

Open Finance Call for Input

A response from Altus

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Author	Kevin Okell
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1 EXECUTIVE SUMMARY

As a software and consulting company specialising solely in financial services, Altus has extensive experience working with clients in the UK market, including investment platforms, wealth managers, insurers, life companies and retail banks. With practical involvement in both system and business developments across the pension and investment sector we welcome this opportunity to input to FCA thinking on Open Finance.

Altus has been a vocal supporter of open standards and free market competition between software suppliers for many years. Much of the consumer technology we take for granted today, such as the Internet, mobile phones and catch-up TV are a direct result of open standards and interoperability. Altus would like to see the financial services sector embrace the benefits of open standards and move away from outdated, centralised hub models which stifle competition and inhibit innovation. We believe the FCA can play a pivotal role in driving this transformation.

In our responses below we have sought to answer only those questions where Altus has directly relevant experience.



2 ANSWERS TO THE QUESTIONS

Q1: What action can we take to help ensure the potential of open banking is maximised, for instance to support the development of new open banking services?

We would like to see more focus on corporate banking services. If the same open banking services emerging for individual bank accounts were also widely available for corporate bank accounts, then a whole range of new innovative services would be enabled. Our experience is in financial services, particularly retail investment, where we see expensive and inefficient payment and reconciliation processing that could be greatly improved if simple open banking services were widely available to corporates.

Q2: We are interested in your views on what open banking teaches us about the potential development of open finance.

On the face of it, open banking appears to have taught us that adoption of new services will be slow. However, this conclusion may be premature as the ability to move money via open banking has only recently gone live and Altus expect this to make a significant difference to engagement with emerging personal finance tools.

Current services are inevitably limited to a banking subset of financial services, but customers do not typically view their money in silos the way our industry does. There is therefore some frustration amongst early adopters of account aggregation services who are able to see only a partial view of their finances. We anticipate that adoption of these services will accelerate as more financial services providers join the open finance initiative.

Q3: Do you agree with our definition of open finance?

In broad terms we agree with the definition of open finance, however we would like to see more recognition of the networked nature of financial services. For instance, the transfer of a stocks and shares ISA might involve an adviser, a platform, an outsourcing company, a sub-custodian, and one or more transfer agents and fund managers. Ultimately, the quality of the service to the end customer depends on all these organisations and the efficiency of the interactions between them. The principles of open finance should apply to the supporting interactions between financial services companies just as much as they do to the interactions with the customer.

Q4: Do you agree with our assessment of the potential benefits of open finance? Are there others?

The key benefit of open finance will be to create an environment in which new innovative services can be created and new providers can compete. Simply by allowing new technology suppliers and financial services providers to compete with the incumbents will tend to reduce costs and improve services to the end customer. It is quite possible that the most transformative change to arise from open finance will result from a new service which none of us has yet envisaged.

Q5: What can we do to maximise these benefits (given the considerations set out in paragraphs 3.12 to 3.17)?

One helpful contribution the FCA could make is to encourage a single common approach to authentication. The open banking model currently relies on individual institutions to authenticate the client which leads to different approaches and the likelihood of individual users needing to authenticate themselves in different ways for different services and to potentially update these as those services change over time.

Q6: Is there a natural sequence by which open finance would or should develop by sector?

Q7: Do you agree with our assessment of the potential risks arising from open finance? Are there others?

We broadly agree with the identification of potential risks but would suggest that the exclusion point could be seen as an opportunity for customers who choose to share their data rather than as a risk for those who do not.

Q8: Do you consider that the current regulatory framework would be adequate to capture these risks?

The current regulatory framework will not only capture the risks around advice and suitability, it will magnify them. Given the continued failure to carve out an accepted definition for guidance services, it seems likely that firms will continue to focus on execution-only transactional services rather than advice. This is ironic given the potential of open finance to deliver a comprehensive digital fact-find at very low cost.

Q9: What barriers do established firms face in providing access to customer data and what barriers do TPPs face in accessing that data today?

GDPR has created a nervousness in many organisations about providing access to customer data. The FCA could help significantly by providing clear guidance on how to comply with GDPR within the context of open finance.

Q10: Do you think the right incentives exist for open finance to develop, or would FCA rules, or any other changes be necessary?

As mentioned in the previous two answers, concerns around the definition of advice and data protection are likely to inhibit the development of open finance and will limit the scope of the services which are developed.

Q11: Do you have views on the feasibility of different types of firms opening up access to customer data to third parties?

Large, back-book consolidators are the least likely to invest in opening up access to their data without regulatory compulsion.

Q12: What costs would be involved in doing so? We are interested in views on the desirability and feasibility of developing APIs?

Whilst we believe that smart use of technology will be able to contain costs, they will still vary depending on the complexity of the systems landscape. Costs are likely to be largest for big, back-book consolidators who may be running multiple systems and will have the least to gain from open finance. Paradoxically, their customers may well have the most to gain which is why some compulsion will be required.

Q13: Do you have views on how the market may develop if some but not all firms opened up to third party access?

The problem with only a subset of firms opening up their data is that many financial services processes involve multiple firms, several of them invisible to the end client. In order to deliver the potential benefits of open finance, all parties involved in a process would need to participate and this would be likely to require some level of compulsion.

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- Q14: What functions and common standards are needed to support open finance? How should they be delivered?
- Q15: What role could BEIS' Smart Data Function best play to ensure interoperability and cohesion?
- Q16: To what extent should the standards and infrastructure developed by the OBIE be leveraged to support open finance?
- Q17: Do you agree that GDPR alone may not provide a sufficient framework for the development of open finance?
- Q18: If so, what other rights and protections are needed? Is the open banking framework the right starting point?
- Q19: What are the specific ethical issues we need to consider as part of open finance?
- Q20: Do you have views on whether the draft principles for open finance will achieve our aim of an effective and interoperable ecosystem?

Interoperability involves more than just technical standards. The principles should also ensure that the conditions imposed on financial services providers and TPPs are equitable. All organisations should have an equal say in decisions and be constrained by the same commercial conditions. In the past the industry has drifted towards solutions that require centralised infrastructure controlled by a small number of organisations which tends to stifle competition and innovation. The TeX open transfers framework is a good example of an equitable arrangement.

- Q21: How should these set of principles be developed? Do you have views on the role the FCA should play?

History suggests it is unlikely that the industry would make much progress on open finance without some regulatory obligation. The FCA will need to set the high level rules but would ideally leave the detail to the industry. The TeX open transfers framework is the best existing governance model for open standards based solutions but it would need explicit backing from the FCA to progress.

- Q22: Do you have views on whether any elements of the FCA's regulatory framework may constrain the development of open finance? Please provide specific examples.

As noted elsewhere in this response, we believe that the failure to carve out an accepted definition of guidance will discourage firms from using the rich data available via open finance to help customers make decisions. Fear of the apparently unbounded liability which accompanies regulated advice will lead to a focus on execution-only transactional capabilities and the UK advice gap will remain much larger than it needs to be.

3 ABOUT ALTUS

Altus is dedicated to improving the operational efficiency of the financial services industry. Many of the leading financial services companies across the UK and mainland Europe depend on our investment automation solutions to keep their business-critical processes running smoothly.

We are at the forefront of industry-wide initiatives to create open standards for a better way of working and on these foundations, we are building the networked financial services business of the future.

For more details, please visit our website altus.co.uk or contact us on 01225 438000.



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