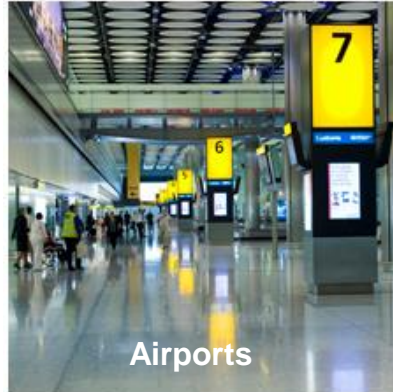


The CMA's Open Banking Remedy



Andrea Gomes da Silva, Executive Director, Markets and Mergers, Competition and Markets Authority, UK.
19 October 2018

UK Market Investigation Regime



Airports



Car Insurance



Private Healthcare

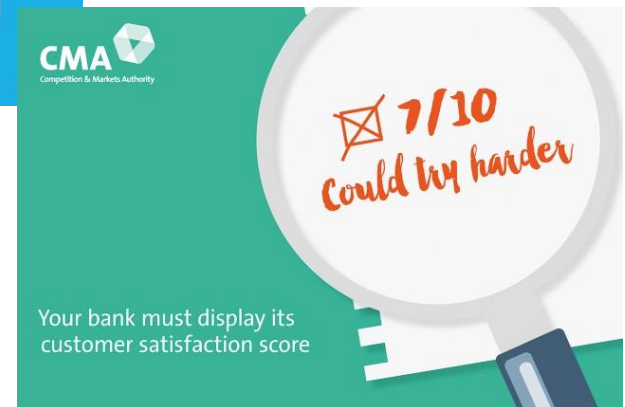
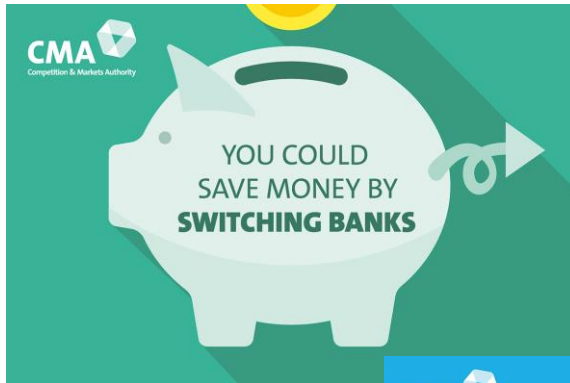


Cement and aggregates



- *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.*

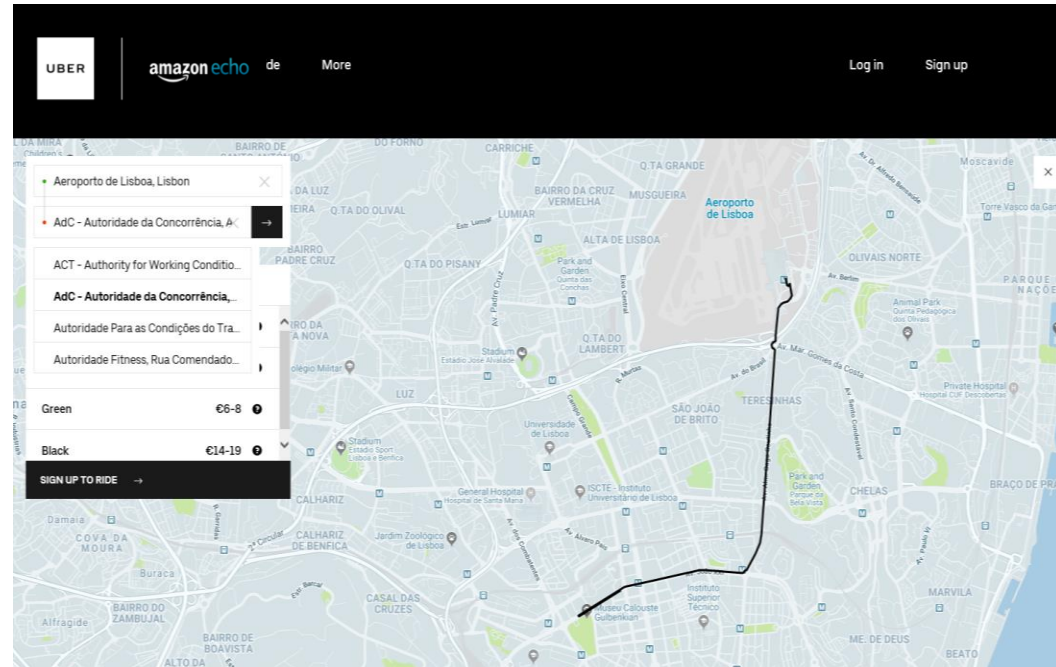
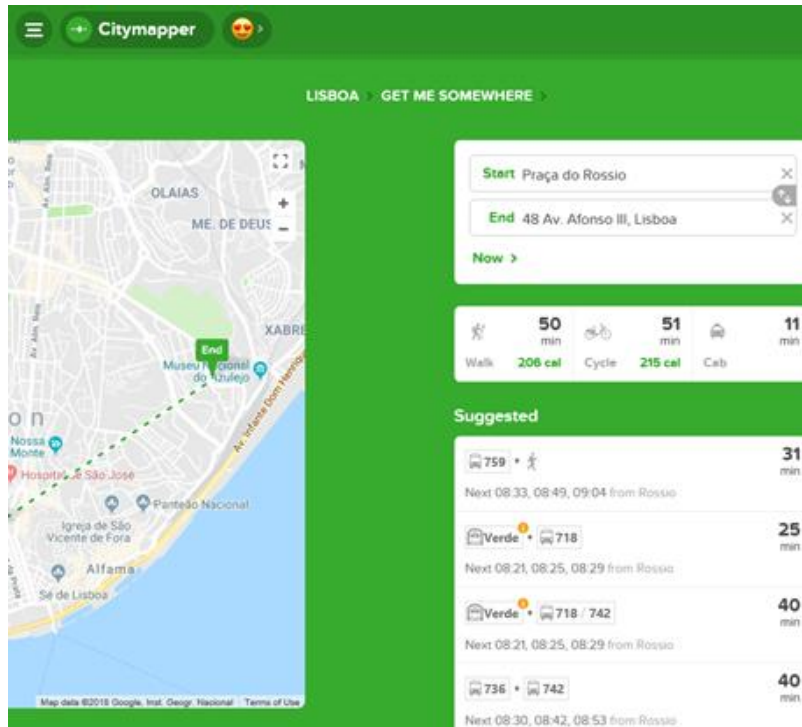
It concluded that banks didn't have to work hard enough to keep their customers?

- *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

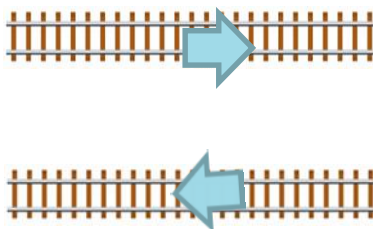


- APIs allow applications to share data and functionality
- They are not leading edge technology and feature in many popular apps such as **Citymapper** and **Uber**
- They have been used by banks for decades to share information
- Common and open standards for APIs enable (smaller) developers to create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

Use case – finding a cheaper bank account



1 SME visits price comparison website.



Business Bank Accounts Compared

- ✓ Help your company grow by choosing the right business bank account to suit your business needs.
- ✓ Whether you're looking for your first business bank account or want to switch from your current provider.
- ✓ Compare the UK's top business bank accounts from the high street bank to alternative options.

Select an account by type

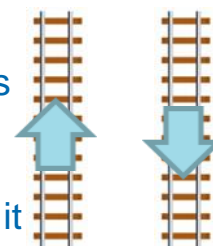
Startups

Switchers

No Credit Checks

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

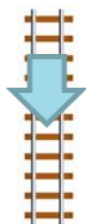
3 Bank checks website is authorised and permits it access to the data



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

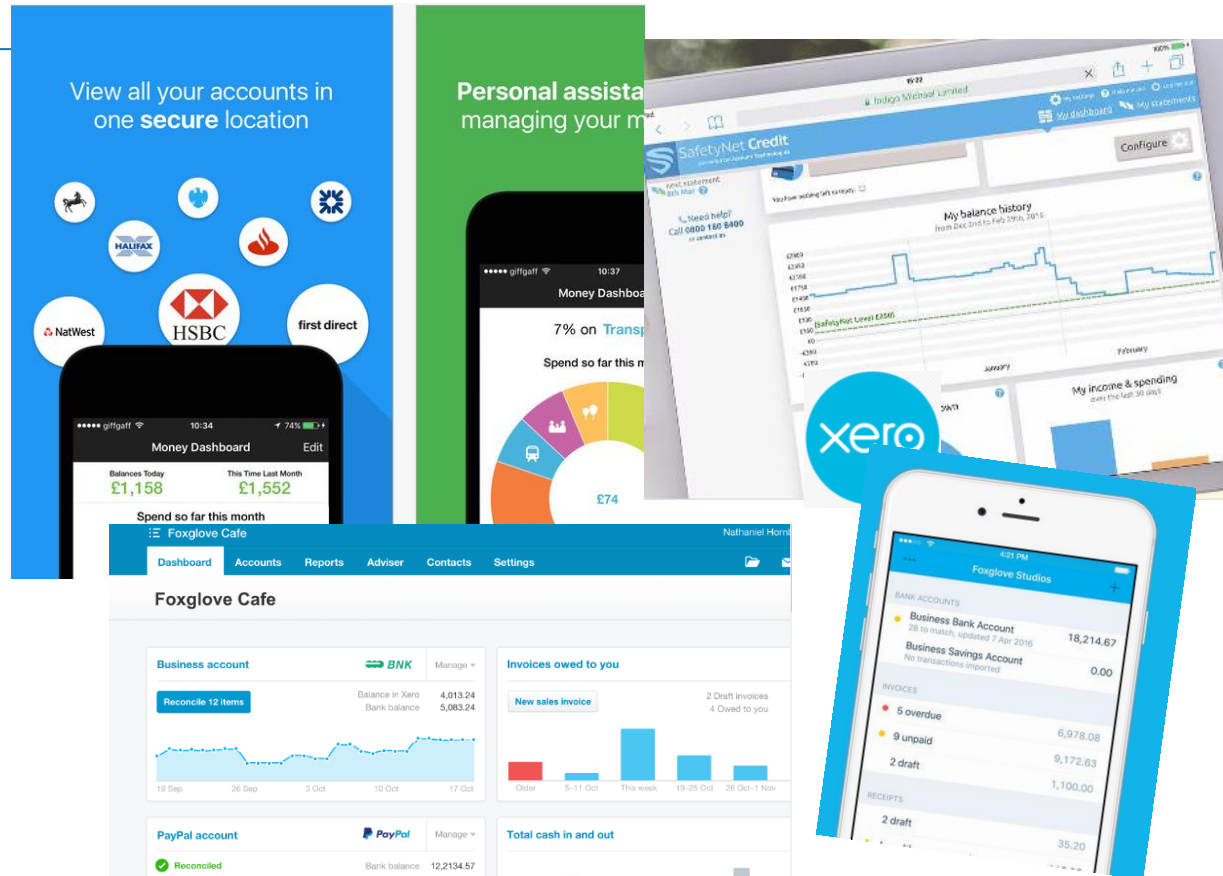


5 SME reviews and decides whether to switch account



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

Underwriting

- Use of bank transaction data to create the best credit and affordability outcomes in real time
- Keyword analysis for scorecard development
- Provision of credit to previously underserved customers

Affordability

- Discretionary income calculation that is tailored to individual affordability; assessing their disposable income in order to provide credit limits that are affordable for each customer.

Deposits and repayments

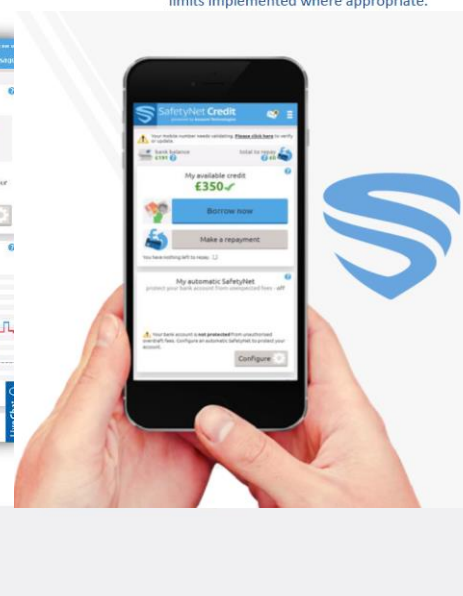
- Automatic top ups before bank charges are applied.
- Repayments taken only when affordable.
- A structure which focuses on minimising the interest paid by customer

Responsible lending

- Weekly recalculation of affordability throughout lifetime of customer to determine whether credit limit changes are required.
- Both graduation and termination of credit limits implemented where appropriate.

How does it work?

- Customers have access to an online dashboard which allows them to manage their borrowing; make manual deposits and set their SafetyNet level to control automatic deposits.
- Depositing funds: SafetyNet Credit monitors customer balances and deposits funds rapidly when balance falls below SafetyNet level
- Taking repayments: Once balances increase repayments are taken - always designed to leave funds remaining post repayment
- High customer engagement - on average 10 logins per customer per month
- Customer has better control over their financial position with more flexible terms



SafetyNet
Credit

‘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.

Use case - helping vulnerable consumers

Demand for debt advice is at its highest ever

620,000 people contacted StepChange for help with their debts in 2017

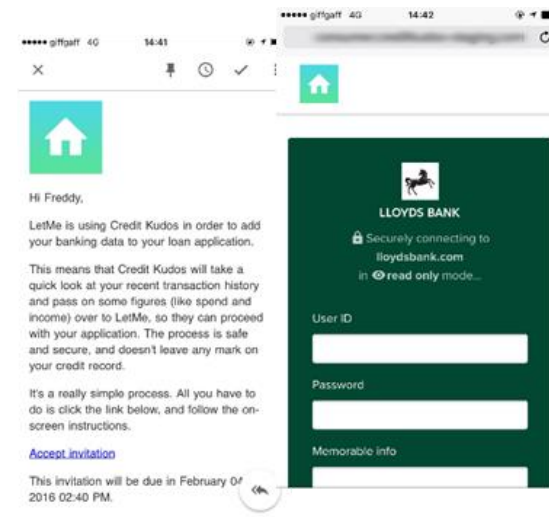


Younger people are under financial pressure

Almost two thirds of the clients we advised in 2017 were under 40 years old



CREDIT KUDOS



Debt counsellors need to see all the accounts that their client holds and see how they spend their money. Open banking 'dashboard' tools will enable this and the use of templates to identify potential improvement strategies

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

Risks of open banking - security?

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Customers who sign up to 'open banking' revolution where they share details in the hope of better deals 'could be put at risk from fraudsters'

- Current account holders could have personal data be shared with third parties
- To enable firms to tailor deals to them by analysing their spending history
- But experts warn it could leave millions of internet banking customers exposed

'Open banking': radical shake-up, or a threat to your private data?

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Will 'open banking' be an open door to fraudsters? Fears mount that freeing up your data will help the conmen

- Massive shake up will force banks to share financial details with third parties
- Concerns are growing that cyber-criminals will exploit the new banking rules
- Companies will be held accountable and banks will pay refunds if customers dispute a payment

Open banking, open risk?
Managing financial crime in a disrupted world

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.*



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.¹⁴ The financial stability of banks depends primarily on the regulatory framework in which they operate and how well they are run.

¹⁴For example, see recent surveys such as Beck, T., 2008, Bank competition and financial stability: friends or foes?, World Bank Policy Research Working Paper No. 4656; OECD, 2011, Bank Competition and Financial Stability; and Vives, X., 2011, Competition policy in banking, forthcoming in Oxford Review of Economic Policy.



BANK OF ENGLAND

The Prudential Regulation Authority's secondary competition objective

By Stephen Dickinson, David Humphry, Paolo Siciliani and Michael Straughan of the Bank's Prudential Policy Directorate and Professor Paul Groot, 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.

- *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*