

Open Finance

Digitalisation has fundamentally changed how consumers connect with each other, with businesses and other service providers. At the heart of this societal change is data. Whether it is the use of data to create more personalised products, services and experiences, or the use of data to sell targeted advertising, data is one of the most important ingredients in digital and platform-based business models. This is also true of the provision of digital financial services, where data is necessary to provide personalised customer experiences, tailor-made offers and improved risk assessments.

The European Commission (EC) has made digital financial services a priority for the next five years. One of the key elements that is currently being considered is the move towards open banking or even beyond towards open finance. Open finance implies a framework, based on the revised Payment Services Directive (PSD2), where financial data may be shared across the financial services industry, subject to the customer's consent. According to the EC, open finance will increase competition and innovation in the financial services industry and will provide the customer with more and better choices. This could either be achieved through voluntary actions of the industry or by regulation like PSD2. The EC will consult a variety of stakeholders on open finance in the course of 2020, below we provide some key elements that, we believe, should play a role when considering the future framework.

ING's purpose – to empower people to stay a step ahead in life and in business – positions us as an enabler bank, where we put customers in control of their finances and support them in achieving their (financial) goals. We believe that an open data economy, where people are always in control of their own data and can move freely across digital ecosystems, is the way forward. We are therefore supportive of open finance as it can provide people with valuable information, relevant innovation, and empower them to be involved in, and in control of, their finances. However a few conditions need to be taken into consideration.

Putting the customer in control. Because trust is key, the open data framework should be customer-centric. The customer shall be in control and decides who gets access to his/her data and in what data driven services he/she wants to partake. In light of this, customers should also be able to provide financial institutions with access to their data collected at other (non-financial) companies if they chose to do so.

Open finance can only be considered if it is part of a wider EU data-sharing initiative. The EU should not move sector by sector as we have experienced so far in the banking industry. Europe needs to advance its data framework with user data sharing across all sectors, for both individuals and firms. Such user data-sharing across all sectors, based on customer consent, would unlock wide economic benefits as it can foster competition and innovation, improve products and processes and can provide better insights to consumers. It would also increase the effectiveness of the right to personal data portability provided for by the General Data Protection Regulation. Firms across all industries should therefore be obliged to make real-time data sharing mechanisms (standardised APIs) available to their users as API's with the appropriate consent, security and standardisation is the most effective and safe method to connect different parties.

Digital Identity for customers is an indispensable condition and an important catalyst for an open data framework. Given that a cross-border EU-wide electronic identity solution helps customers to safely move across digital ecosystems and increase ownership of their data, it is important for EU regulators to help increase the uptake of digital identity. The security aspect that is enshrined in eIDAS (EU's 2014 Regulation on electronic identification, authentication and trust services) is especially important and needs to be ensured in an open finance or open data framework as well by safeguarding controlled access for licensed Third Party providers under eIDAS and customer involvement through customer authentication.

Level playing field between sectors and within the sector.

- i. At a time when digitalisation is causing the boundaries between sectors to diminish, creating a level playing field between financial institutions and third-party providers with regard to access to data, liability, cyber security, compliance and supervision needs to be established. Equal regulated access to data under the same conditions would level the playing field between financial institutions and their non-financial competitors.
- ii. By focusing only on parts of the financial services value chain and outsourcing the rest, third-party providers often do not fall under the same supervisory requirements as traditional financial service providers. Data-sharing fosters such new business models, and raises new questions like to what extent a party in the chain is responsible to perform AML and sanctions monitoring, who is liable, and more. An open data framework requires such questions to be addressed. In order to create a true Digital Single Market in the EU, it is key that a review of financial regulation, and further harmonisation of financial supervision on non-bank financial service providers takes place.
- iii. On the latter, in order to have a true level playing field with regulatory clarity we recommend the different regulators and competent authorities across the EU and on a national level to fully harmonise their approach after consulting consumer representatives. As PSD2 is subject to national supervision, it inherently embodies the danger of regulatory arbitrage. This needs to be addressed before moving on to open finance. An equal regulatory and supervisory approach across the EU would level the playing field between countries and would eliminate national divergence which hampers cross-border business development.

The operational part of PSD2 is not functioning well yet. Lessons learnt on PSD2 should be put into practice before moving towards open data in order to ensure the operational framework is resilient in the long term. As PSD2 is considered to be the building block of open finance or an open data economy, current implementation challenges should be addressed before moving beyond the opening up of payment account data. Impediments to be addressed include:

- i. Lack of technical standards. The market should move towards the use of standardised API's and sets of parameters as this allows third parties to access data in a uniform way (through plug and play) without having to build different expensive and elaborate connections with each bank. From a security perspective less secure options like screen scraping or reverse engineering should be avoided or only allowed under very strict conditions.
- ii. For open finance it is important for regulators to look into equally sharing the costs of the infrastructure between all parties involved. To make open finance sustainable parties that grant access to data should be compensated for related investments and maintenance of a secure data sharing infrastructure.