OPEN BANKING

Background to Open Banking

What is **Open Banking?**

Open Banking is a brand new, secure way for consumers including small businesses to share information, allowing new and existing companies to offer super-fast payment methods and innovative banking products.

It has the power to revolutionise the way we move, manage and make more of our money.

Where has the idea come from?

For some time, the UK Government has been looking at the way in which established large banks and building societies could make it easier for new financial services providers to offer new products, services, and a better choice for customers.

Following an investigation into the supply of retail banking services to personal current account customers and to small and medium-sized enterprises (SMEs) in the United Kingdom, it was concluded that there was a need to improve competition in retail banking and financial services.

A number of changes were proposed which they believed could improve competition and choice, and one of these changes was ‘Open Banking’.

Open Banking is intended to make it easier for companies to offer different and innovative services, while giving consumers more choice and more control over their money and financial information. All of this will be achieved by requiring banks and building societies to make certain information accessible to other approved companies in a standardised, straightforward and secure way and only ever with your explicit consent.

When talking about Open Banking, you will often hear reference to PSD2. This is the second Payments Services Directive which modernises European payment regulation enabling consumers including small businesses in the EU to have greater control over their financial data.

How will Open Banking benefit me?

Initially, Open Banking makes it easier for consumers to compare the details of current accounts and other banking services, as well as providing information about ATMs and branches.

Using the Open Banking technology and standards, in time companies will be able to develop new online and mobile applications. These applications would, potentially, give consumers including small businesses the ability to share their banking information securely with other banks, building societies and regulated companies.

For personal customers, these applications could include:

- Personal finance management - which will show you where your money is being spent and where it is coming from. Usually these tools will help you analyse your fixed payments and variable/discretionary spend, to identify where you can save money, i.e. cut down on eating out, spend on clothing, etc;
- A single view of all your accounts in one place;
- Debt management tools - overdraft alerts and recommendations for better products that help you choose lower interest rates or help you choose lower overdraft charges.

For businesses, these applications could include:

- Tools to help with your accounts;
- Tools to help with cash flow management that help you choose lower interest rates or help you choose lower overdraft charges;
- Tools to help you get better unsecured loan terms, etc.

"Why would I want to share my banking information with other companies?"

Good question, let us tell you why.

Let's say you are looking for a new or better banking product - sharing your information using the new technology could make it possible for you to easily find the most appropriate product for your individual needs.

Perhaps you'd like to keep better track of how much you're spending to help you save up for that dream holiday - sharing your information with a budgeting application which, for example, could help you see at a glance how well you're managing your hard earned cash.

From January 2018, there will be an alternative online payment method. Regulated companies will also be able to make payments directly from your bank account - but only after you have given your explicit consent of course.

To get the ball rolling, the nine largest UK retail banks and building societies - Barclays plc, Lloyds Banking Group plc, Santander, Danske, HSBC, RBS, BoI, Nationwide and AIBG - have a legal requirement to allow certain information to be shared securely online with other regulated companies through Open Banking. Other banks and building societies can voluntarily do the same.

This information sharing is made possible by something called Application Programming Interfaces (APIs). You may hear a lot about these; they are simple things really. APIs allow different software applications to 'talk to' each other. For example, think about the last time you ordered, tracked and paid for a taxi in a taxi app. The taxi company, your bank and Google Maps have different software apps, but APIs work in the background allowing them to share information, boosting the capability of each.

Open Banking is standardising the APIs that banks and building societies use to make payments and access information. All company apps and websites will be able to 'talk to' banks using a common approach.

This is Gita. Gita is tired of overdraft charges and would like a little help with her budgeting.

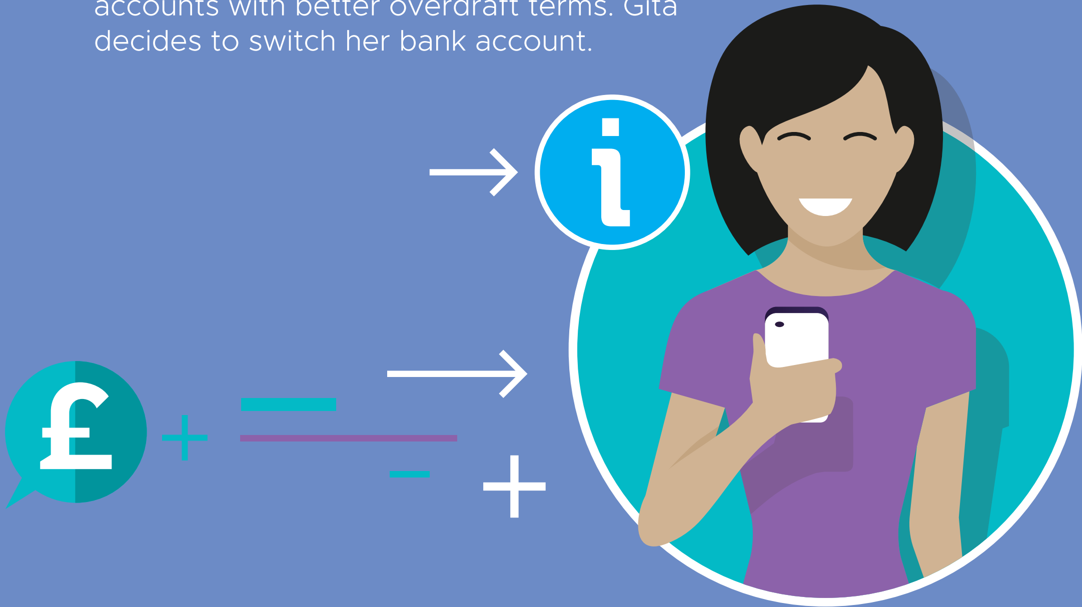
Gita searches on the internet for a company who can help her. After some research, she decides on a company she wants to use and which is regulated by the FCA.

Gita downloads the app that the company provides. Part of the process is for Gita to give her consent for the company to look at her bank account transactions.

Once all the necessary security checks are complete, Gita authorises her bank to share her current account information with her chosen company.

Gita's bank securely provides the company with a history of her current account spending and income.

Via the app, the company offers Gita money spending advice, and suggests other current accounts with better overdraft terms. Gita decides to switch her bank account.



Gita is happy, she is in control of her money.

Andrew's old banger is on its last legs. He's searching for credit to finance a new car.

Andrew finds a Price Comparison Website regulated by the FCA. He enters the details about the car he wants, how much he'd like to borrow, and for how long he would like the loan.

Andrew authorises his bank to share 12 months of his income and spending history with his chosen company.

As a result, Andrew receives a more personalised and tailored quote.

Having checked that the website is FCA regulated, Andrew's bank securely provides the website with the specified information.

Analysis of Andrew's account history shows a disposable income of £400 a month and a good credit history.

Andrew is presented with some competitive offers for his car loan.

By sharing his account history, Andrew was able to find and select an appropriate loan for the car quickly.

Andrew is happy, he is in control of his money.

Accountant Lucy is looking for a loan to finance a piece of equipment for the company.

Lucy finds a Price Comparison Website that is FCA regulated. She enters details about the equipment, how much they need to borrow, and for how long they want the loan.

The website tells Lucy she will get a more personalised quote and better chance of getting the loan if she gives them consent to have one-off access to 12 months history about the income and spending in the company current account.

After reading the terms carefully, Lucy authorises her bank to share the company's current account information with her chosen company.

Having checked that the website is FCA regulated, the company's bank securely provides the website with the specified information.

The website calculates that the company qualifies for 3 different loans with different providers. The provider Lucy chooses accepts her application and lends the amount needed to buy the equipment.

Lucy is happy, she is in control of the company's money.

By sharing the company account history, Lucy was able to find and select an appropriate loan for the equipment quickly.

Customer protection

We have all been taught to never share our account details. That's still good advice in many ways, but the difference with Open Banking is that we are creating software and security systems that give you the option to share your account information securely.

You are in control: you will be asked to provide explicit consent to a company accessing your data, choosing how long and what they can do with this data.

The Open Banking standard has security at its heart: your data is encrypted and its usage is tracked, and only companies regulated by the Financial Conduct Authority or other competent authorities can use it.

Security measures

Although it is important for consumers and small businesses to check carefully who they share their information with, the regulation provides some safeguards.

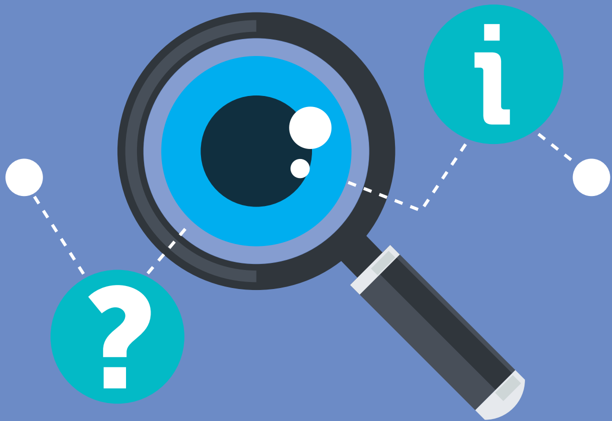
Any company* that is enrolled with Open Banking will be regulated in their country of origin. In the UK, this is the Financial Conduct Authority.

Once you've given explicit consent to share your information you will be redirected to your own bank or building society's login page, where you'll enter your login details directly. This allows you to authorise your bank or building society to share your data securely.

Every single entity involved in Open Banking must comply with data protection laws. In the UK that's the Data Protection Act. In May 2018, the Data Protection Act will be replaced with the General Data Protection Regulation (GDPR), which includes fines of up to €20 million, or 4% of the company's turnover, for organisations that do not take data protection seriously.

Regulators place great importance on the protection of personal data and any entity failing in this obligation would be in breach of strict requirements. The ICO could issue a fine.

* You will be able to find and check the legitimacy of these companies on the FCA website.



Where to find out more

The Open Banking Implementation Entity website
www.openbanking.org.uk
provides:

- Access to the API specifications, API dashboard and endpoints for developers.
- News, press releases, events and publications.
- Contact information for Open Banking in order to enrol to receive communications.

Full details about the CMA retail banking market investigation can be found at:
www.gov.uk/cma-cases/review-of-banking-for-small-and-medium-sized-businesses-smes-in-the-uk