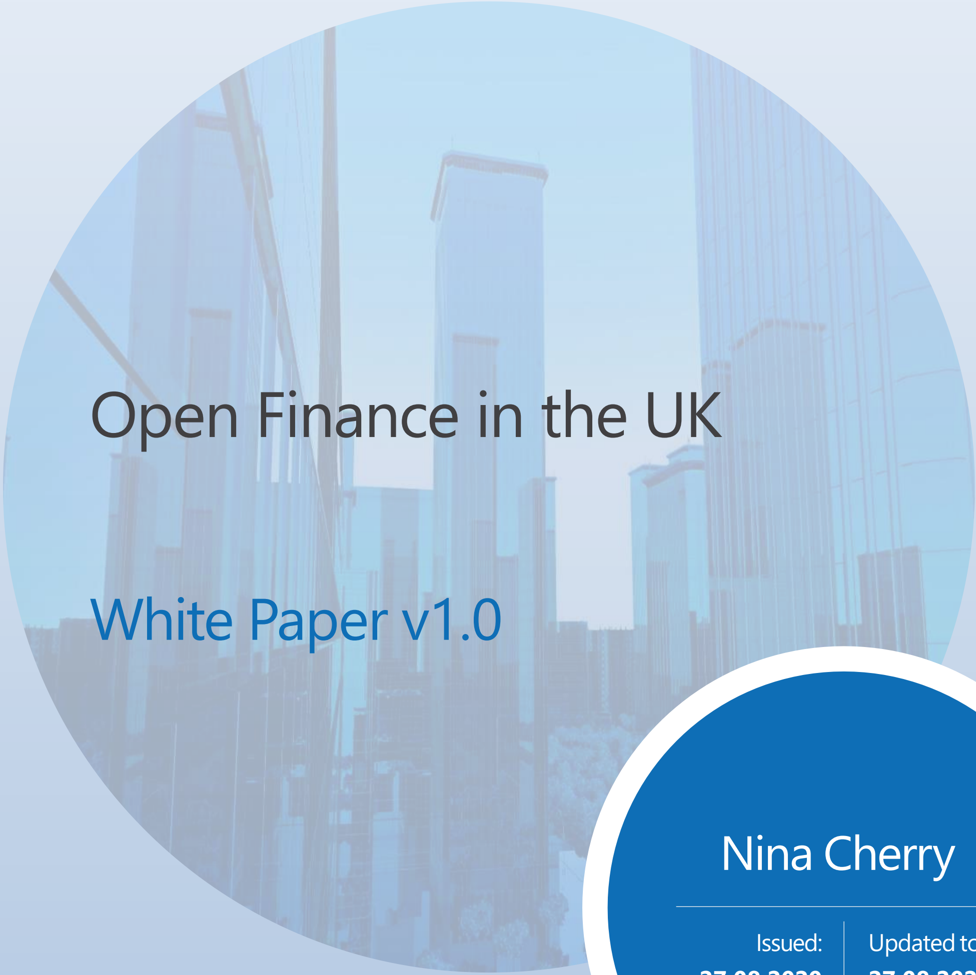
Simplify Consulting



Open Finance in the UK

White Paper v1.0

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01

INTRODUCTION

Since its inception in 2018 much progress has been made in the world of Open Banking. The purpose of this paper is to examine how the knowledge and experience gained from Open Banking is now being used as a stepping-stone into the realms of Open Finance from a UK perspective and provide examples of how this could be utilised within the sector of wealth management.

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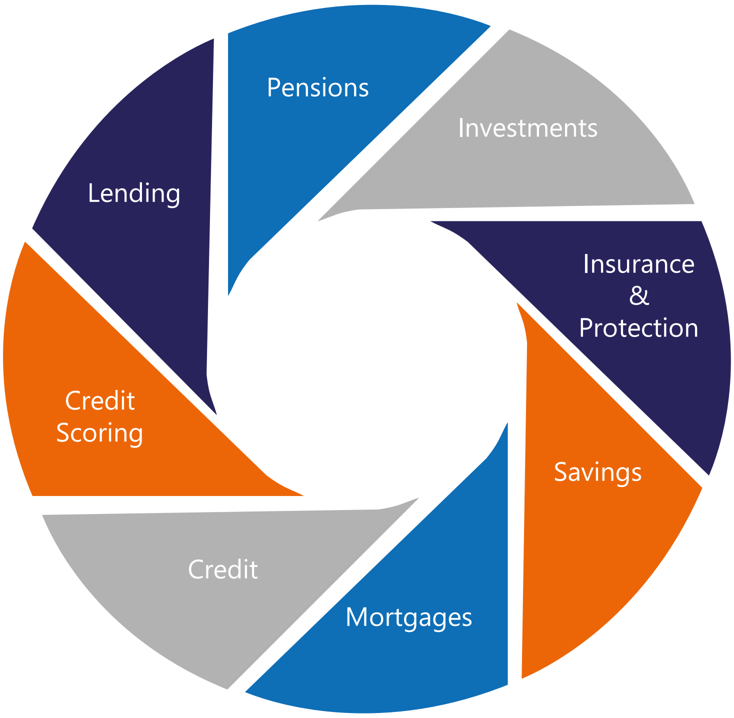
2 What is Open Finance?

"Open finance refers to the extension of open banking-like data sharing and third-party access to a wider range of financial sectors and products" [1]

2.1 Sectors covered by Open Finance

It's anticipated that this will encompass the following sectors:



2.2 FCA vision for Open Finance

Increased use of open finance services spurs greater **innovation**, benefiting consumers by providing a **broader range products and services** that better suits their needs

Consumers and businesses:

1) Can grant access to their data to trusted third-party providers (TPPs) and in return gain access to a wider range of financial services/products
2) Have greater **control** over their data
3) **Engage** with their finances, and are **empowered** to make better financial decisions

Widespread use of new services improves the **financial health** of consumers and businesses in the UK

3 Open Banking

> *"The secure way to give providers access to your financial information"* [2]

3.1 A potted history

Before looking further at Open Finance, we must first understand Open Banking in order to appreciate the context and foundations that it provides for further adoption into Wealth Management.

The Open Banking Standard was originally published in February 2016. It was initiated by The **Competition and Markets Authority (CMA)** as the older, more established banks held the monopoly and smaller, newer companies were finding it difficult to access the market and grow. It mandated that the UK's nine largest banks and building societies had to make customer data available through Open Banking.

The **Open Banking Implementation Entity (OBIE)** was established by the CMA in September 2016 to deliver Open Banking and the required API standards.

The objective was to give customers more choice and control over their finances and financial information.

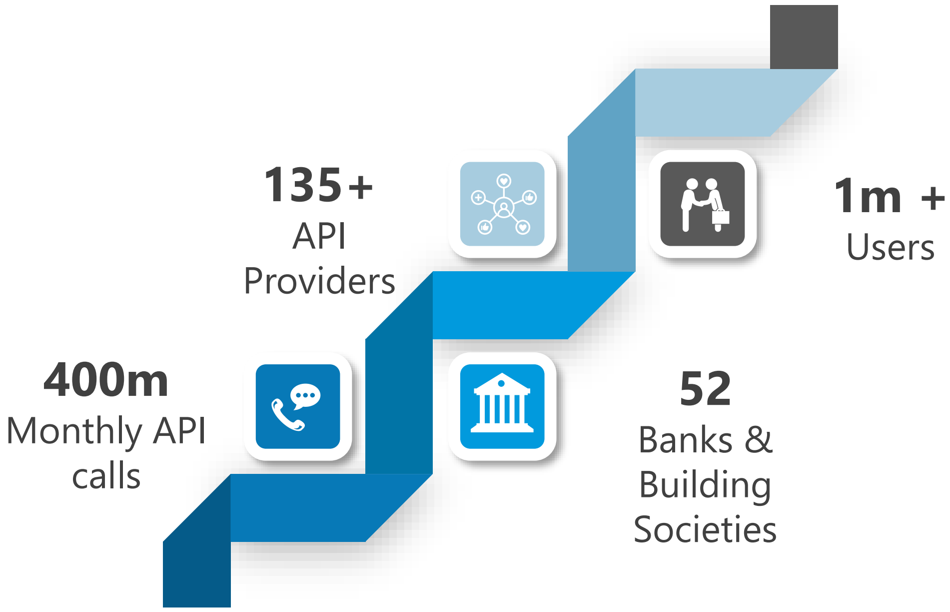
> ***"as a collaborative model in which banking data is shared through APIs between two or more unaffiliated parties to deliver enhanced capabilities to the marketplace."*** [3]

The Payment Services Regulations 2017 (PSR), which implemented **Second Payment Services Directive (PSD2)** in the UK, added further weight to open banking by providing a legal right for regulated **Third Party Provider (TPP)s** to be able to access online payment accounts data and make payments, provided they have the customer's explicit consent.

TPPs are regulated by the FCA to provide open banking services, covering account information and payment initiation. They must also be **General Data Protection Regulation (GDPR)** compliant. It's primarily aimed at the retail banking market, for individuals and SMEs.

3.3 How has Open Banking fared so far?

The Open Banking Directive went live on 13th January 2018, however the full set of requirements only started to apply in September 2019.



Whether it's been a success or not depends on who you talk to.

> ***"We're approaching the end of the beginning of a long journey"*** [4]

The general consensus seems to be that it's doing well given it's still in the early stages, but as with previous financial initiatives such as chip and pin and contactless payment, it's really only at the start of a much longer journey of maybe 5-10 years until it becomes fully embedded. For contactless we saw a massive uptake in volumes following adoption by TFL. Will there be a similar catalyst for Open Banking?

The UK is maturing much faster than the rest of Europe as it focuses on **standards and interoperability and a very coordinated approach to implementation**.

There is a large diversity in players from the incumbent banks to start ups, and whilst its mostly simple data based usage e.g. money management, onboarding through loan/mortgage applications, usage is building and diversifying.

During the Open Banking World Congress 2020, **Oliver Prill, CEO of Tide** (a mobile-first banking service targeting small and medium enterprise customers) explained that many of the incumbent banks, whilst aware of it, don't really know what to do with Open Banking and are just regarding it as a compliance exercise and doing the minimum required to comply.

He would encourage further development into richer experience, **premium service payable APIs** to deliver additional things that they're not mandated to by regulation in order to develop a rich ecosystem. He also suggests that regulators should offer **incentives** for operators to go beyond the minimum mandatory infrastructure. In his opinion it's still 10 years before Open Banking becomes a universal standard around the world.

3.4 The drivers

In a recent Tink poll of financial institutions, the following drivers for Open Banking spending were cited:

44% Improve customer experience

39% IT Modernisation

34% Process Optimisation

3.5 Some of the good bits....

- Built good foundations in terms of building understanding around the value of 'Openness'
- Allows for read and write access to data (many other countries are focusing on read only access)
- Maturing much faster than the rest of Europe due to focus on **standards and interoperability and a very coordinated approach to implementation**. E.g. the Open Banking whitelist/directory of approved providers
- Support offered in the form of a regulatory sandbox and the advice unit

3.6 Some of the not so good bits....

- Implementation has been slow with several of the big banks missing the required deadlines
- Public awareness and uptake has been low
- Poor API performance means there isn't yet the desired reliability or speed – *"Current APIs are not performing particularly well – therefore we need to stabilise this, before building on it further from a commercial perspective"* [5]
- Additionally, many institutions have implemented Open Banking slightly differently.

  "At present, each bank defines its APIs differently, which hampers integration and interoperability, and generally defeats the whole purpose of Open Banking. Bodies, such as BIAN (Banking Industry Architecture Network), are working hard to remedy this situation by formulating clear, standardized definitions for various banking APIs." [6]

4 'Open' around the World

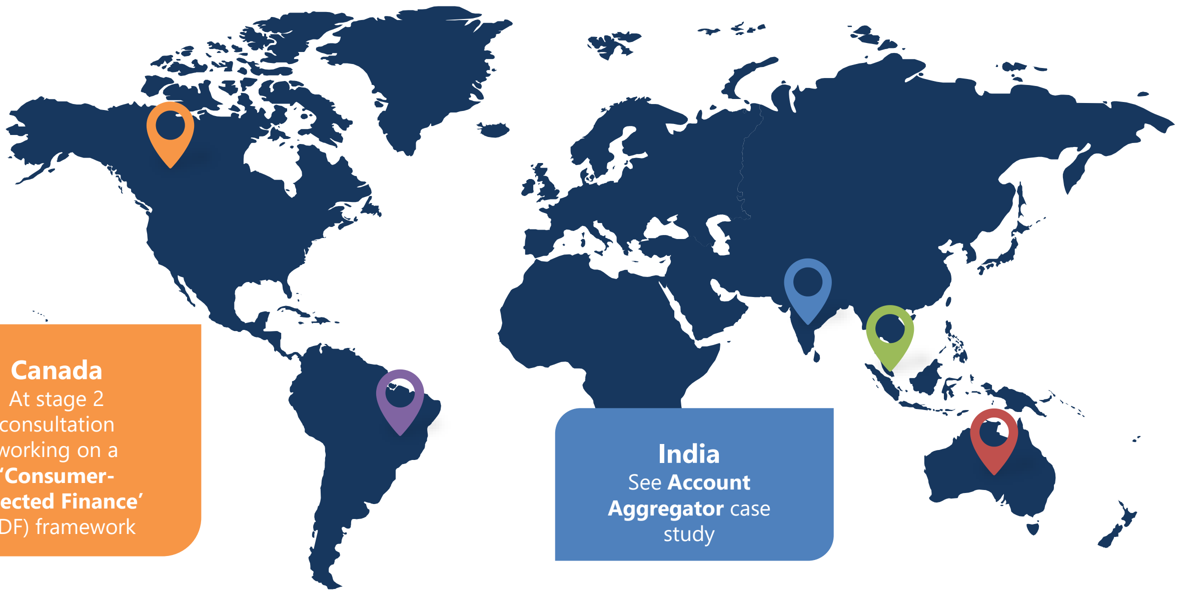
Initiated in the UK, Open banking has since gone global with **over 51 countries** following suit. However, it's driven by different motivations - in some countries (like the UK) it's a **regulatory requirement**, in others, motivations are based more on **commercial market or innovation opportunities**.

There are various initiatives similar to the UKs Open Banking and Open Finance running in various countries around the world, which are at **differing stages of maturity**. In many ways, the UK has set the bar in terms of high standards and pace and many other countries have looked at what we've achieved as a basis for their own endeavours, but they're all adopting it in their own ways.

Below are a few examples of how 'Open' is being progressed around the globe.

"86% of global banks are looking to use APIs to enable Open Banking capabilities in the next 12 months"*

*** Research by Finastra conducted among 774 banks worldwide**



Canada
At stage 2 consultation working on a **'Consumer-Directed Finance'** (CDF) framework

India
See **Account Aggregator** case study

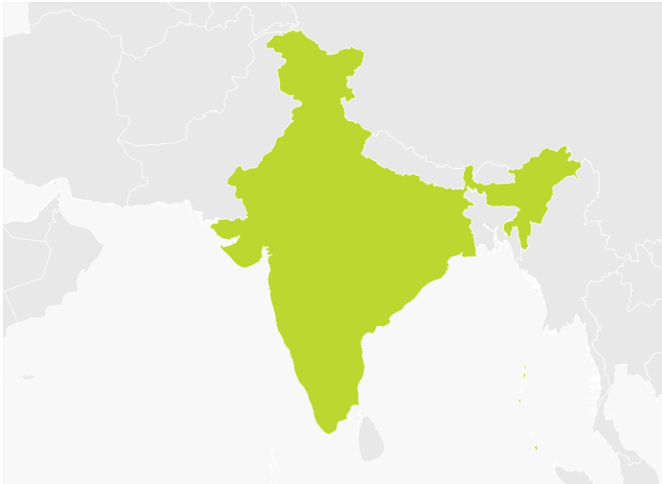
Brazil
A front runner in South America, building on UK learnings. Their **scope and focus is much broader** and introduces the **concept of reciprocity** – commercial compulsion i.e. if you want to participate, you have to share your data as well as consume data from others.
They've just passed their open banking mandate to be implemented in 12 months with more data points and more functions.

Singapore and Asia Pacific
More commercially driven and are catering for a much broader range of use cases including **Corporate Banking** and **Trade Finance.**

Australia
Taking an ambitious **'Open Everything'** approach via the **Consumer Data Right (CDR)** - due to go live **01/11/2020**. Starting with banking like the UK but also including a **much broader set of products and industries** such as loans and mortgages, utilities and telecom data. CDR doesn't cover payment initiation yet and will also provide **read-only access to datasets** as opposed to write access which the UKs Open Banking permits.

5 A case study of India

5.1 Account Aggregator



An example of a country that’s leading the way in Open Finance is India where they’re rolling out the Account Aggregator (AA) framework. It was due to go live in May. However, given the impact of the Coronavirus pandemic whereby the government is focusing on increasing liquidity, and the common user - who may be dealing with hardship and uncertainty - has a preference to hard cash rather than investing and savings, this has understandably been delayed.

AA facilitates the connection of a person’s accounts through a **common portal** so that they can be shared securely for a company to access with user consent.

It’s a much **broader scope than the UKs Open Banking**. And whilst only asset-based data is available currently (i.e. bank accounts, deposits, mutual funds, insurance policies, pension funds), other data types are likely to be added over time with the plan being to cover not just payments data but loans and mortgages, savings accounts, investments, pensions, retail insurance and even tax. The financial sector will be the first area where this will be deployed, while the approach can later be applied to telecom, healthcare and other sectors.

One of the drivers is to increase financial inclusion

“The focus will shift from just aggregating accounts to powering comprehensive automation in credit lending, investment advice, personal financial management, etc., and ultimately financial inclusion” [7]

Other driving factors at play include the arrival of fast and cheap 4G network and also the arrival of global players (e.g. Google Pay) which have paved the way for making such apps simpler and more accessible for all consumers.

5.2 The stakeholders

Actor	Role
Financial Information Provider (FIP)	Financial sector institutions that offer financial services and products including banking, lending, asset management and insurance.
Financial Information User (FIU)	Institutions that are registered and supervised by any of the financial sector regulators (including RBI & SEBI). They must gain consent from the user by providing details of the data to be captured through an AA.
Account Aggregators (AAs)	The entities that facilitate financial data sharing from FIPs to FIUs whilst recording and managing the consent provided – 'Consent Custodians'.

Note: It's mandatory for an entity that wants to become an FIU to become an FIP as well i.e. to receive data, companies must first be willing to share data.

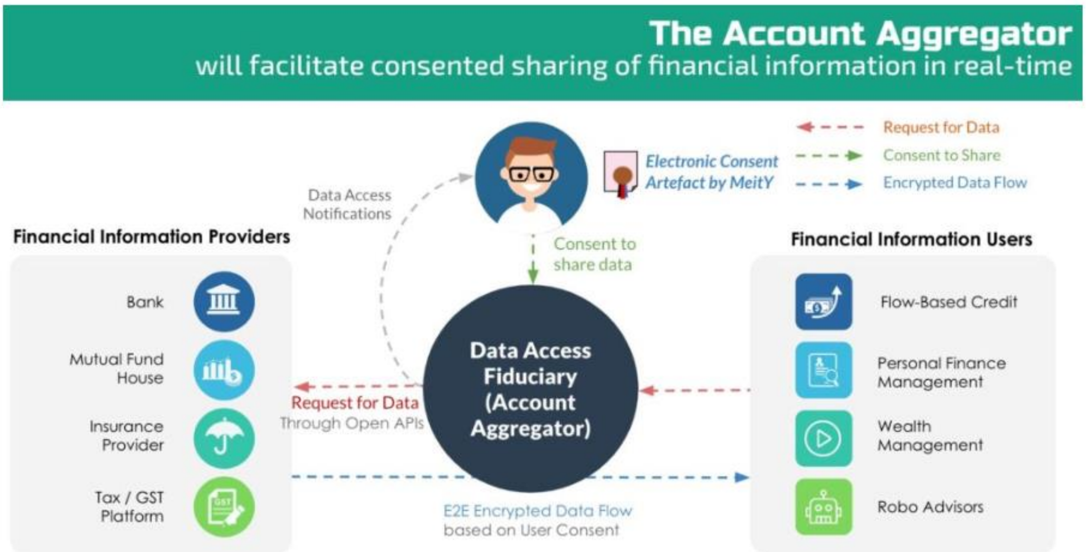


Figure 1: Sahamati.org: Data flow among FIPs, FIUs, users and account aggregators via open APIs [8]

AAs have to operate under the regulation of four separate authorities including the **Reserve Bank of India (RBI)** (who also supply an operating license), within a proper framework, legal structure and liability model. By regulation, they can transfer the data (encrypted), but **can't inspect, store, process or sell it.**

The user registers and downloads an app from one of the RBI sanctioned AAs. From here, they can select the relevant personal or business financial accounts to connect. They have control over what info they want to share, for what purposes and how long for and can revoke this access whenever they choose.

5.3 The front runners

Eight companies have been given in-principle approval to get started. Other companies will likely seek approval, some of which are totally new players e.g. **Onemoney**, whilst others are more familiar to the masses such as **Reliance** who have a presence in virtually every sector (telecoms, capital, retail etc) and also have the advantage of having a large user base and knowing their customers spending behaviour.

Another example is the **Kotak Mahindra Group** which has launched a pilot among 50,000 employees to test use cases for the AA framework in banking, broking, wealth management, and insurance. They're testing it out on employees before launching it to customers so they can observe how it's being used and finetune accordingly with an aim of seamlessly integrating personal finance journeys.

These companies are motivated first and foremost by competition - to consume as much market space as they can. But additionally, by establishing a strong user base with loyal customers and also by gaining confidence from investors. Once these things are achieved, companies will be able to come up with new and more innovative schemes as well as partner with other investment and unit fund managers or insurers to actually start making profit.

5.4 Who profits?

An Account Aggregator can charge the FIU or the end consumer (owner of data) for the data requested, but cannot charge the FIP for the data, as this creates perverse incentives for the ecosystem. Each AA is free to fix the price they wish to charge the FIU or consumer.

5.5 How might AA be used?

The types of use case for AA may vary depending on the wealth of a person and their attitude to risk. Akash Upreti of Tata Consultancy Services has provided the following thoughts:

Consumer	Potential Uses
Middle class	Functions which are safe and give high interest
Upper middle class	Distribution of spending towards whole year. Around the start of the financial year in April, there's commonly a large amount of spending (home loan, insurance, tax filing, children fees etc). AA can provide a way to streamline and spread this spending across year e.g. Equal Monthly Instalments (EMI)
Rich families	Growth of their wealth e.g. buying or selling stock
Safe Investors	Can invest in schemes, pay insurance, pay to a relative etc. from a single account of AA
Risk Investors	Can invest in bonds, mutual funds, buy and sell shares, get loans etc. and transfer money from one bank account to others in a single umbrella of AA

6 FCA Call For Input

The UK market is taking the initiative and moving forwards in terms of data and technology for Open Finance. Therefore, the FCA is keen to understand how this change will shape the markets in future and ensure that innovation works in the best interests of the consumers and additionally how the regulatory framework needs to develop to protect both consumers and businesses.

They formed an **advisory group** made up of 27 industry experts, consumer and business representatives, academics and government departments to start exploring Open Finance.

Examples of those in the group include **Gavin Littlejohn**, Chairman of the Financial Data and Technology Association (FDATA), **Harry Weber-Brown**, Digital Innovation Director, The Investing & Saving Alliance (TISA) and **Liz Brandt**, CEO of Ctrl-Shift

At the same time, Europe is also conducting consultations for moving beyond PSD2 with EU Digital Finance planned for Q3 this year.

Now is the right time to build upon what's already been done for Open Banking and ask for input from the industry in order to shape the way going forward. This includes sharing views on how financial service providers and consumers would use Open Finance and what their concerns are.

6.1 Early thoughts

Alex Roy, Head of Consumer Distribution Policy, Financial Conduct Authority (UK) confirmed that

over 100 responses have been received to date

and from these you can already see a diversity of views across different sectors e.g. between data providers and data recipients.

Key themes from responses so far:
The need to be clear about desired outcomes and scope (e.g. read Vs write functions). Roadmap is required for each sector in order to coordinate and ensure consistency.
Collaboration needed between FCA and other government departments, fintechs etc
Consumer representatives – Calls for research to understand the benefits from Open Finance, for example considering vulnerable consumers and also SMEs
Changes to the regulatory framework may be needed in order to build confidence and trust. Firms are concerned about how the recipients of data that they share will ensure it's adequately protected.
Standardisation required across a number of functions to ensure interoperability. Need a Liability Model.

6.2 Who should respond to the CFI?

The deadline for responses was originally 17th March but has been extended to **1st October 2020** due to Covid-19

“It is vital that financial services firms take note of this Call for Input, contribute to ensure the best model for Open Finance is rolled-out and, where possible, start preparing now.” [9]

The list of who could and should respond to the FCAs CFI is long but from a wealth management perspective would include the following:

If you’re interested in reading and responding to the CFI, you can access the response form here.

A report on the outcomes from the CFI probably won’t materialise until next year now. But hopefully it will outline clear proposals in terms of standards, liability frameworks, governance and proposed regulatory requirements for each financial sector.

7 Open Finance opportunities in Wealth Management

Open Finance will enable Mutual Fund providers and wealth management platforms to request the data to better serve their customers. Here are a few ideas on what opportunities this may provide including some examples of companies that are already leading the pack:

7.1 Pensions Management & Retirement Planning

"Open finance will allow consumers to make informed choices on how to save for their retirement and how to spend their retirement funds" [10]

This is clearly an area where Open Finance could be of huge benefit given that so many consumers have multiple pension pots across numerous providers.

The **Pensions Dashboard project** is currently being progressed by the Department for Work and Pensions (DWP) and the Money and Pensions Service (MaPS). Whilst it's still a way off at this point in time, it's envisaged that it ***"would be a consumer-friendly digital interface enabling consumers to access and view information about all their pension savings (including state pension, workplace pensions and private pensions) in one place."*** [11]

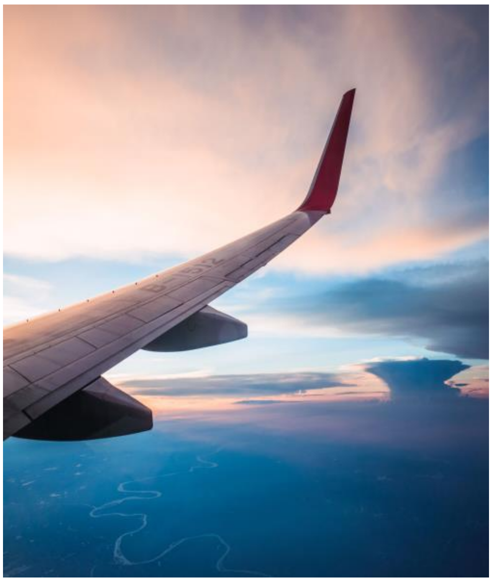
Additionally, established fintech providers are already building a market for these purposes, for example **PensionBee** who enable you to consolidate all your pension pots into one online plan, whilst profiting through charging an annual management fee.

7.2 Improved Onboarding & Customer Journey

Wealth managers require a large amount of data when onboarding a new customer. However, much of this data will have already been provided in other areas of the customer's financial life such as with their retail bank.

Open Finance can help to streamline this process and also fits in with plans to increase the availability of **digital identity** in the private sector, removing the need for verified physical documentation confirming identity. **Strong Customer Authentication (SCA)** (currently aimed at online banking and shopping to verify identity or validate a specific payment instruction) will also likely play a role.

All of this would then also be of benefit in satisfying **AML** and **KYC** requirements for both existing and new customers.



7.3 Personal Financial Management

Open Finance could facilitate the creation of an **holistic personal balance sheet or dashboard** where consumers can aggregate and view all of their financial data, including current, savings, business banking accounts, stock & shares, loans, credit cards, pensions, mortgages etc in one place. This would help people manage and understand their financial position, make more informed decisions, encourage them to take ownership and responsibility of their finances, set their goals etc.

*"Creating this holistic view is considerably more challenging for **high net worth clients**, given they typically have relationships with many advisors, multiple portfolios and asset types across different jurisdictions, and complex ownership structures including companies, nominees, and trusts"* [12]

However, as the concept of 'openness' takes hold, it may well be these consumers in particular who demand this digital access to their financial lives.

Some companies are already progressing work on open finance APIs. For example, **Lumio**, the next generation of personal finance have recently partnered with open finance platform **Moneyhub Enterprise**. With a vision to enable everyone to take control of their financial future, they aim to bring clarity to a customer's financial life by bringing together their bank, savings, pensions and investments data in one place. This should then enable customers to easily see a holistic view of their past, present and future finances, so that they can track, plan, make informed decisions and grow their savings and earnings, potentially without the need for a financial adviser. [13]

7.4 Complimentary Savings Services

Some retail banks already offer this type of auto-saving service for their customers to regularly put small amounts aside from their cash account. But this concept could be expanded allowing wealth managements firms to integrate with banks to offer digital saving and investment services which would be a win-win all round. It would encourage clients to build up their savings pots and would also bring on board new customers and increase assets under management for investment managers.

Silo is an example of where this is already being pioneered. Their app provides a personalised recommendation of how much a client can comfortably afford to put aside each month. The app then links to a client's bank account, allowing them to easily save money that's then invested on their behalf.

7.5 Automation of Financial Advice

Gaining financial advice can be arduous in terms of gathering together all of your paperwork pertaining to mortgages, various pension pots, assets, investments etc to provide to an advisor, and that point-in-time advice may be reassessed fairly infrequently. Open Finance could provide a platform for linking together and sharing all of this information digitally and in real time. Additionally, the advice could also be automated rather than requiring a human advisor, for example sophisticated analytics capabilities applied to spending patterns, income and saving levels etc and advice dynamically created and automatically updated in real time as changes in data are detected. This would therefore far more comprehensive than some of the existing and more basic 'robo-advice' offerings.

Below are some examples of tech providers who lead the way in providing IFA capabilities:

- **Moneyinfo** – Specialising in client portals and mobile apps for the wealth management industry
- **Intelliflo** – Offering software solutions for financial advisers and mortgage advisers
- **True Potential** – A group of financial services and technology companies who work with around 20% of the UKs financial advisers

Another example is **Fintuity** who are not only advisers with a tech capability, but are also the **UK's only FCA-regulated online-only IFA**. They have recently offered all NHS staff free financial advice via their online portal as part of ongoing national efforts to support our NHS staff during the Covid pandemic.

Having access to an **'IFA in your pocket'** may be particularly attractive to the millennial generation who increasingly live a digital life and expect everything on-demand. However, the complexity of providing such services should not be underestimated given that such advice is heavily regulated.

7.6 Personalised Product Recommendations & Cross-selling

The financial data shared would provide insight into spending patterns, disposable income, amount of debt, use of credit etc.

This could facilitate an assessment to be made and specific existing products recommended or products customised to suit the individual's needs.

7.7 Automatic Enrolment, Switching & Renewals

This could take several different forms. For example, product providers or TPPS could automatically switch customers between products to try and achieve the best returns based on known propensity to risk.

*"Platforms like **Yolt** are a great showcase of what can be achieved by leveraging Open Finance".* [14]

Utilisation of their app allows users to optimise their cash flow by moving money around to highest interest accounts, a concept which could easily be extended into the world of wealth management.

7.8 Alternative Asset Investments

Another opportunity could be for wealth managers to partner with third parties offering **alternative asset investments** e.g. carbon credits or crypto currency.

The adviser could then make recommendations to the client and earn a referral fee from the third party for any new custom they obtain.

7.9 Trading Credit

Traditionally an investor would have to deposit cash into their trade account before they could begin investing (albeit stockbrokers and wealth management firms may also offer credit to be able to trade). Open Finance would allow traders to view an investor's cash balances in third party accounts and therefore assess their creditworthiness and reduce credit risk.

7.10 SME Finance

Simon Healy, EMEA Financial Services Industry Director, Unisys says that there's a huge demand from SMEs for a modern approach to finances e.g. a 'Virtual Finance Department in your pocket' – there's potentially **5m businesses in UK** that would bite your hand off for this type of service to expedite payroll, make expense management simpler, streamline invoicing and help with budgeting.

Additionally, SMEs have to provide significant information on beneficial owners, organisational structure etc resulting in lots of friction and consequently, not a lot of switching.

Open Finance has the potential to reduce this information sharing process from weeks to seconds. It may also change the dynamics, for example an SME could use Open Finance to open themselves up – so to speak - and say 'here's my info now bid for my business.....'

As we've seen above, some of these opportunities are already being progressed and some are already up and running. However, the Open Finance initiative would guarantee consumers the right to access their financial data and also offers the chance to put in place the necessary regulation, frameworks and standards to build a much richer and fully integrated ecosystem.

8 The Benefits to Businesses

Improved **competition** amongst financial service providers, fostering **innovation**, development of new products and services and potentially also increased demand.

New methods of value creation
both upstream and downstream e.g. refining and expanding your customer base, new product development, opportunities for cross selling.

On-boarding and fact finding is currently time-consuming and often tedious in terms of collating, manually inputting and checking these details. The automation opportunities offered by Open Finance (and including digital identification) will save businesses and consumers time and effort.

Provide customers with improved and streamlined **digital and omnichannel experiences**

Monetisation of data e.g. using advanced analytics to gain customer insights

8 The Benefits to Consumers

Smoother user experience that's more in keeping with the digital lifestyles that we increasingly lead.

Make it easier to **compare price and product features** and switch product or provider, to assist with 'sweeping' money into higher interest bearing savings accounts, avoiding fees and charges etc.

Empower consumers by providing holistic and interactive access to their financial information to encourage them to be more engaged, take more control and responsibility, and make more informed decisions over their finances now and in the future. This will ultimately **improve the overall financial health** of individuals and small businesses.

Reduce barriers in accessing high quality **financial advice**, which will hopefully increase demand and make consumers more engaged.

Currently there's a lack of shopping around particularly amongst SMEs and SMBs. Open Finance will help eliminate the 'loyalty penalty' by making it easier and **encouraging consumers to shop around** and access innovative, more competitively priced products.

Enable consumers to **access and have control over their financial data** securely and with consent.

9 Considerations

‘Openness’ undermines traditional business models, for example through data democratisation, changing profit dynamics, losing the traditional relationship with the customer etc. Therefore companies should look to adapt their business models to take into account new players and new rules. Many of the following considerations are not specific to Open Finance alone, but are all food for thought:

9.1 FCA Involvement

What (if any) involvement is needed from the FCA to make Open Finance a reality? We’ve already seen that Open Finance is progressing naturally thanks to the increasing number of services offered by a variety of fintechs. However, there’s a need to get traditional businesses not just innovators and fintechs to embrace the change in order for Open Finance data sharing to truly work.

The amount of investment required may be viewed as prohibitive and not commercially viable, particularly for firms with legacy IT and where other business priorities may be viewed as more important.

Therefore, there must either be **regulations** to compel firms or sufficient **incentives** on offer to make it happen and motivate firms to open up their data and to ensure that their APIs continue to be kept up to date. Any regulatory framework would need to ensure it considers the differing rules across each sector and also works to help rather than constrain development.

The FCA can also assist in ensuring the right frameworks are in place such as a **liability model**. The Open Banking Frameworks have been fairly successful in setting clear guidelines on how liability works. It would make sense to adapt these for an open finance environment, albeit with some changes to reflect the different regulatory requirements in different financial sectors.

9.2 Data

Open Finance will likely provide consumers (and TPPs acting on their behalf) with a data right to their financial data across various sectors.

In order to achieve the full potential from Open Finance, it will be of paramount importance to **educate consumers about their data rights** and make them feel confident that they’re operating in a trusted, safe and secure network to encourage data sharing and ultimately *“increase people’s propensity to willingly share”* [15]

In alignment with PSD2 and GDPR, “*Codified Consent – needs to be simple and transparent and make consumers feel like they’re in control.*” [16] Given the increase of data sharing, data ethics and compliance with GDPR will be important considerations in terms of protecting it from cyber attacks and data breaches and storing and processing it properly.

Additionally, consideration will need to be given to ensuring that a **broad dataset** is covered by Open Finance provisions to facilitate rich and flexible usage, and also in terms of **porting financial data cross border** so that people don’t have to start from scratch as they move around different countries. However, such ‘passporting’ of data will be very challenging, for example not all countries will have same data attributes available.

9.3 Consumers

Who will use Open Finance services? You have the younger and more 'savvy' digital millennials and then also the high net worth consumers of wealth management products. But how do you encourage adoption from other groups who are currently less well served, given that part of the driver of Open Finance is to **increase financial inclusion**?

Consideration is required in terms of looking after **vulnerable customers**. For example ensuring that T&Cs are clear, that appropriate services and products are well signposted and accessible, that they are able to adopt and utilise the technologies required.
Given that apparently 11% of the UK population aren't able to access and switch on a device [17], this will need to be addressed in order to achieve full financial inclusion.

There's a need to work on **marketing and general consumer awareness** of Open Finance to encourage usage and uptake and change consumer habits – similar to previous initiatives like chip and pin, where consumers continued to use signatures for a long time.

Then there's the importance of a frictionless **user experience** where convenience is key, removing barriers and making experiences seamless. One key building block to this is the use case for Digital ID (see my previous white paper!).

"Many consumers will see a good customer experience as whatever they have been able to get from the latest app on their phone, regardless of any complexity in the underlying subject matter, as is obviously the case with financial advice. They expect financial apps to be as intuitive and easy to use as social media services or online retail apps." [18]

9.4 APIs

Open Banking has already highlighted the need for well-defined API standards so that all sectors implement consistently. APIs need regulation to ensure they're interoperable, technology-neutral, future proofed, using common data attributes etc. **TISA** are already working towards this as part of their **Open Savings and Investments project**.

Ideally, this should also apply internationally for ease of porting financial data cross border.

It's also expected that **FAPIs** (**Financial-Grade APIs**) will eventually become the global standard. See OpenID for more technical details on what this would look like.

Firms could also consider the monetisation of API development by developing premium service payable APIs.

But for all of the above, it will be important to utilise the expertise of **Technical Service Providers (TSPs)** who have great experience in building APIs, something that the big banks didn't do enough of when implementing Open Banking.

9.5 Legacy Data & Infrastructure

A big challenge within the wealth industry is that there is still a lot of antiquation in the way that data is stored and exchanged, with a heavy reliance on legacy infrastructure and intermediaries. Many don't have digital data to share e.g. paper-based records or data that isn't machine-readable. For example, **Check6**, a fintech firm focused on providing financial data and advanced reporting to the wealth management industry pointed out that they're still receiving Excel spreadsheets and daily SFTP interface files rather than APIs. This would need to be addressed in order for Open Finance to truly work.

Additionally which sectors should be included under the remit of Open Finance? They all have different objectives and structures and also differences in the types of data they'd need to share.

10 How should businesses prepare?

"As open banking extends to become 'open finance' every adviser firm, platform, asset manager and life office needs to embrace it." [19]

Obviously if aspects of Open Finance become mandatory, firms in various financial sectors will be compelled to implement. However, even if it's voluntary, firms should start thinking about their strategies now or risk getting left behind and losing business to competitors as the needs of the industry and consumers change.

The following page gives some insights on what you can do now to start preparing.

Provide input into the CFI in order to contribute to the development of policy in this area and stay close to the FCA consultation as it progresses

Roadmap – start planning a clear strategy, strategic goals/objectives

Understand the high-level technical requirements that are needed to provide this data e.g. how APIs add value and ensure you have the technical capability in place either internally or through partnerships to implement them.

Start taking proactive steps now.

Consider how you can generate revenue and what the value models might look like

"Design products and operating models that allow you and your customers to take advantage of the change" [20]

Look to leverage other technologies such as data analytics, blockchain, artificial intelligence (AI), and machine learning (ML) which can all empower wealth managers and financial planners to offer a more informed, real-time, and bespoke experience for their clients.

Look to the market to see what is being done and get inspired! Look at the companies who are pioneering the way and also other countries who are further ahead with their Open Finance journey to get an idea on which direction the UK could be travelling.

Identify potential partners/intermediaries and **develop new business models** to cater for these partnerships e.g. bilateral agreements or investments in fintechs.

Partnerships will be of paramount importance to *"allow traditional businesses to access features at speed and for the fintechs that they're working with to access reach, funding and learning"* [21]

View it as a **commercial opportunity** rather than a compliance exercise

Start digitising paper-based records and ensuring legacy data is machine readable where relevant

Adopt a **'digital-first'** attitude facilitating digital across the customer journey

Position yourself to take advantage of the framework and remain competitive/gain competitive advantage

Start adopting a mindset that you're not the sole owner of the data on the 'customer journey' - **customers are the real owners**

"By appreciating the value of data sharing, security and transparency, and personalising products and services, they will be ahead, rather than behind the technology curve" [22]

When planning how much to invest in a strategy for Open Finance, keep in mind the **opportunities for revenue growth** through new customers, greater customer insight, new products and services and monetisation of data

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CONCLUSION

There's no doubt that the move towards Open Finance in the UK is already underway with a number of companies pioneering new and innovative services in the finance and wealth management space.

However, as the private sector forges ahead independently, there's a risk that different companies will approach things slightly differently and a danger that we'll end up with a fragmented and incompatible landscape that is neither standardised or regulated.

Open Finance, if done correctly will provide not only the impetus but also the clarity, standards and possibly also regulation to ensure it's approached consistently across all relevant sectors. We also have the advantage that we can take on board lessons learnt from the roll-out of Open Banking, and to improve the model before it is applied more widely.

Hence why the FCA Call for Input is very important and offers a real opportunity for Wealth Management and Life & Pension companies to get involved and help shape the outcomes for the benefit of themselves and their clients.

If the outcome of this CFI is regulation across the various sectors, there will be a huge amount of work for firms to undertake in order to comply, particularly for those who's records are spread across paper and antiquated or legacy systems. As such I would recommend that firms start their strategic preparation now so as not to get caught out.

For the pioneers, be it fintechs or large firms, who are already looking to adapt and innovate, there really are lots of exciting opportunities to explore. Although one of the challenges will certainly be how to market and sell the ideas to consumers and encourage continued adoption.

For the consumers, being able to bring all of their financial data together will empower people to assume greater control and responsibility over their financial present and make better informed decisions over their financial future, and ultimately improve their overall 'financial health'.

It will definitely be a long journey, but it will certainly be interesting to watch this space over the next few years to see how it continues to play out and see what becomes of those who choose to get stuck in with it and those who don't.

The race is already on, don't get left behind!

Helping you on your Open Finance journey

Here at Simplify Consulting we're keeping our finger on the pulse as the Open Finance initiative progresses and takes shape. We're firm believers that digital transformation is the way ahead in the Wealth Management space, so if you'd like to take your business on that journey, or if you're already part way there and need some assistance, be it standard API design, UI/UX design or consultation to understand the governance that Open Finance is likely to require, please get in touch with us to discuss how we can help you.

Visit simplifyconsulting.co.uk or email

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