

# Plaid's response to the EU's Open Finance Consultation

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## In brief

The European Commission's *Targeted Consultation on Open Finance Framework and Data Sharing in the Financial Sector* aims to gather evidence from stakeholders on the "further development of open finance in the EU".<sup>1</sup>

Open finance will enhance business and individual consumers' ability to share their own financial data with authorised third party providers (TPPs). Currently, TPPs only have access to consumers' payment accounts data under the PSD2 framework.<sup>2</sup> Consumers must provide explicit consent to share their data under PSD2, as well as the provider having a lawful basis for any processing activities as required by the General Data Protection Regulation (GDPR).<sup>3</sup> We expect the same principle of explicit consent and/or lawful basis will continue to apply in open finance.

At Plaid, we believe open finance will empower consumers and businesses to better understand their financial situation, identify products and services that meet their needs, as well as benefit from increased competition between providers. We recommend the Commission adopt a broad scope of data sources under open finance, going beyond those listed in the consultation document, and include sources such as payroll, taxes, utilities, pensions, savings, investments, among others. There should also be opportunities to combine the scope of open finance with the proposed Data Act, which will enable consumers to share their data that is generated by their connected devices, such as smart TVs, connected cars, and wearable devices.<sup>4</sup>

In our view, the Commission should adopt the following policies to build the open finance ecosystem:

- Create a cross-cutting consumer data right;
- Create a clear liability framework;
- Broaden the scope of TPP licences from open banking to open finance;
- Let the market build open finance infrastructure.

The Commission also wants to understand what digital tools can strengthen a customer's ability to grant, track and withdraw consent. We advocate in favour of:

- Creating consumer-facing dashboards, similar to [Plaid portal](#), that enable consumers to manage which third party providers (TPPs) have their explicit consent to use their data;
- Integrating Identity Verification (IDV) into consumer-facing dashboards to create added security safeguards that protect consumers' data.

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<sup>1</sup> European Commission, *Consultation Document: Targeted Consultation on Open Finance Framework and Data Sharing in the Financial Sector*, May 2022.

<sup>2</sup> European Banking Authority, [Article 4](#), 2022.

<sup>3</sup> European Banking Authority, [Article 94](#), 2022; GDPR.EU, [What is GDPR, the EU's new data protection law?](#), 2022.

<sup>4</sup> European Commission, [Data Act: Commission proposes measures for a fair and innovative data economy](#), February 2022.

We are excited by the potential for open finance to tackle some of the biggest challenges facing consumers and businesses, which we explore through financial and non-financial use cases below.

## Section 1: Extending open banking to open finance

The European Commission's *Targeted Consultation on Open Finance Framework and Data Sharing in the Financial Sector* aims to gather evidence from stakeholders on the "further development of open finance in the EU".<sup>5</sup>

Open finance will enhance business and individual consumers' ability to share their own financial data with authorised TPPs. Currently, TPPs only have access to consumers' payment accounts data under PSD2. Open finance has the power to help consumers and businesses to fully understand their financial situation, identify products and services that meet their needs, as well as benefit from increased competition between providers.

We recommend the Commission adopt a broad scope of data sources under open finance, going beyond those listed in the consultation document and including sources such as payroll, taxes, utilities, pensions, savings, investments, among others. Our response also explores the policies necessary to successfully implement open finance in practice, such as creating a cross-cutting consumer data right, mandating data sharing by the largest providers, and letting the market build open finance infrastructure, among other policies.

There should be opportunities to combine the scope of open finance with the proposed Data Act, which will enable consumers to share their data generated by connected devices, such as connected cars, wearables, and smart TVs. We explore the financial implications of two of these use cases below.

### Data sources under the remit of open finance

At a minimum, the scope of data sources under open finance should include those listed in the consultation document: savings accounts, mortgage products, lending products, securities accounts and financial instrument holdings, insurance and pension products, risk assessment, and the sustainability profile of financial services. However, it should also include data sources such as those outlined in [Exhibit 1](#): payroll, taxes, utilities, personal devices, and other sources, particularly where there is potential to apply non-financial data to financial use cases or vice-versa, such as the [in-vehicle data](#) use case explored below.<sup>6</sup> This will build on the Commission's Data Act, which proposes allowing users to share data generated by their connected devices with third parties for new and innovative services. As the availability of data grows, so too does the potential to offer more customised, personalised services such as cash flow-based lending, automated tax filing, micro insurance, and service switching among others.

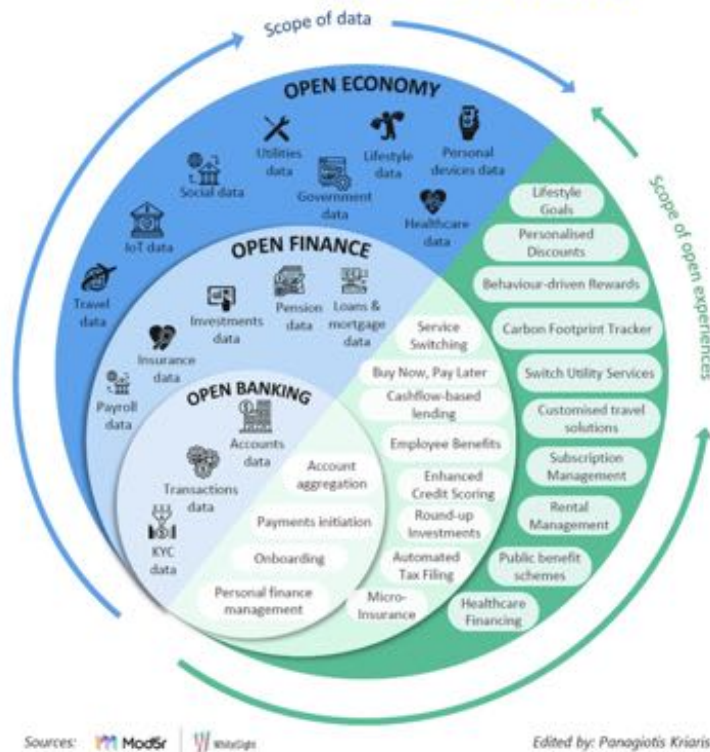
*Exhibit 1: From open banking to open finance and to the open economy*

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<sup>5</sup> European Commission, May 2022.

<sup>6</sup> Mod5r and WhiteSight, [Open banking in Saudi Arabia: The Dawn of Collaborative and Scalable Innovation](#), March 2022; Panagiotis Kriaris, [Whether market or regulation driven, #openbanking is profoundly disrupting the entire #financialservices value chain and paves the way for an evolutionary transition of the open approach to an #economy level](#), 2022.

# From Open Banking to Open Finance and to the Open Economy



## Ensuring a level playing field for access to consumer data

We believe there are two policies necessary to ensure a level playing field for access to consumer data:

- Create a cross-cutting consumer data right:** The EU Data Act proposes new rules that aim to make data accessible for all and create new opportunities for data-driven innovation, building on existing data portability rights outlined in GDPR.<sup>7</sup> Although these are welcome changes, they could go further. We advocate for guaranteeing consumers and businesses the right to all of their data directly held or provided through a third party, regardless of whether the data was generated by connected devices.<sup>8</sup> Where these rights already exist, policymakers could expand existing regulatory frameworks, such as PSD2, to cover all financial accounts and explore options to extend to other data sources such as utilities, telecoms, pensions, and publicly-held data such as tax payments.<sup>9</sup>

<sup>7</sup> European Commission, February 2022; European Commission, [Data Act - Questions and Answers](#), February 2022.

<sup>8</sup> Ibid.

<sup>9</sup> 11:FS and Plaid, [Open finance: Shaping the future of financial services](#), 2021.

- *Create a clear liability framework:* The liability framework for open finance should be proportionate to the services being provided, while also ensuring consumers are protected through adequate redress mechanisms and outlining clear liabilities within the ecosystem. Policymakers could adapt the existing open banking liability framework to reflect different regulatory requirements in different financial sectors.<sup>10</sup>

### **Broadening licence scope for third party providers**

The scope of account information service provider (AISP) licences put in place under PSD2 should be extended to cover all cross-sectoral data that is included in the General Data Right under the proposed Data Act. This includes, but should not be limited to, the data sources outlined above (see [Data sources under the remit of open finance](#)). By extending these licences, AISPs will have a “gateway right” that enables them to create a range of new products and services that supports consumers’ right to share their data. Otherwise, the market will not be able to fully support consumers in ways that meet their needs.

### **Enabling consumers to manage who has access to their data**

Open finance aims to give consumers the right to share their financial data with approved TPPs. However, consumers will need new digital tools to help them understand who has access to their data and how to manage those access rights. We advise the Commission to empower TPPs to create consumer-facing dashboards, such as [Plaid Portal](#), that would give consumers the ability to understand their active connections, and grant and withdraw consent to share their data. TPPs should also manage consumer consent, unlike in open banking where ASPSPs manage consent. Finally, we recommend that the Commission enable TPPs to integrate [Identity Verification \(IDV\)](#) products with the consumer consent dashboards so that every time a consumer has a new connection, the TPP can manage the authentication process. This will provide additional security safeguards that protect consumers’ data.

### **Standardising approaches to open finance**

The market should build the technical infrastructure for open finance. It is unlikely that the diverse financial verticals - and potentially broader sectors - within open finance could coalesce around a particular technology and governance standard in the same way as PSD2 for open banking. As a result, TPPs and other intermediaries will need to play a part in developing the API infrastructure and standards for open finance. Policymakers should focus on empowering the market to build this technical infrastructure, while investing in the enabling infrastructure such as a cross-cutting consumer data right, consumer protections, and tackling barriers to data-sharing in the ecosystem.<sup>11</sup>

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<sup>10</sup> 11:FS and Plaid, 2021.

<sup>11</sup> Ibid.

## Section 2: Examining use cases for extending open banking to open finance:

We explore a number of financial and non-financial use cases to illustrate the potential of open finance. These include: holistic personal and business financial management, mortgage brokerage, pension tracking systems, and consumer credit. Non-financial use cases include: sharing in-vehicle data and energy and climate footprint data.

### *Financial use cases*

An accurate, real-time picture of all of a consumer's finances could be available at the click of a button if the Commission adopts an open finance framework. European consumers and businesses can make more informed decisions about their finances if they understand their full financial lives beyond payment transactions. This is important for a number of reasons, such as:

- *Low financial literacy*: 52 percent of European adults are financially literate, although this varies across countries in Europe, with higher rates in Northern Europe.<sup>12</sup>
- *Financial precarity*: Across the EU, 33 percent of households could not cover an unexpected financial expense.<sup>13</sup> The rising cost of living will further exacerbate the precarious financial position many households are in.
- *Low savings rates*: In Germany and France, 24 percent and 37 percent respectively of people did not save any money in the previous year.<sup>14</sup> The numbers are similar for other EU countries.
- *Managing liquidity risk*: 30 percent of European small- and medium-sized businesses (SMEs) report that late payments put a squeeze on their financial liquidity.<sup>15</sup>

### **Holistic personal financial management (PFM) and business financial management (BFM)**

PFM tools and BFM tools are currently using payment accounts data to enable consumers and businesses to better manage their finances.<sup>16</sup> Forty-two percent of European respondents are conducting their financial transactions online or via an app more frequently now than prior to the pandemic.<sup>17</sup>

These tools enable consumers and businesses to understand what they spend their money on, as well as initiate payments on their behalf. However, businesses and individuals need to understand their assets (e.g., pensions (in the case of individuals), investments, etc.) and their liabilities (e.g., mortgages, credit lines, etc.) *in addition to* their spending to fully understand their

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<sup>12</sup> Leora Klapper, Annamaria Lusardi, and Peter van Oudheusden, [Financial Literacy Around the World: Insights from the Standard & Poor's ratings services Global Financial Literacy Survey](#), 2015. NOTE: This is the latest available data on financial literacy for adults from Standard & Poor's.

<sup>13</sup> Eurostat, [Inability to face unexpected financial expenses - EU SILC survey](#), 2022.

<sup>14</sup> McKinsey & Company, [The Social Contract in the twenty-first century: Outcomes for workers, consumers, and savers](#), February 2020. NOTE: Data is based on the World Bank Financial Inclusion Indicators, which are only available from 2011 to 2017.

<sup>15</sup> Intrum, [One in five of Europe's SMEs say late payments are a threat to their business](#), February 2020.

<sup>16</sup> Financial Conduct Authority, [Call for Input: Open finance](#), December 2019; [Emma](#), 2022; [Sage](#), 2022.

<sup>17</sup> MasterCard, [Life under the 'new normal' accelerates digital banking adoption across Europe](#), 2020.

financial health. All of this information should be available in one place through the financial management dashboards offered by PFM and BFM tools.<sup>18</sup>

Opportunities for open finance
<p>Open finance will give individuals and businesses a baseline that enables them to:</p> <ul style="list-style-type: none"><li>• Evaluate how to maximise their financial resilience and capacity. This could include identifying saving opportunities or by creating a tailored plan to repay debts.</li><li>• Select bespoke deals and products based on their goals, lifestyle, and financial habits.<sup>19</sup></li><li>• Compare financial products and services based on their specific needs, focusing on features that matter most to the customer (e.g., interest maximisation, flexibility, level of risk, etc.).<sup>20</sup></li></ul>

### Mortgage brokerage

Buying a house is one of the most important - and stressful - experiences of many peoples' lives, involving the single largest purchase many people make in their lifetime. The process involves sharing different types of data (e.g., income, outgoings, commitments, housing valuations, etc.) with multiple parties (e.g., mortgage brokers, lawyers, the bank, etc.), which can take weeks or even months from initiation to completion. Much of the process is still paper-based, which creates further delays. There are additional challenges for individuals with thin credit files, such as higher interest rate repayments or being deemed ineligible for a mortgage.

Opportunities for open finance
<p>Open finance could streamline the process of house buying through:</p> <ul style="list-style-type: none"><li>• Facilitating data sharing between the different parties.</li><li>• Automating the eligibility assessment and application processes, while also ensuring that these processes are GDPR-compliant.</li><li>• Incorporating alternative sources of data in the credit scoring process (e.g., regular rent repayments, etc.) that will benefit those with thin credit files.<sup>21</sup></li><li>• Enabling consumers to correct any information that may be adversely affecting their credit score or their capacity to purchase a house.</li></ul>

<sup>18</sup> Financial Conduct Authority, [Call for Input: Open finance](#), December 2019.

<sup>19</sup> Ibid.

<sup>20</sup> Ibid.

<sup>21</sup> Canopy, 2022.



## Pension tracking systems

Pensions are the most commonly misunderstood financial product with very low levels of customer engagement.<sup>22</sup> However, it is vital for individuals to build their financial resilience in older age: European citizens will spend 20 years in retirement on average, driven by higher life expectancy. At the same time, mandatory pensions are covering a smaller proportion of pensioners' retirement needs.<sup>23</sup> There is greater onus on individuals to save for their retirement to cover the gap, yet many are not doing so: 68 percent and 45 percent of individuals in France and Germany respectively did not save any money for retirement in 2016.<sup>24</sup> Many European citizens have workplace pensions, which can supplement their state-provided pension. However, 80 percent of UK employees leave their pension behind when they switch jobs.<sup>25</sup>

### Opportunities for open finance

Open finance could address many of the challenges with the existing pension system by:

- Consolidating an individuals' pension assets in one place, including finding lost pension funds, similar to the Pensions Dashboard in the UK;<sup>26</sup>
- Combining an individuals' pension and non-pension assets in one place, which will enable them to fully understand their retirement preparedness;<sup>27</sup>
- Enabling individuals to understand the implications of their pension investments and better plan for their retirement.<sup>28</sup>

## Consumer and business credit

Increased financial liquidity through access to credit is vital for consumers and businesses.<sup>29</sup> Businesses can invest in and expand their businesses, while consumers can finance purchases that they may not be able to afford up-front, particularly large-scale payment such as emergency purchases, buying a car, financing home improvements, among other purchases.<sup>30</sup>

However, many businesses, particularly small- and medium-sized enterprises (SMEs), and consumers with limited credit histories face difficulties accessing finance. If they are able to access credit, it is usually at a higher rate of interest compared to more creditworthy businesses or consumers. Many consumers also struggle with getting approved for credit if they move countries.<sup>31</sup>

<sup>22</sup> PensionBee and Plaid, [Open pensions and open finance: Building a better future for UK savers](#), 2021.

<sup>23</sup> McKinsey & Company, February 2020. NOTE: Data is based on the World Bank Financial Inclusion Indicators, which are only available from 2011 to 2017.

<sup>24</sup> Ibid.

<sup>25</sup> PensionBee and Plaid, 2021.

<sup>26</sup> [Pensions Dashboard Programme](#), 2022.

<sup>27</sup> Financial Conduct Authority, December 2019.

<sup>28</sup> Ibid.

<sup>29</sup> Ibid.

<sup>30</sup> European Banking Authority, [EBA Consumer Trends Report 2020/21](#), March 2021.

<sup>31</sup> Equifax, [What happens to credit history when moving abroad](#), 2022.

## Opportunities for open finance

Open finance could address these challenges by:

- Enabling consumers to compare interest rate repayments across different credit products and/or identify alternatives to high-cost credit;
- Enabling transaction-level underwriting, allowing financial institutions to better understand the risk of specific transactions and consumer or businesses' ability to repay;
- Incorporating alternative sources of data in the credit scoring process (e.g., rent payments) that will benefit those with thin credit files;<sup>32</sup>
- Enabling credit histories to be transferred across borders;
- Automating the eligibility assessment and application processes, while also ensuring that these processes are GDPR-compliant.

### *Non-financial use cases*

Our research with Accenture estimates that embedded finance could unlock €220 billion globally in additional revenue for financial service providers by 2025.<sup>33</sup> New financial technologies and collaborative business models have the potential to transform any company into a financial services firm through embedded finance.

The European Commission's proposed Data Act opens up the possibility of incorporating data generated by connected devices alongside financial data. The Commission proposed two potential use cases - sharing in-vehicle data and managing consumers' and businesses' climate footprints - as part of the consultation. We briefly explore both of these below.

### **Sharing in-vehicle data**

Data-sharing in the automotive industry could generate \$250 billion to \$400 billion in value globally by 2030.<sup>34</sup> Ninety-five percent of all cars sold in 2030 are expected to have some level of connectivity, up from 50 percent today.<sup>35</sup>

Sharing in-vehicle data from connected cars could include sharing data on the car's performance, which could be used to monitor wear and tear on the car's component parts, or provide regular upgrades on advanced driver-assistance systems (ADAS).<sup>36</sup> However, many consumers are not benefitting from opportunities to share their data.<sup>37</sup>

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<sup>32</sup> Canopy, 2022.

<sup>33</sup> Plaid and Accenture, [Embedded Finance: Financial services whenever and wherever customers need them](#), 2021.

<sup>34</sup> McKinsey & Company, [Unlocking the full life-cycle from connected-car data](#), February 2021.

<sup>35</sup> Ibid.

<sup>36</sup> Ibid.

<sup>37</sup> Ibid.

### Opportunities for open finance

Open finance could bring benefits by:

- Enabling consumers to benefit from greater predictive maintenance on their vehicles, which could reduce their spending on vehicle-related costs as well as reduce their insurance premiums;<sup>38</sup>
- Enabling consumers to access and benefit from personalised mobility insurance, based on their specific circumstances;<sup>39</sup>
- Improve financial investments into infrastructure through better planning, optimisation, and investment based on transportation flows.<sup>40</sup>

### Energy and climate footprint

The European Union aims to be climate-neutral by 2050.<sup>41</sup> This is an ambitious target and one that requires improved data sharing to enable European consumers, businesses, and governments to better understand their climate footprint, and identify ways in which they can reduce their impact on the environment.

Estimates suggest that nearly €23 trillion will need to be directed away from carbon-intensive technologies towards clean technologies and techniques, accounting for nearly 60 percent of all investments required to reach net-zero over the next 30 years.<sup>42</sup> However, information on ESG investments is largely self-generated by companies or organisations disclosing sustainability-related information. There are no globally agreed definitions of ESG or standardised approaches to ESG reporting, while ESG data tends to be patchy.<sup>43</sup> It is imperative that consumers, businesses, and governments better understand their carbon footprint, which will enable financial services firms to assess and score ESG investments consistently.<sup>44</sup>

### Opportunities for open finance

Open finance could address these challenges by:

- Enabling consumers to better understand the sustainability profile of financial products and services;<sup>45</sup>

<sup>38</sup> McKinsey & Company, February 2021; European Commission, May 2022.

<sup>39</sup> Ibid.

<sup>40</sup> Ibid.

<sup>41</sup> European Commission, [2050 long-term strategy](#), 2022.

<sup>42</sup> McKinsey & Company, [How the European Union could achieve net-zero emissions at net-zero cost](#), December 2020.

<sup>43</sup> KPMG, [Closing the disconnect in ESG data in financial services](#), 2022; McKinsey & Company, December 2020.

<sup>44</sup> Ibid.

<sup>45</sup> European Commission, May 2022.

- Enabling companies to understand the carbon emissions of their full supply chain and where to invest their net zero strategies to improve their carbon footprint.<sup>46</sup>

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<sup>46</sup> Centre for Data Ethics & Innovation, [\*Unlocking the value of data: Exploring the role of data intermediaries\*](#), July 2021.

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