

FROM OPEN BANKING TO OPEN FINANCE AND BEYOND...

From mortgages to rentals, savings to subscriptions, and pensions to wealth management, we examine how open banking products and services are evolving - and how they could even transform the energy, water, and telecoms sectors.

June 2023

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Open banking – how we got here



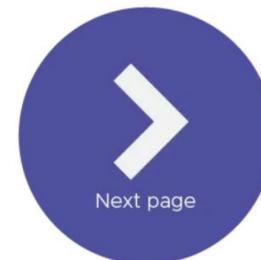
In the five years since the creation of open banking in the UK, there are now more than seven million users of the technology and growing.



Millions of consumers and businesses are using open banking-enabled tools, ranging from budgeting and savings apps to help manage their money, or benefiting from up-to-date insights on their cash flow, and embedded finance links in their accounting software to help them get paid faster.

There's been significant progress since the start of open banking's journey, but so far, open banking products have been confined to payments, personal and business current accounts, and credit applications. This is a limitation.

As open banking evolves, and we start the journey to open finance, we explore some of its current and potential uses and benefits and look beyond to 'smart data' – applying the same data sharing principles to other economic sectors.



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Variable recurring payments (VRPs)

A key part of open banking's evolution has been a technology called variable recurring payments for sweeping. This lets individuals automatically move money from their current account to another account ('me-to-me' payments), such as moving surplus funds into a separate savings account, or using them to repay a loan or overdraft to cut the cost of borrowing.

However, as we move to open finance, many eyes are now on the next iteration of this technology, known as VRPs for non-sweeping.

These allow authorised providers – such as a utilities company – to initiate a series of payments for their customers ('me-to-business') at different intervals, and for varying amounts, instead of paying the same amount each month regardless of what's owed. Importantly, the customer gets to define these payment parameters, giving them greater control and visibility over repeat expenditure than Direct Debit and card-on-file instructions.

Open finance extends this with payment accounts to allow sweeping between current and savings accounts, helping consumers and businesses to save.



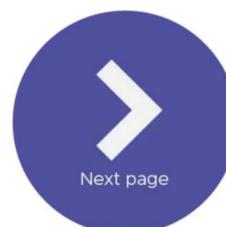
Savings



Savings apps are helping many people to build a regular saving habit by 'sweeping' surplus funds from current accounts to interest-generating savings accounts, or by rounding up small amounts of change from shopping bills to add to a savings account.

Open finance could potentially see the creation of innovative products allowing consumers to reverse this process, enabling them to maximise the interest they earn by keeping savings in situ, only moving the money to a current account when needed for mortgage payments, rent or other bills.

The same opportunity could be equally applied to business accounts too, allowing firms to benefit from their savings when their cash flow is strong.



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Mortgages

Buying a home can be time-consuming, costly and stressful, but open banking is already helping to make this process quicker, cheaper, and more accessible.

To start with, a growing number of banks and mortgage brokers use open banking connections to validate a borrower's income, eliminating the need to provide several years of bank statements. The process can now take minutes instead of days.

And one leading UK building society recently announced it would incorporate open banking-driven affordability checks into its mortgage assessments. For first-time buyers, linking their current account payments to their credit score, and providing additional evidence of a good financial track record — such as regular council tax payments — can be factored into mortgage approvals.

There is also a savings app for first-time buyers, which lets buyers open a Lifetime ISA, build their deposit with government incentives, and allow family and friends to contribute to the fund for their first home.



Beyond this, open finance has the potential to provide consumers with an overview of suitable mortgage products across the entire market based on their precise needs, by sharing their income data with online or traditional brokers to help them find suitable products that reflect their personal circumstances.

In Australia, one bank has taken this a step further, using the technology to incorporate property valuations into the mortgage application process, offering 10-minute home loans. This innovative use could soon be replicated in the UK market.

Property rentals

Open banking is also helping the UK's renters. For example, one rental platform uses the technology to access up-to-date income data direct from tenants' bank accounts, quickly categorising incoming transactions, and simplifying the application process for tenants, and landlords. It also helps to detect fraud and reduce the risk of rent arrears.

The technology is also making it easier for people to include rental payments in their credit report, helping them strengthen their credit history and improving their chances of accessing affordable credit. This is much needed for people with a **'thin' credit file** and more financially vulnerable consumers.

And one lettings platform has already incorporated VRPs for non-sweeping technology into its payment collections process, offering a faster, more flexible and lower cost alternative to Direct Debit and debit cards.

Expect to see fully-integrated rental platforms offering credit checking and landlord referencing alongside open finance-enabled ways to pay.



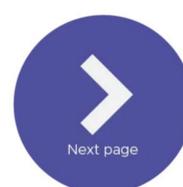
Subscriptions

Many households are looking to cut their regular expenditure, including reviewing their monthly subscriptions to gyms or entertainment services, but cancelling subscriptions isn't always easy.



While open banking **money management apps** already help identify duplicate or unused subscriptions, the use of non-sweeping VRPs by subscription services will also allow customers more control over this common repeat expenditure.

Consumers will be able to clearly see what they are committing to and when, so they can avoid falling into the 'subscription trap' – where they have signed up for a free or cut-price trial and are automatically switched to a costly subscription payment plan if they don't cancel in time.



Wealth management

Open banking-powered investment apps have brought wealth management services to a much wider audience, by combining low fees with a low barrier to entry.

With a complete and up-to-date picture of a client's assets and liabilities, the traditional wealth management sector is also realising how open finance can reduce processing costs and develop highly personalised propositions across a wide range of incomes.

This will help to deliver better deals, more relevant products and services, and to ensure that those products are suitable in the long term enabling more effective financial planning.

Other benefits that could be delivered by open finance include faster onboarding for clients, digitally-driven financial advice and even instant matching of deposits allowing for frictionless funding and trading without having to wait for payments to clear.



Pensions

While pensions were not in scope for open banking, the pensions industry is already making use of the technology to, for example, facilitate faster and simpler payments into plans via pensions apps. They also have a clear part to play in developing open finance.

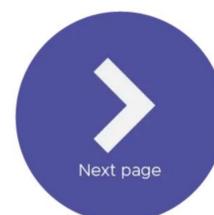
A leading UK pensions provider has partnered with an open banking platform to provide its 1.5 million scheme members with real-time data on their spending and saving activity across a range of financial products.

It offers members a complete view of all their finances, allowing them to connect their bank accounts, loans, pensions, mortgages, credit cards, ISAs and other financial products, to review and monitor in a single dashboard.

As well as providing an overview of their short, medium and long-term finances, it connects to other services, including a pensions finder, benefits finder and a 'rent recognition' tool.

Like the tools mentioned earlier, this aims to help renters trying to get on the property ladder by identifying potential rent payments and facilitating reporting to credit reference agencies, which could boost their credit score.

This single holistic overview of all an individual's finances was a key part of the original vision for open banking.



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Beyond finance – open everything

Open banking has paved the way to ‘open everything’ and is being delivered in part by the government’s introduction of smart data legislation. The aim of this legislation is to help consumers and businesses navigate complex markets and find cost-effective tariffs for essential utilities such as energy, water, mobile phone packages, and broadband, potentially saving hundreds of pounds on bills.



It also has the potential to tackle the loyalty penalty – the difference between what existing and new consumers pay for an identical service – and which is estimated to cost households around £1,100 a year for mobile tariffs, mortgages, and broadband services.

Imagine a world where consumers can quickly and easily compare prices, but also facilitate the switch to a cheaper or more relevant product in a single click. For example, downloading mobile phone consumption data to find a better package and have the price comparison site or provider complete the transfer in minutes.

As the UK swiftly moves to both open finance and on to ‘open everything’, we look forward to seeing the many additional benefits and cost savings it can deliver to consumers and businesses, creating a truly connected economy.



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CREATION OF THE FINAL ROADMAP

On 15th May 2020, the OBIE's revised [Roadmap](#) was published following a comprehensive and structured consultation process that OBIE managed at the instruction of the Trustee.



The process included two distinct phases of consultation, open workshops and the assessment of over 75 pieces of feedback, received from a cross-section of stakeholders including the CMA 9, non-CMA 9 banks, third party providers and end user representatives.

The Roadmap runs through 2020 and into 2021. It was designed to reflect the uncertainty of Covid-19 whilst still maintaining the momentum of the programme. This Roadmap is intended to be the final Roadmap issued under the Order, as the successful completion of this Roadmap would complete the implementation requirements under the CMA Order.

Over the course of 2020, the OBIE completed around three-quarters of the Roadmap activity which included the following highlights:

- The refunds standards for payments were agreed and implementation by the CMA 9 commenced. These are intended to support eCommerce payment activity in particular
- A review into consent dashboards, which simplify consent management for people and small businesses, commenced
- A working group was established with the Payments Systems Regulator to examine and advise on Consumer Protections for open banking payments and the impact this may have on the development of open banking payments as a viable alternative form of payment.
- A root cause analysis of CMA 9 consent failure rates was commenced to identify changes and make recommendations to improve the usability of open banking
- An evaluation of Sweeping commenced, and standards were prepared for Variable Recurring Payments

During the year, the OBIE's Monitoring function undertook a detailed and evidence-based review of individual CMA 9 API performances. Where performance was not sufficiently robust, individual performance improvement plans were designed and actioned. The OBIE supported the Trustee in issuing these Directions and set about monitoring adherence to those plans. As a result of this work, we saw a significant uplift in conformance, availability, and performance over the course of 2020. This in turn gave TPPs confidence that they could build and market propositions on top of the CMA 9 APIs.

Close