs. The former is easier to deliver within the UK regulatory environment but, given customers' interest in better financial decision-making, a broad approach may be more successful in engaging them.

Benefits simply must be clear and tangible if customers are to be induced to share their data with financial services firms and ecosystem participants.[xxxvii] After all, more than a third (35%) of consumers say they are happy to provide personal information as long as they 'get what they want.'[xxxviii] Even consumers reluctant to share data want assurances of direct personal benefits. While this research was not specific to either open banking or open finance, its findings appear to apply to both. TISA's prototype-based research confirms that 'If people can consolidate the view of their savings and investments due to clear benefits they will give permission to share their data – with the outcome of improving financial wellbeing.'[xxxix]

Our survey respondents predicted an overwhelmingly positive response by B2B customers, including independent financial advisors (IFAs), with 72% seeing open finance as extremely (27%) or fairly (45%) positive for this segment and only 14% thinking it would be negative.

Benefits in the big picture

Other industry analysts and commentators have cited many potential benefits:

- New and individualised products and services; enhanced customer experience; improved financial inclusion[xl]
- More accurate and faster financial advice and credit assessments[xli]
- Improved access to services[xlii]
- Simplified processes to drive smarter decisions and enable better comparison of products and increased personalisation[xliii]
- Increased choice and competition[xliv]
- Empowering customers through better choices and better value ways to access and pay for services[xlv]

Positive responses to first-generation digital ecosystems and new ways of interacting with providers or dashboards[xlvi] suggest that the theoretical benefits are achievable. The strong growth of the number of UK citizens participating in and engaging with pensions is another cause for optimism.[xlvii]

There is also an opportunity to expand beyond the financial realm by enabling insights from transactional data.[xlviii] In the realm of long-term planning, for example, robust open banking solutions may incorporate healthcare needs and plans.[xlix]

It's important to note that customers may stand to benefit from the entry of non-financial players into markets.[l] In this case, a customer benefit becomes a potential risk to industry participants, from the largest global brands to mid-sized regional players to start-ups and disrupters.

The Open Banking Impact Report found that improved financial decision-making, better borrowing and expanded payments choices are the top target outcomes for both consumers and small business customers, based on the number of API calls associated with them.[li]

What TISA members and survey respondents say:

'Benefits are that the consumer can see everything in one place, people can be educated as to their finances – one-stop shop.'

'There is unlikely to be massive brand awareness around open finance; it will be successful propositions that gain traction.'

The value to the industry

There are industry benefits as well. According to OBIE, increased operational efficiency, better fraud protection, improved workforce allocation and reduced friction in data intermediation would all follow from increased participation in open banking ecosystems.[lii] The benefits and value creation for financial services organisations in emerging economies would be even greater, given that those markets typically have lower levels of financial access.

Another report identified considerable upside for banks, including stronger credit risk evaluations, more accurate risk-based pricing models, improved product delivery and more robust fraud protection as important benefits.[liii]

While not every element of the open banking value proposition has been validated, consumers are already realising some of these benefits today. OBIE reports that a full 82% of consumers who have used open banking felt it improved their money management.[liv]

82%: proportion of open banking users that say their money management has improved.

Customer risks and barriers to uptake

There are significant risks for customers, which can – and likely will – suppress adoption rates if they are not actively managed.

As with any major new technology or innovation affecting the general public, perceived and actual risks represent barriers to adoption. In the case of open finance, these risks and barriers are very closely intertwined. Consider how customer concerns about the risks of sharing their data could lead to poor uptake.[lv] The need to gain consent and build trust, and the lack of a clear or well-understood value proposition must also be addressed if adoption is to reach large scale.

According to our survey, the industry sees the top three risks for customers as:

- **Cyber security**
- **Fraud**
- **Data privacy**

Our survey respondents also cited lack of consumer trust and understanding, lack of regulation or compulsion from the government to adopt as barriers to adoption.

84%: proportion of consumers who feel they have insufficient control over the way organisations use their data

The vast majority of consumers are sceptical about how firms use their data; a full 84% say they have less than sufficient control over how firms use that data, according to one study.[lvi] Yet, research from Which? has found that UK consumers are 'resigned to the necessity of data disclosure' in exchange for access to products and services, without necessarily understanding how (or how much) data is being collected or precisely how it is being used.[lvii]

Such uncertainty will be a barrier to future consumer adoption of open finance apps and environments, but the research from Which? supports the view that customers will share data for sufficient benefit.

The imperative to protect data

Our survey respondents cited unauthorised access to data and mis-selling as the most severe threats. As one put it, 'Vulnerability has to be a serious thought in design and of course customer data must be protected at all costs.' In this sense, vulnerability refers to both technology and data protections and to the reserved concept in UK regulation, where it's applied to customers who are not in a position to make good financial decisions.

The threats overlap to some degree. Breaches could lead directly to such unauthorised access and scamming, though bad actors would more likely aim to persuade customers to share data and grant permissions in order to perpetrate scams. Mis-selling is likely to result from poor advice, overly aggressive promotional tactics, or poor product design. The bottom line is that security-by-design principles must be applied both at the level of the overall environment and infrastructure and within individual products.

What TISA members and survey respondents say:

'We know the FCA currently struggles to supervise smaller investment firms and has little to no oversight of unauthorised firm activity. Without changes to the current supervisory framework, this creates a high probability of significant fraud and mis-selling.'

'Behavioural responses from individuals should also be considered; consumers seeing all their finances together could lead to dangerous decision-making.'

'Main risk is having portable data and it being in multiple places – what happens if it goes missing?'

Studies have identified many other material risks that need to be anticipated and managed if customer adoption is to grow. The FCA[lviii] and WEF[lix] have both cited the following as key risks.

- Exclusion of some currently underserved populations
- Misuse of data
- Inappropriate sharing
- Reduced competition
- Poor consumer outcomes

How to engage the underserved

The challenges relative to underserved populations are quite complex. If open finance ecosystems show that a given consumer has a low net worth or health issues, financial services providers may be reluctant to engage with them. To reduce the risk of negative outcomes, an ideal open finance environment would balance the risk of selling someone the wrong product against the risk of not serving them at all.

There are also legitimate concerns about fragmentation and complexity[lx] and the best ways to manage and revoke consent.[lxi] The high costs for industry participants and negative publicity in the wake of scams and frauds could also discourage adoption, according to our survey respondents.

Our survey asked how providers and other open finance stakeholders can address these vulnerabilities. Respondents saw the following features as vital to protecting vulnerable customers:

- Regulation
- Digital ID
- Inbuilt warnings
- Unbiased advice

In practice, this means:

- Having a strong regulatory perimeter that seeks to restrict access to open finance data only to those firms that are properly regulated and where the customer will have avenues for redress if things go wrong
- Using secure digital identities and authentication to ensure only the customer and organisations they have explicitly granted permissions to have access to the data
- Providing appropriate alerts before consumers make big decisions
- Ensuring that any guidance or advice offered is unbiased and in the customers' best interests

It's not surprising that regulation is seen as a key support for users, though safeguards must also be embedded in the design of products to reduce the risk of fraud, mis-selling and poor decision-making.

Balancing security and access

The calls for the highest levels of security were tempered by those industry stakeholders who pointed out the need to provide access for as many people as possible. Research from the UK Pensions Dashboard Programme found that customers' ability to 'Find & View' their existing pension holdings should be made mandatory for all in-scope pensions and sub-sectors and that additional functionality should be available to the public' via integrated dashboards.[lxii] Such 'pension finder' services improve match rates for people connected to a single customer view. [lxiii]

As serious as these risks and barriers are, one survey respondent noted that the security of existing open banking and future open finance applications is 'an extension of what banks do today in supporting vulnerable customers online.' In other words, some in the industry believe the risks to be manageable, and that excessively stringent security will deter customers who would be helped by better access to financial services.

Another potential barrier is the necessity of getting people who are currently offline and have never used online financial services into open finance environments. 'The majority of the public could benefit,' said one executive, 'but those not actively engaged with their finances will be the hardest to get on board.' This points to a fundamental strategic challenge: ensuring those who stand to benefit the most from open finance actually embrace it.

What TISA members and survey respondents say:

'Education is key. There was push back against a National ID, so how will consumers feel about a digital ID?'

'The biggest barrier to adoption will be from the providers as they need to release the information.'

'Linking pensions etc does not seem to be scary to an individual whilst linking bank accounts maybe.'

But as one survey respondent commented, the trends of the last few years offer cause for optimism. 'New customer behaviour supports online use since the pandemic, especially with the increase in usage of phones to manage everyday things.' To a large extent, the rate of adoption may be contingent on the success of education efforts and initial offerings.

Industry response and in-flight initiatives

Industry participants are focused on foundational work and building the necessary tech capabilities.

Though it has revolutionary impacts, the adoption of open finance will go through evolutionary phases and much of the work to date has been focused on laying a long-term foundation. The technology infrastructure is a top priority, even as banks and other institutions are making significant investments in tools and capabilities that they believe consumers in the open banking ecosystem will want.

Tech-driven industry responses

For more than a decade, technology trends have been pointing in the direction of open finance. All types of financial services firms are using technology to a much greater extent and at much broader scale than they have in the past. While many still struggle with the constraints of outdated legacy systems, technology on the whole has become much more powerful, secure and affordable. And it's central to financial and other essential operations for companies in nearly every sector.

According to Tink's survey, financial services organisations of all sizes and types are investing in tech. About a third of companies are investing in 'financial management services (36%), onboarding process automation (35%) and multi-banking applications (33%).'[lxiv] Smaller financial institutions (i.e., those with 100-499 employees) are also going all-in on technology. More than half (54%) are exploring KYC process automation, a much greater proportion than among larger institutions (29%). Mid-sized financial institutions are prioritising the use of open banking to enhance credit scoring algorithms.[lxv]

EY research shows that banks are prioritising technology and services that help them gain trust; in many cases, they are partnering with FinTechs.[lxvi] Another priority is securely connecting bank accounts and bookkeeping operations onto single platforms, which eliminates data entry, automates reconciliation and provides multiple payment options to customers.[lxvii] There is a clear opportunity for banks to send consumers a strong message regarding security and anti-fraud practices, which will help them build on the existing trust in their established brands.[lxviii]

Some banks are taking a more strategic view. South Africa-based Discovery, the world's first behavioural bank, has made financial wellbeing a fundamental principle and sees open banking as essential to executing on its promise to individual customers.[lxix] Data-driven insights allow the bank to reward consumers based on their financial and lifestyle choices and prompt them to make better decisions in line with their goals.

In-flight initiatives – focused on the foundational

The open banking for good challenge is among the most prominent efforts to expand adoption.[lxx] Launched in 2018 by Nationwide as part of the Inclusive Economy Partnership, the goal is to encourage FinTechs to develop tools that help financially squeezed individuals reduce their debt and manage their finances.

Preparation for open finance by governments and regulators accounts for much activity to date. For instance, the launch in January 2019 of a new Single Financial Guidance Body (SFGB) builds on the existing provision and will make it easier for people to access free and impartial information and guidance on pensions, money and advice on debt.[lxxi]

According to the Pensions Dashboard Programme, the objective is to create 'the secure digital architecture and governance framework to support and enable the development and operation of pensions dashboards,' a vital first step to scaling open banking offerings.[lxxii] These foundational efforts are happening globally. In India, regulators have mandated a biometric ID system (Aadhaar), while Nordic countries widely adopted digital ID.[lxxiii]

India’s highly ambitious program, based on collaboration among regulators, banks, pension funds, tax authorities, insurers and other finance firms, bears watching. Customer information will be pooled and, provided users consent, be used to streamline transactions and improve recommendations for financial services products. By simplifying credit ratings, the system is designed to bring many small businesses and individuals into the financial system.[lxxiv]

Risks to industry participants

Industry participants that want to win in the open finance era face both systemic risks and those at the level of specific products and offerings.

Just as consumers face significant risks in embracing open finance, so too do industry participants. And here again the risks facing banks, insurers, investment firms, FinTechs and other industry players have parallels with those facing consumers.

Low consumer adoption is among the most serious risk. A recent consumer survey highlighted how many people and small businesses view open banking more as a risk overall than a benefit, with security, privacy and control their top concerns.[lxxv]

A survey from Tink rated customer and risk key performance indicators (KPIs) from the perspective of industry participants and their importance to open banking investments. The highest scoring KPI was security risk (47%), followed by satisfaction scores (46%), compliance risk (45%) and customer risk (45%).[lxxvi] Clearly, risks are very much on the minds of firms looking to invest in open finance. There is also awareness of a risk in the other direction: that of being overtaken by tech-native entrants with the money and insight to reach customers in ways incumbents can't.

What TISA members and survey respondents say:

'The risk to the industry is from big data and tech players (Amazon, Facebook) who can out-invest and outcompete existing players.'

Focusing on fraud

The FCA is well-attuned to the high stakes around fraud risk, especially when all of a consumer's data are 'available through one single point of entry or are held by firms with poor system security and governance.'[lxxvii] Similarly it describes how 'out of date, incorrect or incomplete data being shared with a third-party provider could result in incorrect advice or recommendations, a switch to an inferior product or the wrong price.'[lxxviii]

This is yet another example of how consumers and companies are threatened by the same risks, if in different ways. As one survey respondent put it, 'Businesses will need to understand issues around liability for data loss and breaches. Businesses will be worried about hackers and scammers infiltrating the open finance ecosystem.'

The difficulty of converting standardised financial products and services to truly bespoke offerings should be counted as another risk, especially for larger incumbents who fear being 'outmanoeuvred by nimbler competitors with newer technology.'[lxxix]

Aiming for widespread participation

Many risks that are already perceived in the open banking environment would extend to open finance more generally. If the competitive threat of making customer data available deters large players from participating, the open banking ecosystem would suffer. Existing players also face a challenge in that they have to make historical data from legacy systems available, sharable and presentable in modern digital formats. If this information is not translated accurately to open banking environments, 'a series of unintended consequences for the sector' could result.[lxxx]

FinTechs, start-ups, challengers and other disrupters face their own unique challenges, primarily the risk of money being wasted on unsuccessful innovation. 90% of small business start-ups fail within three years illustrating just how seriously that threat should be taken.[lxxxi] Our survey respondents also cited a potential risk of open banking becoming an unfair playing field if it is dominated by the big players.

Uncertainty around customer expectations and needs may also be a challenge. Customers themselves don't necessarily know what they want from open banking. Thus, customer research and insight will be necessary to inform product design, continuous improvement efforts and ongoing enhancements. If the value proposition of open banking – both at the broad systemic level and in terms of individual offerings and use cases – is not clearly and persuasively communicated to customers, adoption will be at risk. In the eyes of some analysts, 'Success depends on demonstrating that customers are at the heart of decision-making.'[lxxxii]

Low trust is a foundational risk: only 36% of Europeans trust banks, compared to 54% in emerging Asia-Pacific economies.[lxxxiii] open banking and open finance could help restore trust by giving consumers more control and transparency and helping them more easily find appropriate and valuable solutions, but if current trust levels are not raised, the core value proposition may be threatened.

36%: proportion of European consumers who trust banks

Principles for success

Broad participation, healthy competition and a commitment to building trust offer benefits for financial institutions and better financial outcomes for customers.

Our survey respondents and the literature review confirmed the industry's perspective on what it will take to realise both the regulatory ambitions of open finance and the potential value for customers. The first requirement is meaningful scope and participation. Once that is established, our survey found that trust, simplicity, digitalisation and scalability were the most important design principles for open finance.

Many stakeholders view the scope of PSD2 – the foundational legislation on which open banking was built – as too narrow, and support mandatory participation for all relevant participants.[lxxxiv] An environment of healthy competition, which protects consumers and encourages organic innovation, is also a worthy goal.[lxxxv] The Queen's Speech on 10, May 2022 articulated the objective of increasing industry participation in Smart Data schemes, with the benefit of giving citizens and small businesses more control of their data. The hope is that increasing adoption and boosting participant engagement will lead to stronger value propositions and more robust ecosystem capabilities, which offer benefits to consumers, small businesses and industry stakeholders – a win-win-win.[lxxxvi]

Not surprisingly, there are technical and practical issues to be solved,[lxxxvii] including improving payments capabilities and enhancing consent protections for customers. More broadly, the development of open finance will build on what has been achieved with open banking, but with the recognition that different approaches may be needed to realise the benefits for other types of products. Further, the design of open finance will reflect the evolution of industry thinking around the scope, mandatory participation and reciprocity which have developed since open banking was designed. TISA's engagement across UK financial services suggests that most players now see value in a broad scope of open finance, providing that all players are eventually required to participate and share data reciprocally.

Building the foundation

A robust infrastructure will be essential to addressing these concerns. Specifically, common standards for interoperability among all open finance ecosystem participants will prevent incumbents from developing 'walled gardens.'[lxxxviii] TISA's OSIP programme team are working closely with open banking to understand what can be utilised to deliver OSIP and with the Money and Pensions Service to ensure integration with Pensions Dashboards.

It's no surprise that the digitalisation, security and trustworthiness of data are essential to success.[lxxxix] Ongoing research is clarifying the best ways to ensure trust in data.[xc] The remit of the Open Banking Working Group is 'to explore how data could be used to help people transact, save, borrow, lend and invest their money, and to ensure a standard was put in place to protect privacy and ensure the data is secure.'[xci]

Aiming for customer centricity

Industry stakeholders certainly recognise the customer-centric nature of the open finance enterprise. Looking beyond data standards, firms can potentially make their products and service more accessible by integrating digital ID, voice activation and other attractive features.[xcii] Firms are also exploring how open finance can reduce the costs of data sharing between firms to meet regulatory requirements.

Customer engagement, education and trust are broadly viewed as imperatives.[xciii] In that sense, the need to offer innovative solutions and deliver clear value is a matter of winning the hearts and minds of consumers.[xciv] Assurances that firms are acting in their best interest will attract more people and small businesses to use open finance applications.[xcv] Strong ethical practices and governance models are essential to creating such a trustworthy environment,[xcvi] which involves both mastery of security protocols and clear understandings of customer sentiment.[xcvii] Government affiliations and endorsements would likely add legitimacy.[xcviii]

Commercial principles and models

The design of industry governing bodies is a crucial consideration for future success.

While in some markets, most notably the US, open finance initiatives have gained traction without a central organising body, the direction of travel from both industry and regulators points clearly towards having central delivery bodies to set standards and perform critical functions. Regulators recognise that such entities can play a key role in fostering innovation and promoting consumer value. For instance, they can ensure that open finance is accessible to new entrants and existing players on a consistent and reciprocal basis.

One key consideration in designing these delivery bodies is defining the scope of products and players they will cover. The diversity of products and solutions – and of the organisations supplying them – means that it would be very difficult for a single body to cover the full scope of open finance. To that end, we expect that BEIS, HMT and FCA will establish a number of central open finance bodies covering different verticals in the industry and sitting alongside existing ones such as open banking and the Pensions Dashboard Delivery Programme. As the optimal division of scope for these bodies is under consideration, this paper will focus on how such a body might operate.

To be clear, we believe open finance will require several governance bodies, separate from open banking. One plausible model is that all the entities could sit under the umbrella of the Smart Data function, which would then provide a foundation of interoperability to support bodies for Open Insurance, Open Savings, Investments and Pensions, and others.

Beyond a clear desire for independence from any commercial player, however, there is limited industry consensus on what the role of future central bodies should be, and many open questions remain:

- What services should they offer?
- How much should be centralised?
- What protections should they offer to participating companies and consumers?
- What is the role of such bodies in resolving disputes, errors and fraud?
- What governance model will ensure all stakeholders are represented equitably?

These questions are also inextricably linked to financing:

- How should initial setup and ongoing operations be funded?
- How should they charge for their services?
- Should the services be charged on the same basis, or should different models apply for different services?

An appropriate commercial model for standards bodies will be critical to the success of any open finance initiative and widespread adoption. While no such model exists today, our research has defined a few clear parameters and design principles for establishing one.

First and foremost, the body needs to strike an appropriate balance between:

- Affordability, particularly to ensure accessibility for smaller members
- Fair allocation of costs
- The capacity for ongoing development

In our survey of OSIP participants, we found limited consensus on preferred models. However, many respondents expressed a strong desire to prevent the ability of one or a few members to acquire commercial leverage over the governance body by being the primary contributors to its costs. The scenario that some respondents mentioned was the idea of a big tech company becoming a large consumer of open finance data, which might give it disproportionate influence if the governance body were to be funded primarily by volume-based fees.

What TISA members and survey respondents say:

'It needs to be fair; those who stand to benefit should burden most of the cost.'

'Providers are the most likely to pay for it, consumers will never pay for it.'

'People will only use it if they pay for it as then seen as a premium product and value add. Consumers like freemium models.'

'Align fees to benefits.'

Modelling a prototype

We developed a simplified model to explore the cost dynamics within the business and to inform how future central governance bodies might approach their commercial models. We learned that in API-based models, the basic running costs of central bodies are relatively insensitive to scale; that is, the cost of additional cloud capacity to handle high volumes of API calls and data transfers is low relative to the fixed costs of running the body itself, even in a scenario where there is full participation with very high volumes of API calls.

We also recognised that a key feature of APIs is that, if implemented under a common standard, most calls would be more efficiently done peer-to-peer, with each side bearing its own costs, rather than through a centralised infrastructure. This conclusion led us to explore what specific services a central body could and should supply.

The model also helped to highlight that the most significant and potentially volatile cost driver relates to monitoring the application of standards for APIs, consent handling and user experience. Validating that all members of open finance schemes have correctly implemented and operate to the defined standards is a largely manual process that requires a high degree of skill and knowledge. It does not benefit from economies of scale since each implementation is likely to be customised to the provider's own value proposition and customer base.

Based on these insights, we have developed the following provisional commercial principles for a central governing body, on which we invite feedback and comment.

Central open finance bodies should be designed to:

- Provide only those services that are necessary to maintain the integrity of the APIs and the overall scheme, primarily:
    - Maintaining the scheme and its membership
    - Maintaining and developing the API, technical, consent, user experience and security standards
    - Providing a mechanism for members to certify that they meet the OSIP standards

- Maintaining a log of authorised members and enabling members to check the authorisation of other members
- Providing oversight, governance and collation of industry-wide management information, as well as a mechanism for disputes and issue resolution between members

- Price proportionately for services delivered, seeking a balance between simplicity of charging model, covering its own costs and accruing funds to facilitate the ongoing development of standards
- Look to create a marketplace of providers to deliver any service that does not need to be delivered centrally, including in particular certification services (i.e., verifying that members are compliant with the standards) – ***see sidebar***
- The OSIP programme intends to facilitate members joining the scheme in a number of ways, for example:
    - Developing their own integrations to the OSIP APIs and user experiences, and validating compliance to OSIP standards, with freedom to procure certification services from any authorised provider
    - Purchasing ready-made solutions from software providers, which might permit a lighter certification approach for aspects of the solution that are implemented unchanged from the base software

Why certification service providers make sense

The licensing of competing service providers to offer certification services is an appropriate and viable approach for open finance industry bodies because:

- The size of the market is unknown: members will need to certify on joining and recertify periodically but will also need to certify new features or refreshes of their services at unpredictable periodic moments.
- It would be excessively costly for OSIP to maintain a team of certification consultants to meet demand.
- There is already a market for third-party certification services (e.g., third-party risk management reviews or ISO certification) with proven providers that might be open to extending its offers to include OSIP APIs.
- A competitive environment for certification services would lead to improved quality and lower costs.

While we believe these principles offer a sound starting point for establishing the scope and commercial model of the governance body, a number of more detailed questions remain to be answered:

- Should members be allowed to directly fund the development of new standards (which may lead to faster development but allow funding organisations excessive influence) or should such development only be funded from governance body revenues?
- How should the OSIP governance body constitute its governance to ensure different classes of member (and the end consumer) are fairly represented while also enabling efficient decision-making?

- What corporate form should governance bodies take, and what safeguards are required to ensure an appropriate balance between agility, commercial flexibility and their position as industry utilities?

Again, we invite feedback on these questions.

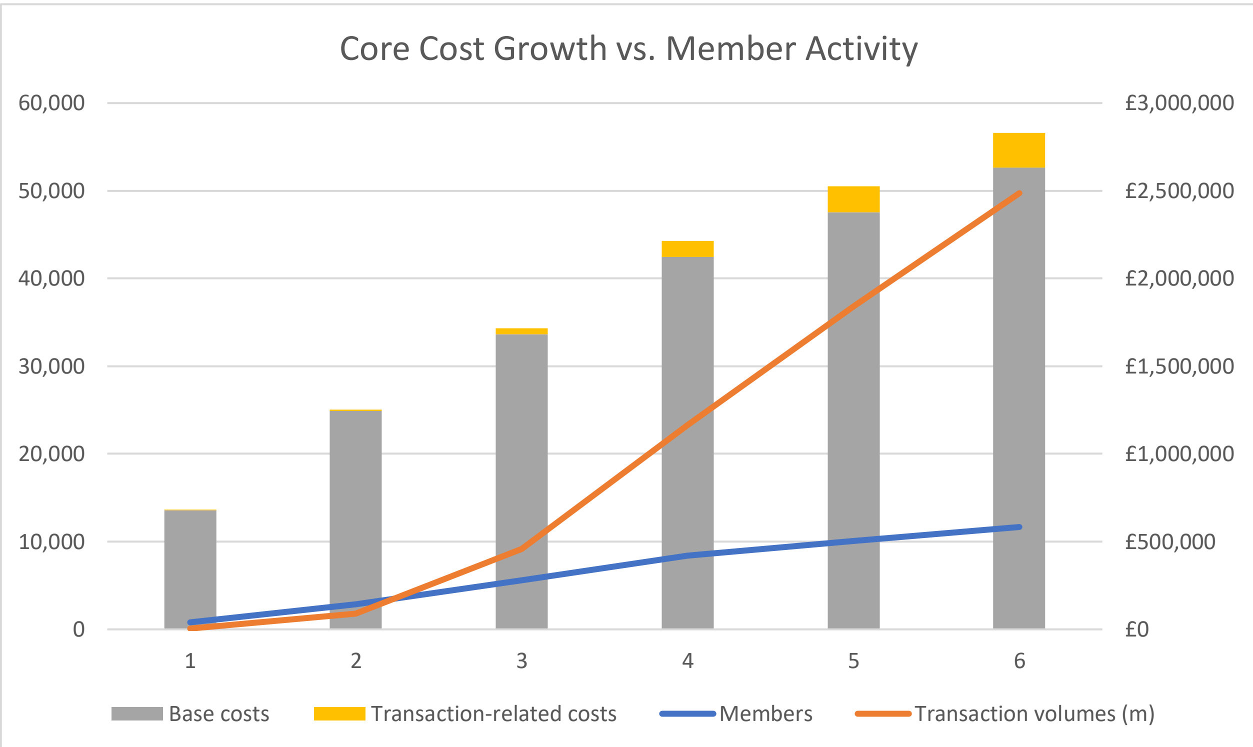
Based on these principles and to test their viability, we have designed a prototype commercial model featuring:

- Uptake projections
- Flat membership fee to fund corporate operations
- API calls and contingency/development funding
- Member use cases featuring varying degrees of adoption and frequency of app updating

Based on the OSIP programme's cost estimates for running a central body and industry proxies for the cost of API calls and certification exercises, we developed a model of the costs associated with the functions above. At this stage of development, the exact costs themselves should be taken as indicative; however, we believe that the model provides a good reflection of the relative rates of scaling in the different cost categories and is a sound basis for thinking about an appropriate commercial model.

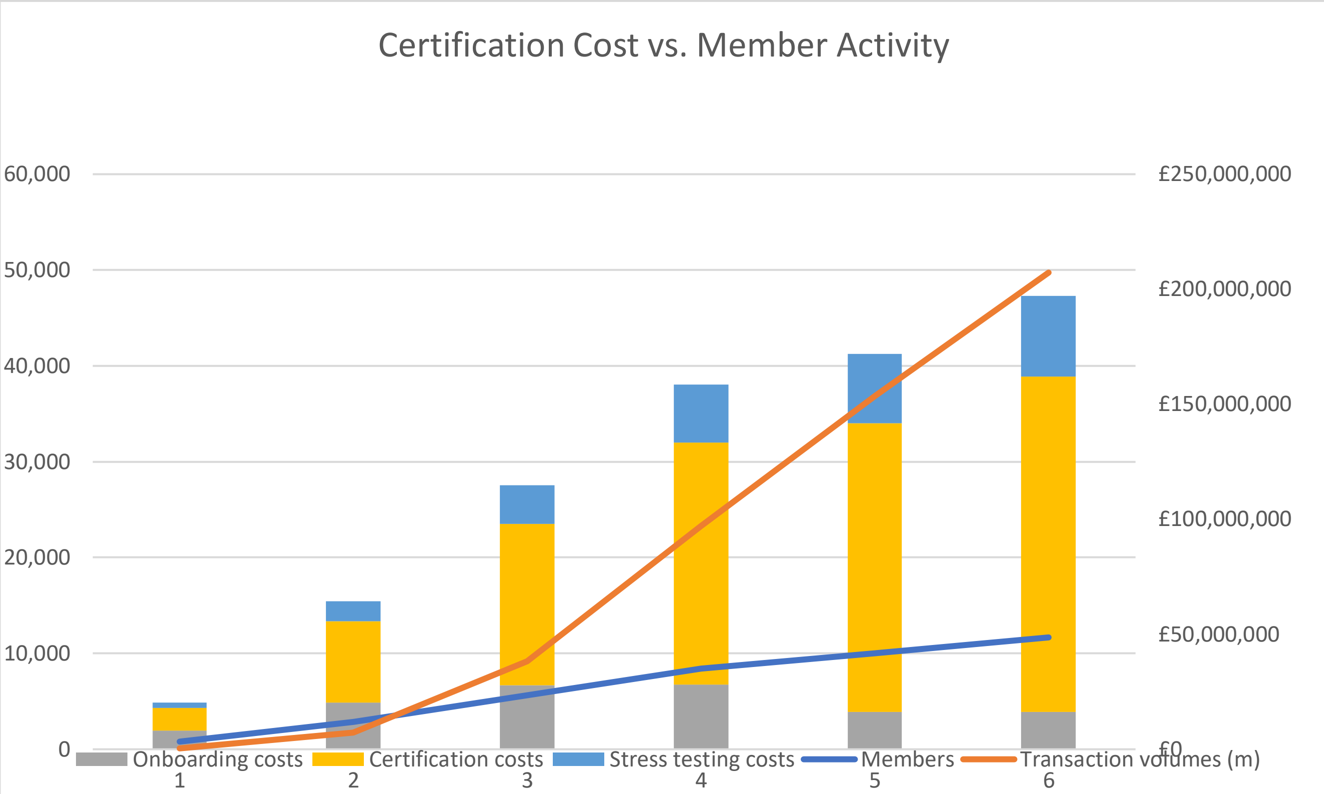
Overall, our modelling suggests that costs for the activities required to support an Open Savings, Investments & Pensions scheme would evolve in the following ways as member and transaction volumes increase.

CHART 3:



As can be seen, the cost of the API calls required for participants to check each other's authorisations forms a relatively small part of the overall cost of running a central body, even assuming that each active member will want to check each other member's authorisation once per day. The suggestion is that the core operations of a central body for OSIP could be covered by a flat membership fee, possibly tiered by type or size of member organisations. On the assumption that all UK financial services players would eventually join, the central body would very likely be able to fund its core operations and build up a surplus for contingency or investment in further development with a fee of a few hundred pounds per member. This would place membership within reach of even relatively small financial services players, including FinTechs, startups and small financial advisors.

CHART 4:



We estimated the costs for certification activities by using other third-party certification models as a proxy. A certification exercise typically costs a few thousand pounds and would be performed at onboarding to the scheme and then periodically thereafter, or prior to launching major changes in services using the APIs governed by the central body.

As chart 4 shows, these costs scale rapidly as new members join and develop their services. Given that this cost is high relative to the operation of a central body itself, and that the rate of usage is determined at least partly by member firms, there would be significant risks if the central body were to attempt to provide the services. For instance, it would require dedicated staffing trained in the specific certification requirements, and this could lead to significant financial risk if the central body staffed up in anticipation of demand that was slower or smaller than anticipated. On the other hand, underestimating demand could lead to bottlenecks in members being onboarded that could slow uptake, reduce usefulness to consumers and potentially even undermine confidence in the scheme.

Third-party providers, on the other hand, can offer some flexibility in resourcing because existing teams providing certification services could be trained to offer OSIP certification as additional skillset. Plus, having multiple providers in the market could promote competition, innovation and greater efficiency in providing certification. Assuming reasonable uptake by firms (or that the legal and regulatory framework requires mandatory participation), there is also good evidence that the market would be large enough to be of interest to potential providers.

We believe this preliminary model illustrates how and why a central governing body might choose the services it provides and where it might engage a market of third-party service providers. Certainly, our model provides a basis for further exploration and, ultimately, development of a viable and robust commercial approach for a central governing body for OSIP and other areas of open finance.

Conclusion and how to get involved

As the financial services sector enters the open finance era, we expect rapid and significant developments to shape the market and leading practices to emerge. We will continue to watch the space closely and conduct further research to find out what works, both for customers and for industry participants. In the meantime, we welcome your feedback on the ideas shared in this report, particularly those relating to the oversight body.

Further, we encourage stakeholders to join the OSIP programme so they can be involved in the development of necessary infrastructure, standards and the governance body. Specifically, participants can:

- Develop and test their open finance propositions (based on access to the programme's outputs that deliver better financial outcomes for consumers
- Test technical and data connections using APIs via our development Sandbox
- Prepare for legislation being developed by the Government and join dialogues with regulators to share the industry's perspective
- Influence and shape development of open data standards and identity requirements for financial services, as well as other vital infrastructure and the role and structure of an oversight body
- Join workshops and engage with TISA members, including over 260 firms operating in the financial services sector, in a trusted environment

GET IN TOUCH TODAY

OSIP enables industry to go beyond Open Banking by providing standard and accessible APIs to accounts not currently required by regulation. Together TISA members are leading the industry to Open Finance, empowering the UK to continue to lead the world in a truly open economy that is transparent, accessible and good for both consumers and industry. If you want to find out more or join TISA's OSIP programme, get in touch today

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DOWNLOAD OUR FLYER HERE FOR MORE DETAILS >>

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Endnotes

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