



Centre for Finance,
Innovation and
Technology

The Opportunity of Open Finance:

Progress Update from the Centre
for Finance, Innovation and
Technology's first Coalition

December 2023

Introduction

CFIT was founded in February 2023, on the recommendation of the Kalifa Review of UK Fintech. In Summer 2023, we launched our inaugural industry coalition to address the challenges and opportunities of Open Finance.

We chose Open Finance because it delivers CFIT's overarching mission to scale the UK fintech sector, presenting an opportunity for the UK to lead innovation in financial services globally.

Enabling secure data-sharing across the wider financial services ecosystem via Open Finance has the potential to help enable regulatory outcomes, such as the FCA's Consumer Duty. Smarter use of data should show consumers and small or mid-sized businesses (SMEs) the opportunities to switch financial providers, supporting people to save money.¹ This is particularly timely when many are struggling to cope with financial pressures during the cost-of-living crisis.

Developing an Open Finance economy also builds on the UK's leading position in Open Banking and moves the UK a step closer to a smart data economy. The standards for Open Banking established in the UK have been adopted in various forms in 80 countries. Achieving the same for Open Finance will open up further opportunities for exports and international collaboration.

Our Open Finance coalition comprises more than 50 experts from leading organisations across financial services, fintech and industry associations, including Experian, HSBC, IBM, iwoca, KPMG, Lloyds Banking Group, Mastercard, Monzo and Revolut. The coalition partners are exploring the potential benefits and applications of Open Finance for both consumers and SMEs.

During the first phase of the coalition, we have initially focused on how to improve credit decisions through Open Finance. This will pave the way to unlocking additional data and delivering better outcomes with other financial products such as savings, insurance, investments and pensions.

This progress update outlines what the coalition has discovered and accomplished so far, based on six takeaways. In early 2024, we will publish our Blueprint for Open Finance. This will expand on the points included here and set out a strategy for the UK to lead the way in delivering Open Finance.

Ezechi Britton MBE,

CEO

Centre for Finance, Innovation and Technology (CFIT)



¹ This update uses the UK government's definition of an SME as a firm with turnover of less than £50 million and fewer than 250 employees. When we refer to small businesses, this typically means firms with fewer than 50 employees, with an annual turnover of less than £10m

Key coalition takeaways

1. A lack of data sharing impacts financial outcomes for consumers and SMEs.

Looking at credit as a starting point, we have found that decisions are often based on a narrow range of datasets, giving an incomplete picture of creditworthiness.

2. Expanding the number of datasets available to financial institutions can improve consumers and SMEs' access to finance.

There is a wider universe of available data that can provide better insights into customers' financial behaviour, if opened up in a sharable format.

3. We have identified, ranked and prioritised additional datasets that could be used today.

A vast quantity of additional financial and non-financial data is inaccessible or underutilised in more than 30 additional datasets.

4. When we unlock these datasets, we must put customer consent at the heart of the experience.

We must allow customers to give permission for their data to be shared in a way that reduces costs, time and friction.

5. We are building several proofs of concept to validate our work.

We are building proofs of concept with our coalition partners to show how industry can design new products and services using Open Finance.

6. In early 2024 we will publish a strategy for the roll-out of Open Finance in the UK.

Our coalition is developing a blueprint for rolling out Open Finance with recommendations for industry, a phased approach for unlocking new datasets and a library of technical resources for industry to use.

Open Finance – what is it and why now?

Open Finance is the next stage in unlocking data to put greater power in the hands of consumers and SMEs. By enabling people and businesses to view all their financial information in one place, Open Finance offers a greater understanding and control of their financial lives.

This is particularly important when consumers and SMEs face cost-of-living and cost-of-business pressures, compounding the long-standing problems of limited access to credit, precarious finances and insufficient planning for the future. After decades of low inflation and interest rates, many were unprepared for rapid price rises and increases in borrowing costs, and are therefore struggling to cope. As the economy continues to change, people need to have all their financial information available to them so they can access the best financial services suited to their personal circumstances.

Open Finance will also increase the amount and quality of data available to the financial sector, allowing firms to offer new products and services to customers, leading to more innovation and stronger economic growth. Recent analysis shows that the wider adoption of Open Finance could deliver a 1.5% increase in UK GDP by 2030.² There could be an annual potential benefit of approximately £27.8 billion to the UK's GDP via personal data sharing.³

Open Finance builds and strengthens the UK's pioneering work in establishing Open Banking. Open Banking introduced the concept of customers giving consent for their transaction-related data to be shared with trusted third parties. Almost 8 million customers now use Open Banking in the UK, comprising 11% of digitally enabled consumers and 17% of SMEs.⁴

The UK acted early to establish standards for Open Banking, which has been adopted in various forms in 80 countries. As a result, we lead the world in Open Banking. We now have the opportunity to do the same with Open Finance.

Open Finance is the next step in the journey towards a smart data economy for the UK, which will enable data to be shared across industries from financial services to energy, telecoms, health and more. A wider adoption of smart data will make it easier for more consumers and small businesses to switch providers of some utilities, thereby supporting families to save money.

² [The promise of open financial data - McKinsey](#)

³ [Ctrl-Shift \(2018\) 'Data Mobility: The personal data portability growth opportunity for the UK economy'](#)

⁴ <https://www.openbanking.org.uk/news/open-banking-impact-report-october-2023>

Consumers

Our Coalition's research identified that consumers' financial challenges include:

- **Lack of control over their finances:** 47% of adults lack confidence when deciding on financial products or services and 63% do not feel they can determine what happens in their lives when it comes to money.⁵
- **Limited to no access to credit:** 5.8 million adults are credit-invisible, meaning they have little to no credit footprint, are denied access to loans and in many instances can end up seeking high-cost short-term credit.⁶
- **A precarious future:** for people nearing retirement age, the average gap between the amount in their pension pot and their desired standard of living in retirement is £250,000⁷ – and almost a fifth of working-age private sector employees (c. 3.5 million people) do not make any pension savings in any given year.⁸

People need help with these matters for their own financial and personal wellbeing. In addition, the UK requires financially healthy consumers to support the economy:

- Household consumption is the largest element of UK GDP by expenditure, accounting for 60% in 2022.⁹
- Financial worries are the biggest cause of stress to UK employees and lead to 16 million lost working days each year, costing employers £10.3 billion.¹⁰

In looking at how Open Finance can address these immediate needs of consumers, we have focused on three priority areas (access to credit being our main area of focus in this first phase of the coalition's work):

- **Access to credit:** how can Open Finance make it easier for consumers to access better, more affordable loans by helping them improve their credit scores and avoid or mitigate the debt trap?
- **Retirement savings and pensions:** how can Open Finance help consumers to save for later in life, particularly retirement, and fill the pension gap?
- **Switching between financial products:** how can Open Finance enable consumers to switch more easily and quickly to financial products and services that better meet their needs?

⁵ [Money & Pensions Service](#)

⁶ [Experian](#)

⁷ [The Social Market Foundation](#)

⁸ [Institute for Fiscal Studies](#)

⁹ [Office for National Statistics](#)

¹⁰ [Centre for Economics and Business Research](#)

SMEs

The financial pressures on SMEs include:

- **Limited access to credit:** a 2021 study found that 900,000 small businesses were at risk of failure because of inadequate external finance.¹¹
- **High interest rates:** as interest rates rose, the number of SMEs using finance declined to 39% in 2022, from 60% in 2020 and 59% in 2021 (which included Covid-19 support) – but also down from 44% in 2019.¹²
- **Borrowing to get by:** of the small businesses that successfully applied for credit in the first quarter of 2022, 42% used the money for cash flow management rather than investing in equipment, expansion or employing more people.¹³

SMEs are the lifeblood of the economy, employing more people and generating more revenue than large companies. Their health underpins the widely shared goal of increasing the UK's economic growth:

- The UK's 5.5 million SMEs make up 99.9% of all businesses.¹⁴
- SMEs employ 16.7 million people – 61% of the private sector workforce.¹⁵
- SMEs generate more than half (53%) of private sector turnover – £2.4 trillion ¹⁶

As with consumers, to identify how Open Finance can transform the way businesses view their finances and the range of financial options available to them, we have focused on three priority areas for SMEs (access to credit being our primary area of focus in this first phase):

- **Access to credit:** how can Open Finance make it easier for SMEs to access financial products that suit their business needs and are as affordable as possible?
- **Data visibility:** how can Open Finance enable SMEs to understand what data is being shared and give SMEs better access to their credit information?
- **E-invoicing:** how can Open Finance make it easier for SMEs to reconcile cash flow issues and see their real-time financial position?

¹¹ [LSE](#)

¹² [British Business Bank](#)

¹³ [Federation of Small Businesses](#)

¹⁴ [Department for Business, Energy & Industrial Strategy](#)

¹⁵ [Federation of Small Businesses](#)

¹⁶ [Ibid.](#)

Identifying Open Finance Benefits

The coalition has made significant progress in identifying the potential benefits of Open Finance, how to unlock data to make Open Finance a reality, and the challenges that remain.

Our coalition has identified that a lack of data sharing impacts financial outcomes for consumers and SMEs.

Using a small selection of the available data when making credit decisions means the best information could be missing from credit assessments, giving an incomplete picture of creditworthiness.

For example, we know that today, for consumers, credit decisions are typically based on just two datasets: the information that credit rating agencies can collect and transaction data from a customer's bank. Millions of people, such as young adults and workers in the gig economy, who have limited or no banking history, are deemed credit-thin or even credit-invisible. These low or non-existent credit scores result in many people being unable to access lending solutions.

Likewise, SMEs often contend with limited access to credit. According to research by the Federation of Small Businesses, 53% of small firms describe the availability of credit as poor, while last quarter only 12% of small businesses applied for credit, near an all-time low.¹⁷ Our coalition has identified that SMEs' limited data footprint is a significant factor. Smaller businesses are often assessed on the basis of their directors' personal credit records, exposing SMEs to the same data-quality shortcomings that can affect consumer credit decisions.

We have demonstrated that expanding the number of datasets available to financial institutions can improve consumers and SMEs' access to products that meet their needs.

There is a wider universe of available data which can provide better insight into customers' financial behaviour. Opening up this data in a sharable format can make a real difference to both consumers and SMEs' creditworthiness.

Banks and other financial institutions would have more accurate data to make lending decisions easier, thereby potentially increasing lending volumes.

By opening up credit for consumers and SMEs and driving financial innovation, Open Finance has the potential to support economic growth – one of the government's key targets and a widely held ambition to drive prosperity.

Improving consumers and SMEs' access to financial products is consistent with the drive to ensure that firms put their customers' needs first, as required by the FCA's Consumer Duty, introduced earlier this year.

¹⁷ [Federation of Small Business's Q3 2023 Small Business Index](#)

Our coalition has identified, ranked and prioritised over 30 additional datasets that could be used to help consumers and SMEs.

A vast quantity of additional financial and non-financial data that is currently inaccessible or underutilised is contained in more than 30 additional datasets. These include more granular information on consumers, including mortgage accounts, rent, utilities, council tax payments and buy now, pay later (BNPL) transactions. For SMEs, VAT, tax returns and Companies House information are examples of data that can give a clearer picture of their finances. These datasets could be securely shared with financial services providers to enhance both consumers and SMEs' data footprints and improve their access to finance.

The coalition has defined and mapped out the datasets that can be opened to enhance credit decisions for consumers and SMEs. Identifying how to access these datasets and how they help improve financial services constitutes the first systematic definition of Open Finance.

Our coalition has also prioritised the available datasets based on their economic value, the effort required to access them and their accuracy. In addition, we have identified which datasets can add the most value for specific use cases (such as customer onboarding) and grouped them into clusters. The proposed combinations will allow the financial services industry to draw on only those datasets required for each use case, reducing friction.

The coalition is developing an example framework to simplify data integration and data access so that this full range of Open Finance datasets can be accessed by a single API (application programming interface) library. That will allow banks, fintech firms and other financial institutions to pull all of the necessary data points they need quickly, efficiently and securely.

When we unlock these datasets, we must put customer consent at the heart of the experience.

Customers, of course, must give permission for their data to be shared. That requirement generates costs, takes time and creates friction in the data-sharing process. As we expand the universe of available datasets, we therefore need new ways to enable individuals and companies to keep control of their information in a scalable way.

We are exploring an example approach for consumers and SMEs to get more control of their own data through a new consent and data integration framework. This framework will enable the secure sharing of data with the relevant parties' agreement in a way that reduces cost, saves time and limits friction.

Our prioritised use cases will be validated by the several proofs of concept we are currently building.

We are building proofs of concept with our coalition partners that will show how industry can make use of the underutilised datasets and the frameworks developed by the coalition. These will serve as exemplars of how unlocking new datasets will allow financial services and fintech companies to build innovative new products, as well as demonstrating how Open Finance can make a positive impact on the lives of consumers and SMEs.

The coalition is focused on two use cases to illustrate the potential benefits of opening up datasets:

1. Supporting vulnerable consumers:

Enabling individuals who are financially distressed to receive timely and tailored financial guidance through secure data sharing under their explicit consent. This proof of concept will be developed with particular input from our partners, Citizens Advice, DirectID and Experian, and will be made freely available to everyone.

2. Access to finance for SMEs:

Supporting SMEs to develop a holistic credit profile by aggregating different data sources. This proof of concept will be supported with particular input from our partners such as the Financial Conduct Authority, IBM, Datavillage, Experian and HSBC, and will be made freely available for industry to take forward, scale and commercialise.

We also gathered additional evidence from a variety of partners such as Sage, Mastercard, iwoca and Credit Canary to support our findings from these two proofs of concept.

Next Steps

In early 2024, we will publish our blueprint for delivering an Open Finance strategy in the UK.

The blueprint will include:

- ▶ A plan for the UK to deliver Open Finance by 2027.
- ▶ A staged approach for unlocking the necessary datasets identified by the coalition.
- ▶ How the coalition's work interacts with current regulatory developments and priorities.
- ▶ Open Finance opportunities for consumers, SMEs and the UK economy.
- ▶ A showcase of the proofs of concept we are developing with coalition partners and suggestions on how these can be expanded beyond credit.
- ▶ A library of technical resources to support industry with the roll-out, adoption and commercialisation of the proofs of concept developed by the coalition.

These outputs will enable the public and private sectors to drive forward the adoption of Open Finance, equipping them with the strategic direction, the delivery plan and the technical resources to accelerate a smart data future.

We appreciate all our coalition partners' and industry bodies' support. This is the first step on a longer journey. Open Finance has the potential to drive innovation within the UK financial services and fintech industry and to transform how consumers and businesses interact with their finances. We rely on continued support and commitment from all stakeholders to realise this ambition and look forward to working with them to fulfil the potential of Open Finance.



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