



OPEN FINANCE

FCA'S CALL FOR INPUT

The Open Insurance Initiative (OPIN) presents its perspectives on Open Finance



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Introduction

It is important to point out that OPIN was conceived as an industry driven initiative with the ambition of creating a wider scope of interoperability with the financial as well as the non-financial ecosystems. True innovation should not be limited to specific markets.

The future belongs to financial institutions that build viable platform ecosystems that bake into their infrastructures modularity, compatibility and technical standards. These must be seen as the true catalysts for open (external) innovation. Businesses will focus on creating value to attract supply as well as demand sides and they will collect and, in many cases, acquire data to support these activities. Regulation by itself has not proved to be a catalyst particularly, for the demand side.

We believe genuine innovations will manifest in fast, reliable and profitable **recommendation and advice that solve longer term real problems** with a human like touch and affinity using ML.

Perhaps more profoundly, OPIN, had set the tone for an international common standard being developed in open source software fashion, collaboratively and openly. The most distinguishing feature has been the international community that we have built.

The UK has an opportunity to play a central role in preparing the foundations for Open Finance by intervening to support consumer's rights to share access to insurance data through the introduction of new regulations ensuring safety, security and ethical conduct with adequate consent mechanisms in place.

Fouad Hussein
Founder
The Open Insurance Initiative

Q1: What action can we take to help ensure the potential of open banking is maximized, for instance to support the development of new open banking services?

Significant effort should be made to educate consumers to trust open banking in how and why their data should be shared.

Action to increase open banking visibility so consumers are better aware of the savings, choices and easier switching that they can receive by the rationale of sharing data.

The FCA could commission trials and publish results of what benefits could be received as a result of taking advantage of switching, use of personal financial management apps etc.

If a large portion of consumers (especially older consumers) feel and remain disengaged or sense they can't receive equal outcomes then the true value of open banking will go undiscovered for many years to come.

The FCA could develop streams that encourage more innovative startups focused on improving financial inclusion. Enhanced regulatory guidance and entry flexibility could be provided if by taking on more risks they promote fairer and a more competitive environment.

The FCA should continue to monitor the failure points and the obstacles impeding the development of envisaged services (item 2.11).

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

Key Open Banking lessons include:

- There must be genuine incumbent buy in
- Real innovations will take time to emerge
- There must be an alignment of incentives for all stakeholders (insurers, intermediaries and TPPs, regulators, government and consumers).
- A central insurance standard setting entity is a good idea to prevent fragmented specification and practices.
- Customer experience standards are very important (simplified authentication and authorization processes in as few steps as possible using the interface client of choice (app or browser)

Open Insurance must critically assess these lessons, ensure consumer expectations are met with the solutions that open finance will deliver, reduce mistrust in insurance services and add more value.

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

We would like to expand a little on the definition:

Open Finance defines consumers rights to share their financial data across the financial services ecosystem using a safe and secure consent-based mechanism. Financial services platforms will reimagine the relationship between consumers and financial institutions, improve consumers financial health and enhance the productivity of SMEs.

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

We agree with your assessment and would add:

- Lowered operation costs over the long term for insurance carriers (if we exclude the setup costs of digitizing data and API management systems) as the costs of physical distribution (e.g. branches) are eliminated
- Offers insurance carriers the possibility of shared infrastructure with the introduction of modular financial services

Additionally, the [whitepaper of The Open Insurance Initiative](#) highlights that:

- it is very likely that with shared data and open APIs, the playing field will become significantly larger allowing for nonfinancial participants to directly market an array of insurance products.
- Open Insurance will drive insurers towards monetizing proprietary data generating new revenue streams by processing their data into usable packages and insights for third parties.
- An adjustment in the FCA's approach will amount to a digital evolution, and a shift in the way in which it engages with the industry. Third party service providers will deliver greater confidence to investors in general and startups in particular.

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

For Open Finance to deliver on its promises, the range of data shared, its quality and timeliness are critical elements.

- All insurers must participate in Open Insurance in order to provide a level playing field and equal access.
- Consumers are more likely to appreciate the **insights generated and advice provided** as a result of sharing their data, rather than looking at extensive dashboard displays of information.

Engagement of consumers will be a factor of how well Open Finance solutions respond to their needs and challenges.

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

Open Banking:

Natural progression would involve opening up access to more banking data (e.g. savings accounts), more functionality (e.g. refunds) and include data on mortgages and investment products.

Open Insurance:

Insurance may take significant time to develop and consideration could be given to evolve in phases, similar to open banking:

- Open insurance could develop per line of business. For example, a good start may be to develop open APIs for motor insurance lines.
- Phase 2, could mandate additional lines of business such as protection and saving products.

The insurance sector has insurance carriers of different capabilities with different digital capacities so it's important that Open Insurance is introduced gradually to allow for one speed evolution for all insurers.

Open Pensions:

Pensions dashboards are already under development by The Money and Pensions Service (MaPS) and a delivery group has been established to prepare the first phase of the programme.

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

Open Finance will foster the development of platform ecosystems. Unique risks may emanate from service aggregation and data sources being merged to generate insights on the customer:

- Establishing liability
In the event of fraud or mishandling of data, establishing who is liable and the extent of liability as a result of the multiplication of TPP in a single transaction will be difficult to determine. Does it ultimately rest on the shoulders of the insurer? Or does it rest with who owns the customer relationship? How do you determine who owns the customer relationship?
- Online Dispute Resolution (ODR)
We will see more cooperation/partnering in providing services across the value chain. Coordinating effective and speedy resolution of an issue, problem or a complaint across different TPPs may become more automated involving more machine mediation. There is a risk that the customer may not receive adequate redress.
- Aggregated service experience may make it harder to identify unusual or suspicious behaviors. This may involve significant additional costs for insurers to provide rigorous protection against emerging financial crime and risks.
- Insurers will have to monitor and manage reputational risk posed by data breaches and similar negative news events related to TPPs accessing data and functionality.

- If InsurTech and FinTech startups are not subject to the same regulatory scrutiny that insurers face, that would discourage insurers from transitioning to Open Insurance and will be less willing to provide easy or efficient access to customer data.

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

Current regulatory framework may not be adequate for Open Finance. For instance, PSR was specifically designed for Open Banking.

A combined PSR-like framework should be considered.

Insurance and pensions, will require a modified set of rules to ensure effective regulation. Although certain provisions of PSR such as data protection, conduct, AML, and consumer rights could be adopted and fine-tuned.

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

The most common concerns that established firms raise about Open Insurance relate to:

- Complaints about legacy systems and associated expenses of upgrade or replacement
- Require demonstrated use cases before investing time and effort in providing access to data
- Lack of understanding of regulatory constraints on data sharing
- There's a perception that startups will dislodge established companies, reduce their market share and the business landscape becoming more competitive resulting in reduced profits.
- Some of these startups have more powerful technologies (e.g. ML algorithms and data analytics) than those available at the well capitalized and established firms causing them to refuse to share their data.

For TPP:

- An established firm will most likely not agree to provide the data requested on an ongoing and real time basis if the TPP is not a partner and a partnership will necessitate bespoke integration.
- Integrating with established firms could be a long, difficult and a costly journey. Most organizational cultures are not familiar nor accommodating of open cooperation or open innovation
- Regulators have conservative bias towards innovations. This creates a difficult environment for startups. While the FCA has taken great steps to ease and assist with regulatory support and a sandbox, the notion of additional regulatory frameworks needed to implement Open Finance will pose challenges and undesirable costs.

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

All signs point to a general lack of interest by established insurance companies in sharing insurance data with third parties. There is interest to learn about open insurance but they do not display any urgency to allow access to this data. They tend to choose to allow data access to partner TPP only and control the data closely.

An open API standard and data definition can be developed voluntarily by the insurance sector and we've seen global interest from established firms as well as startups in joining such effort.

However, government and/or the FCA have a role to play in opening access to customer data. This will help overcome inaccurate perceptions on legal challenges and remove commercial obstacles.

Operationally, FCA intervention will speed up internal digitization processes which will make integration with external digital channels easier. Established firms in particular would have more certainty regarding compliance, security and safety of data.

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

There are approximately 436 insurance companies in the UK of which 195 are UK authorized life insurance companies. On top of that, the insurance ecosystem includes a large number of intermediaries and supporting services.

Open Insurance has its focus on insurance carriers opening access to customer data. The ecosystem will undergo an evolution which necessitates the deployment of more digital channels requiring the whole ecosystem to adapt.

Small to medium sized traditional intermediaries will probably be the slowest to adapt as they also need to invest in digitizing their services and interfaces. Similar scenario may attach to smaller general/commercial lines insurers.

Insurance carriers will control more of the customer interface and will have the opportunity to interact directly with customers that previously were dealing with traditional intermediaries.

Reinsurers will also see opportunities in interacting directly with customers by providing complete bespoke business models or packages (inclusive of a digital platform and an insurance carrier partner) that commercial partners can subscribe to, helping monetize their customer base and to provide more services to their customers.

Similarly, Lloyds of London may also find opportunities in receiving access to the Open Finance ecosystem!

These scenarios point to the development of more sophisticated, better services and enhanced customer experience matching evolving trends in work, asset ownership and lifestyle. Access to customer data will elevate these benefits and introduce more intelligent decisions.

For startups and innovators, the FCA may need to consider developing a multi-tiered authorization model (e.g. dependent on the sensitivity of data sets involved) to incentivize TPPs to enter the market, where authorization is required, to reduce the upfront setup costs, and allow the startup ecosystem to flourish.

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

- APIs are the most suitable and relevant technology for developing Open Finance
- There are costs involved in improving IT infrastructure, improving databases, data quality, real time access, security and compliance. There may be additional costs relating to staff recruitment, contracted out work and consultant/s fees.
- It would be hard to estimate the typical development costs as it would depend on many factors mainly underlying core systems and the internal approach to digitization.
- Rather than follow the CMA9 example of Open Banking, OPIN advocates the setup of an OPIN Working Group composed of insurance stakeholders in partnership with technology vendors and other commercial organizations through an annual membership scheme.

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

- For open finance to fully achieve the desired outcomes, all insurance carriers must take part in providing access to customer data through open APIs.
- The pace of change in the insurance industry has lacked behind that of banking and would likely remain so without the intervention of the FCA.
- Notwithstanding the above, with the increasing adoption of digital distribution channels and the development of platform economies, insurers that choose not to allow access to data will find themselves excluded from integrating their products into financial and non-financial platforms resulting in loss of market share.
- Anxiety and urgency is felt by established firms to modernize their systems and offerings in order to remain relevant within and outside the financial services sector, therefore, we estimate that while there may be initial hesitation to open up to third parties this will slowly dissipate as these firms look to protect their image, brand name and market share from companies that may offer services better matching customer expectations.

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

- Different implementation entities are required to focus on sector specific data and functionality in the development of common open standards.
- Dedicated Open APIs are necessary and can be securely designed to allow TPP to access customer data and functionality. APIs will provide the basis for a coordinated approach.
- There are elements of the open banking standard that can be adopted in whole or modified to enable open insurance, including:
 - 1- Consent, authentication and authorization management
 - 2- Security and safety procedures and frameworks
 - 3- User experience model

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

- Coordinate the definition of data types and functionality across regulated markets
- Coordinate implementation timeframes to integrate with each market
- Support the formation of alliances across different non-regulated markets/sectors.

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

Open Insurance will leverage elements that reinforce modularity and compatibility:

- Synergies in dataset definitions and structures should be adopted by open insurance e.g. KYC information and currency descriptions
- Follow the API architectural design, resource formats, versioning and documentation of open banking as closely and as practically as possible
- Follow as closely and as practically as possible the secure consent, authentication, authorization processes and encryption
- Open licensing formats (API and data standards under a CC0 and software under an MIT license)
- Follow as closely and as practically as possible the control, access and security processes of Open Banking
- Fraud detection and monitoring mechanisms
- Central developer resources in the form of a developer hub and a sandbox environment
- Follow as closely and as practically as possible the governance model of open banking
- Adopt similar key indicators for availability and performance

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

- GDPR alone would not be sufficient hence why PSRs were introduced to support Open Banking.
- BREXIT will probably mean the development of a “UK GDPR” anyway.
- Given the extensive nature of data that open finance makes available, consumers would be assured with a more bespoke framework to prevent commercial exploitation.

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

- The Open Banking framework is a good starting point
- Open Finance regulation is needed to implement open finance and provide wider protection to consumers. Insurance is far more complex than banking, pensions or mortgage services. However, it is recommended that one framework of regulation should encompass all sectors to provide clarity about underlying responsibility and certainty of how responsibilities are shared between different institutions and with data processors.
- A framework to administer compensation claims for breaches, errors and consequential financial loss between institutions and TPP could be developed voluntarily
- Create a central register or database to keep up to date information on regulated TPPs to make sure they are valid and regulated (e.g. not suspended) before receiving access to customer data (for example similar to but better than the European Banking Register EBA). This register could be setup through a sector wide initiative, or by the FCA or by specialist private enterprises.

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

- AI systems may use their acquired datasets to evolve into totally different systems with different intentions. Insurers and other firms may find it increasingly difficult to explain how their ML algorithms reached certain outcomes. Institutions and TPP must have a good understanding of the implications that biased or mal-functioning AI systems could have on consumers. If insurers do not understand how their systems perform how would they explain or educate their customers on how their data was/is being used?
- Consumers rarely read contract Terms and Conditions which if agreed to blindly, may give financial platforms the right to sell data on for other uses.
- Consumers do have a role and must be aware of their rights under the open finance framework.

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

Yes, they will achieve your aims and we will add that:

- To build more trust and confidence, all insurance stakeholders must play a role in educating consumers on open finance, their rights, benefits and advantages of sharing access to their data across the financial ecosystem (consumer data literacy).
- A common API standard should also keep in mind the increasing demand for interoperability with organizations in non-financial ecosystems (e.g. travel and hospitality ecosystem)

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

- Beyond the Call for Input, the FCA needs to encourage the financial markets to enter into joint dialogue through working groups and forums to create harmony in approaches and a more granular examination of the opportunities and risks involved.
- The FCA could work with other national regulators to encourage cross country/cross platform communication standards. Please refer to the whitepaper "[Open Insurance: a foundation for platform ecosystems](#)"

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.

Such views would have to be in the context of the FCA's role in Open Banking. We believe that the FCA has given a great example as a progressive regulator championing innovation in the financial markets.

About The Open Insurance Initiative (OPIN)

We drive collaboration and collective problem-solving to maximize the success of Open Insurance and its ecosystem of participants around the world. Today, our focus is on supporting OPIN members as they navigate their unique digital transformation journeys, providing practical and proven resources and tools.

Contact & connect with us

fouad@openinsurance.io

[Twitter](#) [LinkedIn](#) [Medium](#) [GitHub](#)

www.openinsurance.io



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