



# **THE OPEN BANKING 'REVOLUTION': INNOVATION, TECHNOLOGICAL CHANGE AND SAFE DATA SHARING**

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- What challenges do policymakers, regulators, and the industry face in developing right regulatory framework to make markets work?

## OPEN BANKING, FINTECH, AND 'BIG DATA'

- Despite range of reviews and interventions to make banking markets work for consumers, we haven't seen much progress
- The tendency has been to try to *create the conditions* for markets to work
- Default been to try *demand side* interventions (disclosure to tackle information asymmetries, comparative websites, financial education, behavioural finance etc) in belief that enhanced consumer behaviour would exert influence on market, in turn improve corporate behaviours
- Each time demand side interventions haven't worked, regulators *and* consumer advocates, argued the conditions hadn't been right - information wasn't presented properly, regulators didn't have enough insights into consumer behaviours, too many barriers to switching remained (eg CASS), technology wasn't advanced enough
- But, it would be different next time - now open banking, fintech and big data heralded as the game changer
- Will it make a real difference?

## POTENTIAL BENEFITS

- Evangelists confident fintech/ data science means real competition for big banks, 'disruptive' innovators can transform banking inc critical payments infrastructure
- More innovative, accessible, inclusive, convenient products and services
- Apps to help consumers manage their household finances better
- We do think fintech has potential to benefit consumers, product development, distribution channels more suited to the changing needs of consumers, behavioural nudges ('FincApps')
- But, it is by no means clear that this potential will be realised and we should be realistic about it – it's not necessarily a game changer, many barriers
- More effective for regulators to *make markets work*, not hope consumers can do it

## POTENTIAL BARRIERS

- Will fintech just lead to a re-ordering of existing ways of providing services or a genuine transformation in the social utility of financial services?
- Activity is not same as socially useful financial innovation, is fintech another false dawn?
- Do the basic economics work, how can it be monetised?
- Are consumers willing to pay enough? Data could be monetised but that brings huge issues
- No sign that new players will take significant market share off big banks
- Big banks could 'adopt and adapt' fintech but struggling with legacy issues (IT and redress), now Brexit, do boards have the 'bandwidth'?
- Confidence and trust major problem – only 22% of consumers have some/ complete confidence that banks CEOs/ boards 'intend to treat them fairly', 68% have no/ little confidence, 74% of over 55s (source 3R Insights: Leadership Crisis), do not believe ethical behaviour in firms encouraged

## POTENTIAL RISKS

- Infotech giants could enter picture, certainly know how to mine and monetise data, but that brings own huge set of legal and consumer protection problems
- Fintech/ big data creates many risks (see FIC Policy and Risk Outlook)
- Consolidation of corporate power
- Exaggeration of consumer empowerment/ weakening of regulation
- Greater confusion/ disempowerment, greater abuse of behavioural insights

## POTENTIAL RISKS

- Less efficient markets/ higher search costs/ spurious innovation
- Greater financial exclusion/ discrimination, exacerbating economic inequality/ social exclusion
- Invasion of privacy, abuse of personal data, civil/ human rights abuses
- Information security, increase in scams/ frauds
- Regulatory arbitrage, jurisdictional issues, regulatory capacity
- Truth is: no one knows how it will turn out but we need objective debate

## POTENTIAL RISKS

- Do we have the right policy framework to allow us to identify the positive aspects of these developments whilst protecting consumers against the very obvious risks?
- What are the practical applications and implications of big data/ fintech/ algorithms? Despite the hype, few good, objective analyses which try to assess the practical applications from the consumer perspective
- Specifically, impact on different groups of consumers including implications for access/ exclusion, on consumer behaviours and decision-making abilities - and therefore on markets?
- What measures need to be taken to promote effective competition and innovation?
- We do need big upgrade of our legal and regulatory system, not fit-for-purpose, implications for data protection, conduct, competition, prudential/ financial stability regulation, does financial regulation and data protection regulation interact properly to protect consumers?