

Open banking

What does the future hold?

Industry predictions for 2023

In December 2022, the OBIE saw the completion of the managed rollout of variable recurring payments (VRPs) for sweeping, marking the final milestone in the Competition and Markets Authority (CMA) Roadmap which brought open banking to life five years ago.

As adoption continues to grow – more than six million consumers and small to medium-sized enterprises (SMEs) in the UK now benefit from open banking-powered apps, products and services – we ask experts from the industry, regulators, and trade associations to count open banking's successes so far and, as it moves to open finance, to explore the opportunities ahead.

Contributors: Ghela Boskovich, FDATA; Charlotte Crosswell, OBIE; Simon Cureton, Funding Options; Nilixa Devlukia, Open Finance Association; David Fagleman, Finance Innovation Lab; Kate Fitzgerald, Payment Systems Regulator; Kevin Floyd, Lloyds Banking Group; Dr Mike Granleese, Ipsos; Nicole Green, Yapily; Janine Hirt, Innovate Finance; Martin McTague, Federation of Small Businesses; Faith Reynolds, Independent Consumer Expert.

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The story so far...



Janine Hirt,
CEO, Innovate Finance

Q.

What has been open banking's contribution to the UK's innovation success story this year, and what opportunities do you see for more growth in 2023 and beyond?

"The UK has a great story to tell on open banking. With more than six million active users, open banking has unlocked new business models and services, and improved financial outcomes for individuals and businesses.

In the current cost of living crisis, open banking has an important role to play in helping consumers effectively and intelligently manage their money. There is an opportunity for open banking to drive an even greater reduction in costs for businesses and households. To achieve this, government and regulatory action would be welcomed around areas such as extending the scope of VRPs or 'sweeping', which will, for example, help reduce transaction costs and enable additional budgeting tools.

A mix of both collaboration and competition in 2023 between fintechs and the heritage financial institutions will be necessary to drive the best outcomes for consumers.

We also predict even more digital financial services companies will use open banking, as people continue to demand the speed, efficiency, and ease that it provides. Open banking will continue to transform the payments and lending landscapes and will also have a key role to play in reducing fraud in financial services.

To achieve its full potential in 2023 and beyond, it is imperative that we all – government, regulators, and industry – work together to keep up the positive momentum and move forward with the development and acceleration of open banking in the UK, for the benefit of the consumer."



Nicole Green, VP Product Strategy
& Operations, Yapily

Q.

Variable recurring payments (VRPs) are the final deliverable for open banking. What do you think will be the game-changing use cases for sweeping and non-sweeping?

"Businesses and consumers are looking for ways to make their money go further now more than ever before. As a result, the sweeping (me-to-me payments) use cases we can expect to see in the spotlight this year will be based on intelligent savings; having the flexibility to avoid overdrafts, capitalise on interest rates, and choose how much to save each month based on your current situation cannot be overstated.

But for me, the really exciting use cases lie in non-sweeping (me-to-business payments). In 2023, we can expect to see VRPs emerge as a viable alternative to Direct Debit and card-on-file transactions, eventually transforming the world of ecommerce at checkout.

But for non-sweeping to truly become a game-changer, we need more banks to participate and the implementation of an industry-wide framework that works for every participant. Open banking is built on the premise of making data and payments more accessible for everyone. To drive adoption further, players across the ecosystem must come together to make VRPs a reality for the many, not the few."



Kate Fitzgerald, Head of Policy,
Payment Systems Regulator (PSR)

Q.

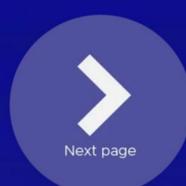
How can open banking competition regulation help users of payments systems?

"As open banking enabled account-to-account services are adopted, there's opportunity for them to compete with other payment solutions. We welcome this development because competition on quality and cost will allow consumers and businesses to choose the payment method that meets their needs most.

While open banking is already a strong option in some cases, it's yet to reach its full potential. Adoption for more complex transactions, such as retail purchases, remains low and the system's rules and standards need to evolve. This means updating standards to meet functional requirements, ensuring dispute processes are in place, having reliable end-to-end availability, and putting in place a sustainable pricing model that allows firms to continue to invest.

As co-chairs of the Joint Regulatory Oversight Committee, we've sought the ecosystem's input on these topics through the Strategic Working Group. As well as providing us with valuable insight, it's demonstrated that there's great enthusiasm for further developing open banking.

But opinions on how and when vary. It's in areas where interests are not aligned that the PSR may need to intervene to break deadlocks and ultimately ensure that the ecosystem continues to make significant progress in 2023."



Open banking for consumers



David Fagleman,
Advocacy Associate,
Finance Innovation Lab

Q.

What role can open banking products and services play in supporting financially vulnerable consumers in managing their finances?

“Mainstream financial services often fail people, especially those in vulnerable circumstances. The cost of living crisis is a stark reminder that, for many people, struggling to make ends meet is the norm. According to the FCA, even before inflation rose to 10%, 7.8 million people found it hard to manage their bills, an increase of around 2.5 million since 2020.

Open banking has already brought some new products and services that aim to benefit people in vulnerable circumstances. For example, there are products that empower borrowers to improve their financial health and lenders to offer credit to customers they wouldn't normally consider.

However, it will take more of these organisations to transform the impact that financial services have in our lives. 2023 should be the year that the industry steps up to the challenge of tackling growing issues such as financial exclusion and dependence on high-interest credit.”



Dr Mike Granleese,
Deputy Managing
Director, Corporate
Reputation, Ipsos

Q.

What role can open banking data and services play in supporting consumers to manage their finances?

“With economic confidence at an extreme low, 2023 could see consumers branch out into pastures new in a search for value. In such an environment, there is a clear opportunity for open banking to accelerate adoption by helping consumers make better spending, saving, and borrowing decisions.

Open banking's Account Information Services (AIS) capability is tailor-made for this challenge and value creation could be the spark that helps overcome current barriers to adoption – awareness, understanding and trust.

The economic downturn can also be the catalyst for services to emerge that target low-income groups. Consumers facing acute financial distress have an even greater need to seek out services that can help optimise their limited resources.

With third sector organisations already engaged in utilising the benefits of open banking, 2023 could optimistically be the year where its application in addressing financial hardship helps widen awareness and adoption beyond the current consideration set.”



Faith Reynolds,
Independent
Consumer Expert

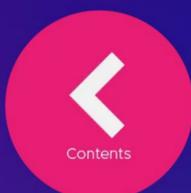
Q.

What role can open banking products play in supporting consumers to manage their finances?

“Now more than ever, people need help to make their money stretch as far as possible. This coming year might provide impetus for providers to embed income maximisation tools, and use open banking to make sure people are accessing all the support they can. Too many people wait over a year to get debt advice.

Open banking could provide prompts, referrals and new embedded services to help people gain and maintain control over their finances more quickly.

Data is critical to solving these challenges, so the push to open finance and smart data will continue.”



Open banking for business



Martin McTague,
National Chair,
Federation of Small
Businesses

Q.

What role can open banking play in supporting businesses in managing their finances and accessing business insights?

“Open banking offers an innovative and seamless way for small businesses to better manage and track their finances. We found that approximately three quarters of small businesses struggle to accurately forecast their earnings each year – open banking tools should improve this, providing real-time insights into their business and finances.

Many small businesses will already be using different subsets of open banking without even realising it – most commonly cloud accounting. As the economy continues to digitalise, many small businesses will begin utilising new technologies – open banking should definitely be part of this. The additional, real-time insights it can provide will be invaluable to businesses as they navigate through any recession we face.

Open banking has the potential to revolutionise access to finance, and the payments landscape. These are two areas that small businesses have traditionally struggled with due to power imbalances and a lack of competition in the industry. Improvements through open banking will only be beneficial to the small business community.”



Simon Cureton, CEO,
Funding Options

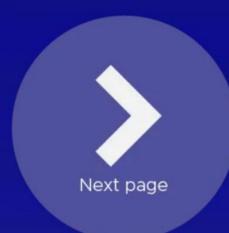
Q.

How can open banking increase access to cost-effective lending for consumers and businesses?

“Within the coming months, I expect open banking to become a requirement for any form of consumer or SME debt finance. Open banking provides lenders – as well as consumers and SMEs – with transparency in relation to the borrower’s financial position in near real-time, thus enabling them to provide bespoke financial offers.

Drawing on historic and current data, and using the profiles of borrowers who are deemed to be in a similar financial position, open banking providers can share information on the relative value of finance offers at the point at which the prospective borrower shares their financial data. This can help individuals and businesses to make more informed decisions prior to applying for finance.

This also supports the FCA’s Consumer Duty initiative in relation to consumers. However, while I do believe that – if done properly – Customer Duty will have an impact on the lending landscape for consumers, I don’t expect there to be much impact on the SME lending landscape until 2024, given that the SME market typically lags behind the consumer market.”



Open banking becomes open finance



Kevin Floyd, Product Owner,
Open Banking Channel, Lloyds

Q.

As open banking moves to open finance, what are the greatest opportunities it offers? What needs to be done to realise them?

Open finance offers a number of opportunities:

1. Financial inclusion – especially for underserved communities or individuals by making it easier to access a range of financial services such as lending, payments and insurance.
2. Lower costs and fees – by making financial services more accessible, open finance can help to lower costs associated with transactions to the end consumer through innovation and competition.
3. Greater choice – promotion of competition on an expanded set of products will help the market drive innovative solutions.
4. Security and transparency – making information more readily available could help reduce fraud and make it easier for consumers to make informed decisions.

To realise these benefits, there is a need for competitive standardisation, i.e., relevant API standards need to be developed to ensure that open finance is truly interoperable, but exploitation and commercialisation left to the market. Data providers need to be incentivised to participate and work with a range of proposition providers.



Ghela Boskovich, Head of
Europe, Financial Data and
Technology Association

Q.

As open banking moves to open finance, what changes will we see in the data space?

“We won’t see much change in the types of data being shared in a formal open model in 2023, as the regulatory framework required to expand open finance access has yet to be established; delivery of such a model takes considerable time.

However, the demand for services that help customers better manage money in a recession means service providers will want access to more than just payment data.

Savings and lending data will become increasingly important for these services; given the market won’t want to wait for regulators to formally establish an API-first open finance framework, we may also see an uptick in direct access for non-payment data.

The area of most change in data access will be consent management. While the model may not see material change this year, the thinking about how data is accessed will evolve considerably. The current model may work for a few connected services under open banking, but it is not fit for purpose when the number of connections grows significantly. We’ll see how data is accessed change before we see changes in what data is accessed next year.”



Nilixa Devlukia, Chair, Open
Finance Association (OFA)

Q.

As open banking moves to open finance, what needs to be done to realise its potential?

“The OFA is made up of Third Party Providers (TPPs) that see the benefits that open banking brings to consumers and businesses, for example, cost savings, money management, efficiency, and user experience.

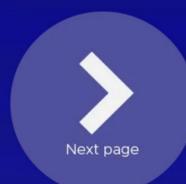
But open banking is unfinished, covering only a sub-set of the accounts that people across the UK use each day. It excludes savings accounts, investments, loans, pensions, mortgages.

Open finance is about the opportunities and value for consumers and businesses of obtaining holistic control and visibility of their financial lives. It’s about putting consumers and businesses in control of all their financial data and the functionality for TPPs to unlock this value, empowering the user.

To achieve this vision, we need:

- An independent successor to the OBIE that has the mandate and powers to oversee the implementation and maintenance of open finance.
- Appropriate legislation and regulation which will allow the sector to build on open banking and expand to open finance.
- An API-only approach to ensure well-functioning API access to data and supporting payments, and to maintaining high levels of trust in the ecosystem

At the OFA, our sights are set firmly on these core issues and the legislative mandate to support them and go further to smart data.”



Conclusion



Charlotte Crosswell, OBIE Chair and Trustee

"I'm delighted that the CMA's Revised Roadmap is now complete, and would like to pay tribute to the CMA9, fintechs, regulators, policymakers and other key stakeholders in the open banking ecosystem who collaborated to successfully deliver this world-leading regulatory initiative. All the great propositions outlined in this article are testament to the tangible benefits that open banking has delivered to consumers and businesses in the UK.

However, in 2023, it is vital that we continue to protect the ongoing requirements of the Order and remain true to its objectives. We also must maintain momentum and build on the progress that the UK's ecosystem has made. This is the time to progress open banking and to lay the foundations for the opportunities as we protect and then move beyond the Order.

Our position as a global leader in the open banking sector represents a real opportunity for future digital trade and for the UK to share its expertise and approach that made the implementation of our trusted open banking framework so successful."

