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The CMA’s Open Banking Remedy
The CMA is able to investigate whether there are features of a market which restrict, distort or prevent competition.

Unusually, it has extensive powers to implement structural changes (e.g. BAA’s divestment of Gatwick, Stansted and Edinburgh airports) and impose legally binding behavioural remedies (e.g. open banking remedies).

In 2014 it launched an investigation into the retail banking market.
Market investigation findings - 2016

The CMA’s investigation found that:

• 4 major banks had large share of current account market (70% consumer, 83% small business accounts);
• current account switching rates between providers was very low (3%);
• overdraft charges were high;
• SMEs rarely looked beyond their own bank for a loan.

It concluded that banks didn’t have to work hard enough to keep their customers.
Our remedies package – open banking

- The CMA aimed to facilitate the entry and expansion of Fintechs to compete with banks.
- It required the UK’s largest banks to adopt common, open-standard application programming interfaces (APIs), data and security standards.
- This would facilitate, with the express consent of the consumer, information sharing with, and payment initiation by, trusted third parties.

This ecosystem is commonly referred to as ‘open banking’
APIs – the key ingredient

- APIs allow applications to share data and functionality
- They are not leading edge technology and feature in many popular apps such as Citymapper and Uber
- They have been used by banks for decades to share information
- Common and open standards for APIs enable (smaller) developers to create products more easily and efficiently.
Use case – finding a cheaper bank account

1. SME visits price comparison website.

2. SME is redirected to online bank account and enters credentials on bank site. Tells bank to allow website access to transaction data.

3. Bank checks website is authorised and permits it access to the data.

4. Website uses transaction data to calculate which product is best for that SME, including rewards and charges.

5. SME reviews and decides whether to switch account.

Based on the SME’s banking history (eg number of foreign currency transactions, cash deposits, ATM withdrawals etc) website compares banks’ charges/rewards and recommends the best account.
Use case – unbundling current accounts

“FinTech’s true promise springs from its potential to unbundle banking into its core functions of: settling payments, performing maturity transformation, sharing risk and allocating capital. This possibility is being driven by new entrants – payment service providers, aggregators and robo advisors, peer-to-peer lenders, and innovative trading platforms. And it is being influenced by incumbents who are adopting new technologies in an effort to reinforce the economies of scale and scope of their business models.”

Mark Carney, Governor of the Bank of England, 25th January 2017

- The current account is a bundle of services: cash storage, payment, short term credit. New providers will be able to unbundle the more profitable of these, for example overdrafts.
- Personal and (SME) business financial management tools will integrate with current and other accounts, providing ‘a single lens’ and new tools.
An example of unbundling

‘Sweeping’ products will monitor your current account balance and, if needed to avoid overdraft charges, will pay in money from either your deposit account or a line of credit guaranteed to be cheaper than your bank’s. They can also transfer excess cash into an account paying more interest than your current account.
Many millennials have ‘thin credit files’. They have never borrowed money and don’t own property. They will be able to demonstrate their creditworthiness by sharing their transaction data with lenders.
Given the obvious risks, the CMA gave the highest priority to ensuring that:

- technical security standards were appropriate to the sensitivity of the data,
- TPPs were carefully whitelisted before being allowed into the ecosystem,
- consumers were able to exercise informed consent before sharing data
- and, if fraud took place, liability was clear and the consumer would be fully compensated.
Risks of open banking - disruption/stability?

We received no submissions that the open banking remedies would create prudential risks - increased competition for banks need not be at the expense of financial stability

The UK’s financial regulators (FCA and PRA) and the PSR have competition objectives

The Bank of England supports open banking

Conclusions

The general conclusion to draw from numerous analyses of the topic is that there are various and mixed effects of competition on financial stability, and vice versa.\(^4\) The financial stability of banks depends primarily on the regulatory framework in which they operate and how well they are run.\(^4\) For example, see recent surveys such as Block, L. 2008, Bank competition and financial stability: friends or foes?, World Bank Policy Research Working Paper No 4506, OECD, 2011, Bank Competition and Financial Stability; and Vives, X. 2011, Competition policy in banking, forthcoming in Oxford Review of Economic Policy.

The Prudential Regulation Authority’s secondary competition objective

By Stephen Dickinson, David Humphery, Paolo Siciliani and Michael Straughan of the Bank’s Prudential Policy Directorate and Professor Paul Grost, PRA Senior Advisor on Competition.\(^1\)

- The Prudential Regulation Authority’s (PRA’s) secondary competition objective requires the PRA to act, where possible, in a way that facilitates effective competition when making policies to advance its primary objectives of safety and soundness, and policyholder protection.

We are one of very few financial regulators in the world with a core objective to promote competition. We also have a duty to promote effective competition in the interests of consumers so far as is compatible with meeting our objectives to protect consumers and enhance market integrity. This means we consider competition across all our work.

Open banking is “potentially transformational” and a “significant leap forward for the industry.” Mark Carney, Governor of the Bank of England, giving evidence to the Treasury Select Committee, 4 September 2018.