



Open Finance

Mastercard position paper on a European Open Finance framework

Data and technology are increasingly driving changes across business models. There is a clear trend in the EU to enable data sharing to boost competition and innovation in the payments industry and beyond. To complement this vision and to secure the potential of a truly digital economy, Mastercard sees benefit in a long-term, Open Finance strategy being developed in the EU.

The natural evolution of the data sharing ecosystem would first see a solidification of the current Open Banking system with a transition into Full Open Banking, where access to all kinds of account types is enabled, within a stable infrastructure and framework. From Full Open Banking the market should then transition into Open Finance.

In this position paper, we share Mastercard's ideas about a future Open Finance framework in the European Union.

For any questions and comments, please reach out to Boris Martinovic at boris.martinovic@mastercard.com

1. General remarks

Open Finance will substantially increase access to the Open offering and widen participation in the market. With this comes many opportunities for new products and services. These opportunities are just as great for business' ability to innovate as they are for consumers to benefit from new products and services. It is therefore important that the potential benefits of Open Finance are viewed through this dual lens as the regulatory environment evolves.

The concept of Open Finance will take some time to develop, as we have seen with the rollout of Open Banking. **It is imperative that this initiative is given the time to develop** that such an expansive vision requires. As these new product offerings and new ways for stakeholders to engage begin to emerge, it is important to remember that any innovation must work in the interests of all.

Lifestyle changes will naturally drive consumer appetite for engaging with new products and services. However, it should not be underestimated that there are still public perception issues around the sharing of data. These will be overcome as people start to trust the security of products and services powered by Open Finance but, nevertheless, we should not underestimate the obstacles that accompany consumers and businesses harboring concerns around data sharing and, indeed, actively seeking to avoid sharing data.

The opportunities Open Finance promises also present a number of questions: Will consumers make use of the services proposed? Will all consumers be brought into the market (and benefit from) the proposed reforms? Will Third Party Providers (TPPs) use this platform to develop a compelling propositions? Will these changes benefit currently excluded and under-served customers? What model should the European Commission follow to enable a successful roll-out? Do the benefits of moving to Open Finance justify the costs involved? Will the framework provide sufficient regulatory certainty (i.e. is it clear who is captured under the regulatory regime?)

Mastercard would like to see a nimble system, developing organically but with some form of centralized coordination combined with rules mandating the opening-up of access. It is for the regulators to ensure access and define the principles, while there is also great benefit when the market drives greater standardization of processes and technologies. Mastercard believes such a model would best facilitate industry engagement to ensure an efficient and organized roll-out of Open Finance.

Mastercard has developed six core principles which we believe should form the backbone of any future data sharing ecosystem. We believe the adoption of these principles would create an ethical environment for the collection, use and sharing of payment data and other personal information, thus serving to boost competition, foster responsible innovation and aid inclusive growth:

1. **Security & Privacy:** Companies must uphold best-in-class security and privacy practices.
2. **Transparency & Control:** Companies should clearly and simply explain how they collect, use and share an individual's data and give individuals the ability to control its use.

3. **Accountability:** Companies must keep consumer interests at the center of their data practices.
4. **Integrity:** Companies must be deliberate in how they use data in order to minimize biases and unintended consequences.
5. **Innovation:** Companies should be constantly innovating to ensure individuals benefit from the use of their data through better products and services., delivered via better experiences.
6. **Social Impact:** Companies should use their information to identify needs and opportunities to make a positive impact on society.

Mastercard believes the adoption of these principles will help reduce risk and enhance consumer trust in Open Finance. It is crucial that any standards which are developed as part of this initiative must be flexible to achieve the interoperability that is so important in any data sharing initiative.

These principles are focused on consumer needs but can easily be adapted to the wider ecosystem to ensure that data belonging to businesses is also treated in a fair, safe and ethical manner.

2. Definition and principles of Open Finance

Open Finance should mean that a financial services customer who consents to a TPP accessing their financial data could be offered tailored products and services as a result. Access would be provided by that customer's current financial services provider under a clear framework of consent/agreement.

Mastercard views consumer control (i.e. personal information belonging to the individual who controls both how said data is used and shared) as a core principle in building any data sharing ecosystem. To this end, Mastercard has developed the following Data Sharing Principles guiding the ethical collection, management and use of data:

- You **own** it – Every day you produce data;
- You **control** it – You have the right to understand and control how your data is shared and used;
- You should **benefit from** the use of it – Your data should be used to make your life easier and richer;
- We **protect** it – Your data will be kept secure and used responsibly.

As with Open Banking, the motivations of each main stakeholder under the Open Finance vision will be fundamentally different depending on a variety of factors (cost, risk, accountability, etc).

Given these contrasting motivations, Mastercard believes the following priorities are important in providing a strong base and commonality of standards from which to develop Open Finance:

- **Consumer centric focus** - all aspects of data sharing address consumer protection, dispute resolution and liability in a manner that balances the needs of participants and encourages uptake of services within the data sharing ecosystem.
- **Technology-neutral and future-proof ecosystem** – a system that is nimble in adapting to technological developments and rapidly changing consumer behaviors. Prescriptive and technical requirements are backward-looking and do not sufficiently cater for changes in consumer behavior and technological developments, thereby hampering innovation and consumer experience.
- **Interoperability through standardized APIs** - that support cross-sector and cross-border collaboration, enabling innovation and competition.
- **Level playing field** - within (and beyond) the financial industry to ensure that no existing or new participant is unintentionally preferred or barred and that the framework enables both new players and incumbents to innovate and compete. Banks and other financial institutions should not be put at a competitive disadvantage. There should be a sustainable data sharing framework across industries and reciprocity across participants aligned with the move towards Open Finance – facilitating data flows between companies belonging to a variety of sectors.
- **Frictionless, convenient and secure consumer services** - through the development of appropriate data sharing standards and governance, both regionally and globally, thereby promoting interoperability.
- **World-class security standards** - as the core building block of any Open Finance ecosystem.

3. Anonymization and Aggregation

There are a range of tools, processes and approaches for protecting personal data and implementing privacy by design. Anonymized data can be used for more stable, long-term modeling without being subject to requirements under privacy and data laws. Aggregated data also helps to keep data secure and makes it easier to protect against leaks of information or cybersecurity attacks.

Privacy-enhancing technologies (PETs) refers to a large panel of technologies and techniques used to build trust and unlock the potential of data to unleash its full commercial, scientific and social potential whilst preserving data privacy. In certain countries, they may be used by a regulator to achieve data anonymization as they can remove identifying elements related to an individual from a data set. The implementation of PETs presents an opportunity to harness the power of data in a manner that protects privacy and intellectual property, enabling cross-border and cross-sector collaboration to solve shared challenges.

At Mastercard, we are committed to the use of data analytics to aid in humanitarianism, inclusive growth, pressing societal issues, and the public good. For example, Mastercard's Center for Inclusive Growth has collaborated with governments, universities, and non-profits on projects to responsibly deliver data-driven insights that enable a better understanding of inclusive growth around the

world. Our data insights have also been valuable following natural disasters and in recovering from the pandemic's impact on the global economy. All of these uses of data will benefit from the evolution of tools and techniques in the PET space, provided that regulators and companies partner to support their development, acceptance, testing, and continued improvement.

4. Consumer Context

For an expanded ecosystem such as Open Finance, which has the potential to impact peoples' everyday lives in a wide variety of areas, ensuring consumers understand the value of the services they are accessing is imperative to the success of the regulation.

From helping consumers find the most suitable mortgage to enabling access to credit for those who lack access to products due to a thin credit file – ultimately, success will be demonstrated by the system being frequently used by, but largely invisible to, the end-user. This is of course a demanding challenge – creation of a ubiquitous product/service – that is largely invisible to the consumer.

It is therefore important that there is very clear customer communication when an Open Finance-powered service is accessed. The consumer journey should, therefore, include clear explanation of the benefits of the service the consumer is using, thus providing powerful education in context, which is far more powerful than the often advocated 'blanket education' by methods such as advertising, which lack relevance to the consumer as they are, by definition, out of context and therefore ignored.

5. Risks of Open Finance

Risks of exclusion

A project of this impact and complexity will always unearth risks not previously envisaged and thus carries the risk of unintended customer exclusion. This is amplified when the changes proposed are as wide-ranging as Open Finance.

Mastercard believes there is a risk that refining and expanding the set of tools available, results in benefiting a sub-set of consumers who already possess a great deal of financial initiative.

Therefore, if the move to Open Finance is to be successful, it needs to capture those currently excluded and under-served consumers who are currently not benefiting from accessing the full suite of product and service offerings in the market.

Risks from data concentration

Open Finance presents a vision of an ecosystem that is heavily data concentrated. The creation of a single point of access to multiple systems naturally introduces a substantial element of risk. Striking an appropriate balance between consumer safety and convenience will therefore be a difficult task that needs to be managed sensitively.

Under Open Banking, a TPP must be authorized. Although it is yet to be decided whether a TPP under Open Finance needs to be authorized, the level of access the TPP will possess under Open Finance is far greater. Mastercard believes the extent of the TPPs' access in this sphere means an authorization regime (governed by the regulator) is likely to be the most appropriate approach for Open Finance to adopt. If unregulated, a TPP may have inadequate systems and security. This would naturally carry an extra degree of risk and likely lead to confidence issues in the safety of a system that is inherently interconnected.

Use of data

The success of Open Finance will partly depend on building a holistic data view of individuals so as to provide consumers with more competitive pricing, more appropriate products and services, greater value, and better experiences. How consumers who opt-out of data sharing are penalized for such a decision also presents difficulties. How firms use this data, who they share it with and on what basis, will be a key issue for consumers.

The interaction of loyalty penalties and customer inertia may present an issue for older consumers if they are less likely or able to use the tools offered by Open Finance to achieve the best pricing. How these consumers are not penalized as a result of the move to Open Finance also requires further consideration.

Operational

The back-office changes required to deal with a move to Open Finance are costly. These are risks that may inevitably exist at some future point but may be exacerbated by Open Finance. It is also worth recalling that change management is often the number one reason for major technology outages. This is one of the many reasons why Mastercard highlights the need for an efficient, organized and timely roll-out of Open Finance, in recognition of the substantial opportunities the vision offers.