PensionBee response

FCA Call for input: Open Finance

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?

PensionBee's response focuses on open finance from a pensions perspective

The most important decision that the regulator can take today is to recognise that open pensions and the pensions dashboard must develop in parallel. While the dashboard will primarily reunite consumers with their lost pensions, open pensions can empower consumers with relevant, recent and detailed data for the vast majority of defined contribution pensions. Only through open pensions will consumers achieve the necessary benefits of "ownership", thereby enabling them to make informed decisions, take advantage of digital online tools and ultimately prepare for and manage their retirements.

The problem of lost pensions vs. ownership

That pensions can become "lost" is a concept well-recognised in the pensions industry. Lost pensions are estimated by the ABI to be a £20 billion problem.

In recognition of this problem, the dashboard's main priority in the short to medium term is to reunite owners with 'lost' pensions. These pensions could be held with one of 40,000 possible schemes, with wildly differing levels of data preparedness and access to resources. The dashboard or more accurately, the 'pensions finder service', will likely stay focused on achieving maximum coverage, which will undoubtedly result in minimal levels of information being shared with consumers. It will take many years to achieve even this. The dashboard will likely be restricted to providing data for non-crystallised pensions (i.e. before consumers go into drawdown). However, the FCA's Retirement Outcomes Review suggests that consumers in drawdown are achieving poor value for money at a time in their lives when good outcomes are critically important. Furthermore, the pensions dashboard is likely to contain non-real time data, again due to the challenges of onboarding 40,000 different schemes. As a result, consumers would likely receive non-real time balances, if balances are included in the initial mandatory requirements at all.

The concept of "ownership" is different to that of a "lost pension". Ownership means that individuals will be able to get to know their pensions and thereby make decisions (such as saving more, consolidating, switching to lower cost pension providers, etc.) in order to prepare for or manage retirement. Ownership is predominantly a concept that applies to consumers with defined contribution pensions, as defined benefit pensions are guaranteed by an employer and the saver is usually best advised to keep them where they are.

Ownership is rather distinct to the lost pensions problem and indeed our own data tells us that most pensions are not lost. The vast majority of savers know who their provider is. In fact, our own customers know the name of their provider for 70% of the pensions they transfer (based on nearly 250,000 records). In order to receive information on that pension, consumers are usually required to sign paper forms, sending their valuable information all around the postal system. It can take several months for a consumer to receive a reply to their request for basic information. Consumers cannot have "ownership", as the government asks them to, if they cannot access basic information like balances, charges, performance and investments easily online.

While the dashboard's policy goal of reuniting consumers with their lost pensions is important to achieve, ownership through open pensions is a distinct and perhaps more important policy objective. Overall entitlements in defined contribution pensions are closer to £1 trillion, suggesting open pensions can create 50x more value to consumers than a pension finder service alone.

We need to focus on helping the population achieve ownership and allow the pension finder service to seek maximise coverage, which will undoubtedly compromise the depth of data available. Open pensions is a crucial component of open finance and opening up 'found' pension data should occur in parallel to finding 'lost' pensions via the dashboard. These are two very different tasks that must not be allowed to occur sequentially, as the result will be that consumers wait until beyond 2030 to see basic pension data.

How to enable open pensions

Our data tells us that twelve providers own c.80% of the defined contribution pension data in the ecosystem (based on over 170,000 records). These twelve providers, the 'directed 12', already hold digital records and should be compelled by the FCA (who regulates nine of them) to open up pension data[1] now to consumers via open source APIs.

This is the only way to allow the transformative potential of open finance to be realised early enough to create happier, more prosperous retirements for a generation.

These are the twelve providers, nine of whom are regulated by the FCA, who own 80% of the defined contribution pension data:

- Aviva (including Friends Life, Friends Provident)
- Scottish Widows (including Zurich workplace, Clerical Medical)
- Legal & General
- Standard Life
- Royal London (including Scottish Life)
- Aegon (including BlackRock)
- Prudential
- Fidelity
- Phoenix Life (including Abbey Life)
- Nest - regulated by The Pensions Regulator
- B&CE - regulated by The Pensions Regulator
- NOW Pensions - regulated by The Pensions Regulator

The auto enrolment (AE) providers regulated by The Pensions Regulator all already have recently checked digital systems and IT 'systems and processes' in place for Master Trust Authorisation, so they will be able to share their data easily and efficiently.

As the Call for Input highlights in 2.16, there will be insufficient incentives for the FCA regulated providers in the 'directed 12' to open up access to data. These providers will argue it's too much work for them to open this data, the costs of overhauling old systems too great and that it's dangerous for consumers, who won't understand their complex pensions and charging structures. Therefore it is also important that the 'directed 12' are not involved in the development of the data standards, as this will inevitably lead to excuses as to why information like charges cannot be disclosed (as we have seen with Simpler Annual Benefits Statements and the dashboard debate).

In our experience, while the FCA-regulated providers have a longer history and therefore more issues with matching consumers to their pensions, once matched, the underlying data is sufficiently robust. These

[1] The pension data list in 3.12 would be sufficient to begin with (p.12)

providers will need to invest in matching capabilities to meet dashboard requirements in any case. Open pensions should therefore impose a limited incremental cost.

A note on costs and charges

Much as it is desirable to include data on charges, the dashboard will likely shy away from providing customised costs on a per pension basis. This is because pension dashboard data is restricted from providing much more than what is on the annual statement. Recently, following strong industry lobbying, costs and charges were reduced to a link on the Simpler Annual Statement.

By opening up the costs and charges data of the providers under its remit through open pensions, the FCA holds the potential to transform the pensions market for all consumers.

For the first time ever, UK consumers will be able to compare costs and product features and switch providers where they are not getting value for money. It will also widen access to advice and support in decision making.

Currently, providers still retain the ability to charge pots down to zero (NOW Pensions) or have in place huge exit fees and eye wateringly large ongoing charges (Phoenix Life). In fact, with all these providers (AE excluded) there is the ability to switch into expensive products without realising and have very poor retirement outcomes as a result. If savers must take responsibility, then they need data to do so.

The time horizon of pensions means that small changes in the short term can have a big impact in retirement. For example, it’s crucial that savers are made aware of the charges they are paying now, to avoid saving for a lifetime into products that are eroded by charges or offer poor returns.

Open finance has the power to help everyone take responsibility for their retirement savings, as the government asks them to. The FCA has a duty to enable it.

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

Open banking has greatly improved competition and driven up financial capability and inclusion. There is no financial market in the UK in greater need of these improvements than pensions - both workplace and non-workplace. Open banking has also shown the necessity of and the impact that can be achieved using legislation, in a market low in innovation and dominated by a set of incumbents offering similar products and services.

Despite the importance of pensions, surveys have revealed remarkably low levels of engagement and poor understanding of retirement savings. Almost 60% of pension savers do not know their pension balance and 80% of pension owners simply leave their pension behind when they switch jobs.

An oft-quoted OFT study from 2014 stated that *‘the buyer side of the DC workplace pensions market is one of the weakest that the OFT has analysed in recent years’*. The FCA’s recent ‘Effective competition in non-workplace pensions’ study reached similar conclusions. The only group that will not welcome improvements to competition in the UK pensions market are the incumbent providers.

Additionally, the complete lack of financial education around pensions in the UK has the potential to unravel the successes of AE. Every employee in the UK is being given a new pension every time they start a new job, yet no one explains what they should do with them, which offer value for money or how to meaningfully compare them.

One important lesson from open banking was around communications. Most consumers found out about open banking through a letter from their existing provider. These letters were incomplete, unclear and contained complicated jargon and misleading statements about open banking. When introducing open finance, the FCA should lead and deliver a nationwide, co-ordinated and simple communications campaign. It should set standards and develop templates for how existing providers must communicate with their customers about their new rights to share data safely, the processes involved and the protections in place.

Open finance could solve two pressing issues for pensions; the free flow of data to regulated entities will empower consumers to understand more about the products they own and subsequent innovations to interpret this information will enable competition to flourish. It would place pressure on incumbent providers to offer modern, competitively priced pension products that reflect the needs of 21st century consumers. Those unable to rise to the challenge will, and should, exit the market.

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

We agree with the FCA's definition of open finance and of its potential to transform financial markets for consumers. There are four crucial elements for the FCA to focus on:

- Make it clear which firms are legitimate
- Bring clarity and control to onward sharing
- Make consents transparent and traceable
- Make redress easy and convenient

From the perspective of pensions, we must begin by focusing on opening up standardised 'read' data on balances, charges, contributions, performance and investments to consumers in a safe way. The free flow of data should be restricted to those operating in a regulated ecosystem. Regulation should follow the framework adopted by open banking and not reinvent the wheel. Innovation will naturally follow on from the flow of data.

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

We agree with the assessment of the potential benefits to consumers and businesses. We would like to add a further comment about the benefit to UK savers who would like to take advice but currently cannot afford it, to the government, and to UK society.

There seems to be a huge disconnect between public messages coming from DWP and the government that savers must take responsibility for their retirement, and a complete lack of practical tools or help to do so. In fact, it often seems that the interests of the incumbent and closed book providers are placed above those of pension savers.

If generations of savers are not given or can't gain access to basic information on their pensions then they cannot be expected to ever take ownership of their retirement, as they are being asked to. The consequence of this will be a series of generations retiring with no private pensions, potentially no home-ownership, and a huge burden placed on the state, and on UK society, to help them survive in old age. Open finance could start to address this in just a few years.

There is also evidence that open finance would lower the cost of advice and, as a result, close the affordable advice gap. Citizens Advice suggested in their 2015 'Advice Gap' report that at least 5.4 million extra people would consider paying for advice if it cost less.

However, it has been highlighted by the advice profession that the average onboarding costs for a new client amount to over £1,500 due solely to the difficulties in obtaining data from pension providers. Huge delays in getting data from providers takes adviser time away from clients and drives up the cost of advice for ordinary people, who may urgently need it. Open finance could help close the affordable advice gap.

In 2018 it was estimated by the FCA that 10 million pension policies held with closed book providers represented £400 billion in assets. The closed book providers have a vested interest in delaying the outflow of customer information. They drag their heels and will finally send 45 page transfer out packs full of unintelligible calculations. Both of these things drive up advice costs - all with the aim of preventing a transfer from occurring. In fact, the average time it takes an advice firm to actually advise a new client is 3 - 4 weeks. For 38% of businesses, four or more weeks can elapse before a client is given advice. This is simply time spent chasing providers to give them basic client information.

Finally, in the pensions space there is huge potential for much-needed market differentiation amongst the big players as the defined contribution market reaches £1 trillion and people begin to consolidate their numerous pots into one.

The current inability of consumers to get basic standardised data combined with low levels of switching has led to complacency amongst the big players and a lack of innovation. Effective competition doesn't exist.

The benefits of shaking up the pensions market for consumers are plentiful, but there are also many new commercial opportunities for businesses thirsty for the challenge of offering market-leading products and high levels of customer service.

We also think it's important to reframe the debate in the pensions space about the costs and negatives associated with sharing consumer data and start to consider the huge benefits and commercial opportunities that exist for the pension players of the future.

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

The data outlined in 3.12 for pensions mirrors the data required for Simpler Annual Benefits Statements. There is no question that providers do not have or cannot produce this data, they are mandatory data fields aligned with the current work of DWP. Providers do not need to complete a separate exercise to obtain this data. We also hope to see legislation around this information being delivered by providers in digital form.

It is important to build on the regulatory foundations of open banking as a first step towards ensuring standardisation and harmonisation across open finance. It also has the added benefit of reducing the costs of implementation for industry and increasing the likelihood of customer uptake.

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

We should ensure that open finance is sensibly phased. This would allow end users access to early benefits for the lowest effort of implementation.

There are some elements of open finance which could be delivered with minimal development and limited implementation spend. The bulk of retail banking products such as savings, loans and mortgages are homogenous and should be implemented in the first wave. Only minor changes to the current open banking standards and regulatory framework would be required to extend read-only functionality to such products.

Pensions are a critical component of open finance and should be staged early, as for most people pensions are the largest asset they have other than their house. For pensions, despite the apparent difference in functional requirements, harmonisation with open banking can materially fast track implementation. The pension finder service / dashboard has a specific policy objective that will run in parallel to open finance. And as outlined in Q5 the mandatory data fields required from the 'directed 12', who already have high levels of digitisation and online access compared to other schemes (such as DB, single employer trusts, EPPs etc.), match DWP work.

Within pensions sequencing can occur, with the 'directed 12' going first, followed by smaller schemes. Of the 'directed 12' most opposition will come from the closed book providers, or those who have recently acquired books of business with legacy IT systems. However, a tight deadline for the 'directed 12' should still be set, as they represent 80% of all data and will enable almost full coverage from the outset. Work they will have to do to prepare this data is the same work they will need to do for the pensions finder service, and for future technological and regulatory developments. The remaining pension schemes can be phased in as the pension finder service increases coverage. It's important that the 'directed 12' go first to give most coverage early on.

Write functionality for these products (e.g. automated sweeping of surplus current account balances into a pension) should follow soon after to provide users with actionable benefits. New account opening should likely be considered beyond the scope of the mandatory elements of open finance and therefore reside in the competitive space.

Products such as insurance are less homogenous and may take longer to implement. Nonetheless data models for vanilla home and motor products can be created relatively quickly (Germany has had a form of open insurance in existence for many years and could provide a sensible starting point). Basic read-only data (product and usage data) should be made available first to deliver user support for simple product comparison. This should be augmented to cover greater product and user provided characteristics relevant for underwriting in later phases.

Across the four verticals additional time will have to be provided where the underlying accounts are not currently digitised or accessible via online channels. This issue is particularly acute in pensions. Products which are currently available online should be required to go first with a sensible phasing to follow.

An additional approach to phasing may be worth considering to smooth the transition to open finance. Even for digitised products front-book (i.e.., new products) could be required to go ahead of back-book products (with a back-stop to full switchover). This may mitigate some of the economic concerns of incumbent providers, and is essentially the principle of 'first, stop making the problem worse'

An open finance roadmap should also address outstanding issues within open banking in particular relating to the provision of rules-based long-lived consent (e.g., 90-day re-authentication and variable recurring payments), the codification of consent, and mandatory status of permissions dashboards showing where access has been granted via APIs.

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

From the perspective of the pension consumer, who currently has limited to no access to their data in digital form, then greater sharing of data could only lead to less exclusion.

Many of the risks that sit on the provider side appear to be operational. Legacy IT systems used by the closed book providers mean firms are required to make significant changes to their IT systems to support open finance. Where they do not have appetite to do that, and instead implement fixes to pull data, then out of date (infrequently refreshed) balances, or incorrect and incomplete data is likely to be shared.

Additionally, as we see from the 45 page transfer packs coming out of closed book providers, and as highlighted in the FCA's 'Effective competition in non-workplace pensions' data, there can be many layers of complex or hidden charges that the providers may not present clearly.

There is another important consideration for open finance, a risk that may arise from pension consolidation into non-workplace pensions where there is no default investment pathway to protect consumers. As raised in FS19/5, detriment can occur when inexperienced savers arrive at high-profile investment platforms and are overwhelmed with 2000+ options. Data shows that this can often result in very poor retirement outcomes, such as switching to cash or investing in complex high-risk funds. PensionBee supports a single investment pathway as it will:

1. encourage more people to obtain pensions by making choices easier (our own PensionBee data supports this);
2. protect consumers who disengage - by providing a well-governed pathway, consumers can be confident that any price caps / regulations will apply to them and any future changes in governance requirements or investments that reflect new best practice will be captured;
3. help consumers meet their outcomes - consumers are unlikely to continue reviewing their risk selection over 30 years so a multi risk option could become dangerous over a few years; a product that de-risks over time (like a target date fund) will help ensure consumers continue to take on expected levels of risk as they get older.

Advisers should be required to consider the pathway offering, rather than creating esoteric investment strategies that are potentially too costly. This is similar to proposals to require advisers to consider the workplace default in the case of DB transfers. Ultimately this will help consumers get better and lower cost outcomes.

We would like to see action to protect consumers in the non-workplace market, through a single pathway but also on an 'active decision' for cash requirement and standardisation of charging in pounds and pence across all platforms. We support all of the FCA remedies proposed in FS19/5 and hope to see the FCA legislate in this space in due course.

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

There is a huge amount that can be repurposed from open banking. As consumers are already familiar with open banking data sharing and the regulatory framework, through the OB Directory, then it's important that we use as much as possible for open finance.

Open finance should be covered by an overarching regulatory framework for sharing in-scope financial data. This framework should address regulated roles and customer protections necessary for the purposes of sharing data and build upon GDPR.

We believe that only authorised firms should act as receiving parties. This is essential to safeguarding trust in the ecosystem for both end users and data providers. It would make sense to extend existing AISP roles to cover the in-scope data for open finance. We believe that existing regulatory permissions should be sufficient to govern currently regulated activities (e.g. pensions, broking, advice, credit provision etc).

Under the current regulatory framework, any regulated actor in the ecosystem holding the 'arranging (bringing about) deals in investments' with the investment type 'pensions' should be allowed to access this read data.

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

Currently, PensionBee is the only pension provider in the ecosystem that allows customers to share their data through API with other FCA regulated actors / TPPs such as Bud, Starling Bank, Yolt, Emma, Moneyhub and Money Dashboard. Customers can pull their live pension balance and transaction history. We prepopulate the sign-up journey in a partners' app with customer data, and share the Open API docs with potential partners. In the future we will allow contributions from partner apps. The amount of developer time it took to build our API is measured in weeks not months.

Barriers that established firms face in providing the same very basic data are as follows:

- lack of consistent formats for customer data
- challenges aggregating data from multiple systems in order to provide a unified data layer to the API
- lack of up to date data fields such as balance (due to infrequently refreshed balances, for example)
- lack of test infrastructure and dummy data for providing integration environments
- access to data provided in bilateral agreements increases the time and complexity involved in onboarding any new consumer of that data

The barriers that TPPs face in accessing that data are similar to the challenges encountered providing the data:

- difficulty obtaining access to data, due to lack of policy of providing third-party access
- complexity integrating with multiple systems or data formats, should providers depend on third parties to provide TSP-like services when building out APIs
- lack of testing environments and data for developing integrations
- unclear and inconsistent position regarding regulatory permissions and technical/information security standards required of TPPs before access is granted, where it does exist

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

The primary objective of any open finance initiative should be to empower consumers and small businesses to exercise their basic right to access their data and share it with their chosen authorised third parties without contract and without discrimination. We believe, therefore, that it is reasonable and required that open finance be a mandatory requirement for the largest incumbent pension providers by coverage, the 'directed 12'.

This requirement would need to be mandated in law for pension providers to comply. The pension industry is characterised by archaic business models, fire-and-forget products and an overarching reticence to engage with consumers.

For those pension providers who want to continue to squeeze profit from the back-book whilst delivering zero product innovation or customer service, then there are no incentives at all for open finance and only legislation will deliver change. For those providers who want to compete in the modern pensions marketplace, putting the customer first and striving to innovate, the incentives are clear.

However, as an industry that has traditionally made huge profits whilst delivering little to no customer service for the lifetime of the product, we cannot expect a voluntary approach to work. As we saw with the FCA's request to standardise transfer times back in late 2015 that led to STAR, the voluntary approach does not work. We are now in 2020 and there hasn't been a single announcement or reduction in transfer times in five years. Similarly, after 20 years of voluntary dashboard initiatives and pending legislation, no major providers have made serious steps in cleaning their data quality. PensionBee found that only 6/10 pensions would be found by the dashboard given current data quality.

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

As outlined, by leveraging the work underpinning open banking, costs for firms can be greatly reduced. Our own API work has shown that much can be achieved in a short time by following the precedent set by open banking, as long as the digital foundations are in place.

A key challenge firms have around the feasibility of opening up access is the lack of consistent digital records of the required data. *In theory*, under GDPR, firms will have created or updated comprehensive registers of customer data and, in many cases, this provides a strong incentive to digitise their entire customer data estate.

However, we know from interactions with pension providers that data continues to exist split across multiple systems, and many processes are driven by paper, adding to the challenge of maintaining up-to-date registers and digital records. This is particularly apparent with closed book providers but also when dealing with third party administrators who run single employer trusts, plus also EPPs etc.

Invariably, these are the same providers who refuse to use electronic transfers and use entirely paper-based transfer processes. As we have stated previously to the FCA, in our response to 'Effective competition in non-workplace pensions', the administration activities of these occupational pension schemes is neither FCA nor a TPR regulated activity and as such we see very different behaviour and practices to those who are regulated.

We expect that where providers have taken seriously the consequences of GDPR, and aim to increase their business in the future, there is a greater probability of digitisation becoming widespread, reducing barriers to opening up API access to customer data. In contrast, where firms operate a 'closed book', or where the firm itself is burdened by legacy systems and not pursuing a modernisation strategy, this will create significant barriers.

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

As we saw in open banking, the banks with the largest implementation costs included the cost of making upgrades to or creating core technology assets that they would otherwise have had to do irrespective of their obligations under open banking. This will be a similar situation in the pensions space.

Regulators need to be mindful that the costs to industry of implementing open finance are proportionate and reasonable. In this regard it should be noted that a) the effort of implementing open finance is structurally lower than the effort of implementing open banking because open banking has had to address the complexity of payments and high volume transaction data; and, b) there are lessons, assets and capabilities now available because of open banking that can be used to further lower the costs of implementing open finance.

Implementation costs are only one aspect of ensuring proportionality and reasonableness. Regulators also need to be confident that customers will actually use open finance and therefore that the benefits will be realised. In this regard it should be noted that the authentication and consent method pioneered by open banking can be repurposed to greatly simplify customer engagement and reduce unnecessary friction.

In pensions, providers are being asked to share consumer data in a safe and standardised manner with authorised third parties. Importantly, data owner, the consumer, enables this sharing and they have a legal right to do so. Open finance is not asking firms to do something out of the ordinary, they are simply asking them to fulfil a legal and regulatory obligation to allow the data owners access. This is not innovation; these are standard operating costs for a business.

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

If the ‘directed 12’ are all compelled to share 80% of data in the system, then this is enough to offer sufficient coverage and confidence for pension consumers.

However, if just one provider from this group refuses third party access then this would further lower levels of consumer engagement and create confusion about how people are supposed to be taking control of their retirement without the full data to be able to do so. 80% of savers will have data spread across these big providers, so it’s unhelpful to have just some of this data. It is also impossible to make the right financial decision with limited information. It is likely that the providers they most need the data from (the closed book providers) are the ones who will try to stop third party access.

It will also further erode trust in the industry. Many savers have never had access to their own pension data and so are rightly suspicious this is because they are paying high, uncompetitive fees for sub-standard products. As we recently saw in the FCA’s ‘Effective competition in non-workplace pensions’ data set, it’s not uncommon for policyholders to be paying >2% in ongoing charges. This is particularly pronounced when looking at charges on smaller pots.

In terms of sequencing, the ‘directed 12’ should go first for open finance, followed scheme by scheme as they are rolled out for the dashboard.

Q14: What functions and common standards are needed to support open finance? How should they be delivered?

The FCA is correct that we need to use OBIE’s common standards. Millions of consumers and small businesses are already familiar with bank authentication and increasingly the open banking consent model.

Open finance should employ a similar approach to authentication and consent, the Directory, APIs, Customer Experience Guidelines and build upon this unique advantage. A consistent and common user experience would materially support user adoption and increase the likelihood of open finance realising its intended benefits. Using a single approach to authentication means users would not have to go through the inconvenience of signing up to new services and then have to remember credentials for each of these new services. Open banking is already accessible by 40+ million UK consumers and SMEs without the need for additional onboarding or passwords.

It is worth noting that industry groups have produced relevant standards that could help in the transition from open banking to open finance, for example the Financial-grade API (FAPI), developed by the OpenID

Foundation. Furthermore, trade bodies such as FDATA are actively seeking a smooth path to open finance and can provide advice and input grounded in commercial reality.

Q15: What role could BEIS' Smart Data Function best play to ensure interoperability and cohesion?

The two main roles that the BEIS' Smart Data Function should play are to protect the needs of vulnerable customers in this new ecosystem and drive innovation. Their holistic view of all financial products and how they interact in the open finance ecosystem is a crucial role that no other state actor can play.

They will see that data and technology work to protect and not exploit vulnerable customers, ensuring consumers and their data are protected across multiple markets. They will place the needs of vulnerable customers at the centre of open finance, working with other regulators to ensure that access to data is subject to the right protections.

Additionally, BEIS should focus on the development of innovative intermediaries, to improve the consumer experience for the wide range of consumers, building trust in data portability and the regulatory framework.

BEIS should be responsible for developing an umbrella brand or trust mark for open finance (including open banking) that is intended to give customers confidence when they are using open finance that they are protected. As customers should not need to interact directly with open finance then a public facing kitemark can help understand the principles that it stands for, and that BEIS and others are working behind the scenes to protect them.

Q16: To what extent should the standards and infrastructure developed by the OBIE be leveraged to support open finance?

For customers to be able to see and manage all of their finances together, open finance needs to work cohesively and build on the foundations of open banking, and the OBIE. For customers this will provide a common approach, common interface and common protections.

Harmonising the way in which open finance works across all sub-sectors of financial services and builds on the OBIE infrastructure benefits all stakeholders:

- **For customers**, it provides a common approach, common interface and common protections. The more commonality, both in terms of data security and user experience that exists between and across sectors, the more opportunity there is to build familiarity and trust, both of which are crucial to mass adoption. Harmonisation also reduces the risk of fraud or poor outcomes.
- **For data providers**, it streamlines implementation thereby reducing cost and risk.
- **For third parties**, it lowers the barriers to entry thereby promoting competition and innovation.
- **For policy makers and regulators**, it maximises the likelihood of consumer adoption thereby achieving intended policy outcomes. A single regulatory framework also makes it easier to supervise.

Q17: Do you agree that GDPR alone may not provide a sufficient framework for the development of open finance?

The development of open finance needs to build upon the framework of GDPR. For example, the one-month time scales associated with GDPR data sharing, and the lack of incentives for established market leaders in pensions to offer access to third parties in a more timely fashion means GDPR cannot provide a sufficient framework. However, many of GDPR's principles that relate to security, consent, storage etc. are directly relevant and, in many cases, sufficient. Open finance requires ongoing, real time access as allowed by open banking. Lack of incentives mean access via API must be mandated by law, rather than be expected.

There are important elements covering the mandatory elements of open finance which touch on GDPR but which further regulatory framework. For example, in-scope data should be consistent with the portability requirements of GDPR (i.e., include all data provided by the customer to the data provider as well as all data derived from activity with the data provider). The in-scope, and therefore mandatory elements of open finance should incorporate the following principles:

- the FCA should take an outcome-based approach rather than be overly prescriptive in terms of functional requirements as these are incredibly hard to determine at the outset
- data providers should be mandated to conform to API standards in order to maximise competition at the end-user level; the API standards should incorporate technical, customer experience and performance elements to ensure the customer experience is good
- data providers should be mandated to implement those API standards and implement them in accordance with a roadmap. A roadmap sets out a required timetable and plan for implementation. It ensures all participants are clear on what is required of them by when and allows the ecosystem to develop in a safe and secure way
- data providers should be mandated to offer access to any authorised entity without contract and without discrimination
- data providers should be mandated to fund a central entity that would provide the services and monitoring described above. OBIE has been funded by the major banks to date however we believe the funding of open finance should be funded by the full spectrum of data providers. In addition, we believe that third parties should contribute in proportion to their economic activity and therefore that due consideration should be given to the use of the FCA levy as an industry-wide funding mechanism

Q18: If so, what other rights and protections are needed? Is the open banking framework the right starting point?

The open banking framework is the right starting point for consumer rights and protections.

Q19: What are the specific ethical issues we need to consider as part of open finance?

We agree that in the longer term there are going to be many ethical issues around AI in financial services.

However, in the short to medium term and working in the pensions industry, where currently customer data is being held hostage by providers in order to charge pots to zero, there are more urgent ethical issues around data to address.

Q20: Do you have views on whether the draft principles for open finance will achieve our aim of an effective and interoperable ecosystem?

The draft principles for open finance will only achieve the aim of an effective and interoperable system if mandated by law.

Harmonising the way in which open finance works across all sub-sectors of financial services benefits all stakeholders. However, there will be some sectors, like pensions, where draft principle 1, '*a users right to share their data'* will need to be first mandated by law.

Only once a law has been passed to compelled providers to share this data will it be possible to see cohesion across open finance.

Currently a user has limited or no access to their data in digital form, a key factor in the widespread disengagement with pensions products. Pension providers argue against any interoperability, that pensions are too different and difficult, and they should not be part of open finance.

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

The FCA needs to legislate to compel the 'directed 12' to clean and share pension data to a deadline.

The FCA has done a fantastic job of regulating the ecosystem around open banking, so it's continuing this work, ensuring that regulation and data standards remain fit for purpose.

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.

Open finance should be covered by one single overarching regulatory framework for sharing in-scope financial data. Access to data from all sectors should be mandated by law.

This framework should address regulated roles and customer protections necessary for the purposes of sharing data and build upon GDPR.

We believe that only authorised firms should act as receiving parties. This is essential to safeguarding trust in the ecosystem for both end users and data providers. It would make sense to extend existing AISP roles to cover the in-scope data for open finance. We believe that existing regulatory permissions should be sufficient to govern currently regulated activities (e.g. pensions, broking, advice, credit provision etc).