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The UK's Pursuit of Open Finance

In April 2024, the UK government reiterated its vision for open finance, with UK Economic Secretary Bim Afolami (MP) announcing the creation of the Open Finance Taskforce at the 2024 Innovate Finance Global Summit. The announcement is part of the UK government's continuing efforts to drive forward its fintech agenda, which range from proposals for a cryptoasset regulatory regime to the exploration of a "digital pound" (see our previous client alert "[Centralising Cryptocurrencies: What's Next for the UK's Digital Pound?](#)"). The new task force is charged with "unlock[ing] the full potential of open finance" in the UK: While the UK has historically led the way in developing open banking, UK dominance in this space has slipped as other countries, such as Brazil and India, have achieved significant adoption of open finance (which increases access to financial data) in comparatively short periods of time, while other markets, such as Australia, have sought to support their strategies with new targeted regulation.

The announcement also marks a focus shift from purely open banking (which has so far been facilitated under the Second Payment Services Directive and other UK initiatives) to the broader concept of open finance, encompassing a far wider set of financial products and services.

A New Framework

The UK announcement confirmed that the government is working to secure a foundational framework to accelerate open finance use, including developing a new regulatory regime to oversee data sharing in financial services. Three principles will underpin the regime:

1. **Fairness.** A shared rule book will apply to both systemically important banks and new and growing banks.
2. **Partnership.** Any regulatory model must be commercially sustainable to ensure customer needs are met while allowing all participants to thrive.
3. **Safety.** Consumer protection is a vital component of the future regulatory framework and, in particular, fraud prevention is paramount in ensuring consumers feel safe using online tools.

The expectation is that this framework will be delivered as part of the government's plans to create a smart data scheme, pursuant to powers to be provided under the Data Protection and Digital Information (No. 2) Bill (the DPDI Bill) that is progressing through the UK Parliament. The text for the specific secondary legislation that will create a new open banking and finance framework is not yet available; however, we do know from the April announcement that the UK government is considering the proposals from the Centre for Finance, Innovation and Technology (CFIT), as set out in its blueprint in February 2024.

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A Lookback to the CFIT Blueprint

The announcement suggests that CFIT's proposals will have material influence in the UK government's policy decisions related to the future of open finance. The proposals recommended the following:

- **Expanding the proof of concept for small and medium-sized enterprises (SMEs).** CFIT looked at a number of case studies aimed at improving SMEs' access to finance, in particular, by helping lenders have a complete picture of an SME's creditworthiness through aggregating financial information and by auto-populating lending applications based on information from a range of sources, including Companies House and HM Revenue & Customs (HMRC). One pilot with HSBC showed that using open finance datasets: (i) enabled over 25% of SMEs from a sample (which had previously been referred and potentially did not receive an offer) to now receive a credit offer result, and (ii) would have enabled over half of the SMEs that dropped out of the application process to receive a credit offer if they had completed the application with the enhanced datasets.

CFIT recommended extending the proof of concept to more industry actors (including lenders) and developing plans for a full prototype, which would use actual data in a live or near-live environment.

- **Developing the proof of concept for vulnerable customers into a full working prototype.** CFIT worked with the Citizens Advice Bureau to consider how to streamline the process of financially assessing clients. CFIT integrated datasets from Open Banking and HMRC with credit-orientated datasets from Experian and Direct ID, which enabled 90% of the required data points for financial assessment to be automated (rather than manually gathered through bills and statements). If fully rolled out, the efficiencies generated would allow the Citizens Advice Bureau to assist up to 520,000 more people with their debt issues (a 40% increase). CFIT recommended exploring how to transform this proof of concept into a full working prototype.
- **Identifying a commercially viable approach to incentivise participants to share financial data.** CFIT proposed collaborating with a number of potential partners to develop principles to underpin an approach to sharing financial data that is commercially viable both on the supply side (*i.e.*, data holders) and on the demand side (*i.e.*, data users or data brokers). CFIT's position is that aligning incentives between those parties (notwithstanding any regulatory requirement to do so) will encourage data sharing.

- **Empowering an accountable body to advance the open finance agenda.** CFIT suggested designating an accountable body to drive coordination and management of the development, implementation and stewardship of open finance in the UK (similar to the approach taken for open banking).
- **Establishing a consent and authentication working group.** CFIT asserted that consumers and businesses would benefit from bringing together individuals' consents in one place and the ability to provide authentication to multiple data holders just once. CFIT recommended establishing a working group to provide coordinated input on existing government initiatives to develop such a system.
- **Establishing a task force to prioritise the development of open finance application programming interfaces (APIs).** CFIT called for a multiyear open finance roadmap to produce deliverables, use cases and required datasets to enable the development of open finance APIs. CFIT believes this initiative should be run in parallel with other deliverables arising from the work undertaken by the Joint Regulatory Oversight Committee.

The Open Finance Taskforce

The open finance task force would be responsible for crafting a set of recommendations pinpointing the datasets and commercial incentives necessary to drive the use case for open finance in SME lending, as proposed by CFIT and supported by the development of a long-term regulatory framework. According to Secretary Afolami, the intention is to transition open banking and finance "to a sustainable footing and prepare the ground for future financial services data sharing".

Additionally, the UK government will deliver a "National Payments Vision", due to be published in July 2024, setting out the proposed next steps in implementing the recommendations of Joe Garner's "Future of Payments Review" of November 2023. That review included the following recommendations specific to open banking:

- Enhancing consumer protection for payments made via open banking with a minimum form of dispute resolution.
- Leveraging open banking to improve the person-to-person bank transfer journey.
- Developing an alternative payment journey via open banking for retailers (giving them choice beyond card schemes).
- Agreement on a commercial model for open banking with scope for investment in both infrastructure and consumer protection.

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What's Next for Open Finance?

We are still at the “wait and see” stage. The UK government has indicated that its update will come during the summer of 2024, at which point we hope to see further detail about plans for a new regulatory framework. With a UK general election expected by January 2025, the political backdrop, however, should not be ignored. The UK Parliament still needs to approve the DPDI Bill,

and the government's exercise of any powers under the bill (once passed) to introduce open finance regulations will require further parliamentary scrutiny. While the UK government is maintaining momentum in advancing its open finance agenda, the extent to which its proposals will be capable of implementation prior to the upcoming general election remains unclear.