Is trust the key to unlocking open finance?

How to remain competitive, build trust and transform for an open, digital world

Minds made for transforming financial services

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EY Building a better working world

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Foreword

Open finance – the idea that customers should be able to see and transact with all their financial products in a single place regardless of underlying provider – has been a long time coming.

It has been possible, in a limited way, since the earliest days of online banking, pension and investment platforms, but the scope of these digital propositions has been restricted to a small number of proprietary products. Certain FinTech applications do allow for some consolidation of a consumer's financial holdings, but typically rely on fairly basic technology like screen-scraping. They have remained niche products, held back by concerns about security and a use case that was only compelling to a small number of users.

All that is changing now. Open banking is live in the UK for current accounts and the proposals for a Pensions Dashboard are well-developed. However, there is much more to do. Between them, the current proposals cover only the extremes of our financial lives, our most immediate financial transactions and our longest-term savings. Meanwhile, consumer response to open banking has so far been muted: The latest EY Open Banking Opportunity Index[1] found that, whilst the UK has the world's most mature open banking infrastructure, consumer trust and engagement lags countries like China by a long way.

Nevertheless, the Government and Financial Conduct Authority (FCA) have made it clear that they want the UK to have an open finance model that covers people's full personal balance sheet to support their financial well-being. They are giving the industry a chance to create it, but it's clear they will intervene with legislation if progress is too slow.

We are at a point of inflection for the industry. Open finance is happening, and the industry needs to decide collectively whether it will lead the change or be led.

The choice is not an automatic one. Open finance will bring significant upheaval: EY believes it will fundamentally change the nature of relationships between providers and their customers, advisors, partners, competitors and regulators, and with them the whole basis of competition for the industry.

Faced with radical change, the temptation to 'wait and see'- to do the minimum needed to comply and then react as the market moves - is always strong. But we are convinced that open finance demands a more proactive response: those who do not ride this wave of change will be swamped by it.

The impact will be pervasive, affecting everything from

1 https://www.ey.com/en_gl/banking-capital-markets/ey-open-banking-opportunity-index-where-open-banking-is-set-to-thrive

strategy and proposition development through to back-office operations. Decisiveness and speed to market will be critical to competitive positioning, balanced with a permanent shift to a state of perpetual change and evolution across the business.

TISA's Open Savings & Investments project aims to help, by bridging the gap between open banking and the Pensions Dashboard and eventually enabling us to see all our financial lives in one place. As it moves into the development of a pilot, Ernst & Young LLP has collaborated with TISA to identify eight hypotheses about what a mature open finance model will look like, and our vision of the required capabilities and key success factors to thrive in an open finance world.

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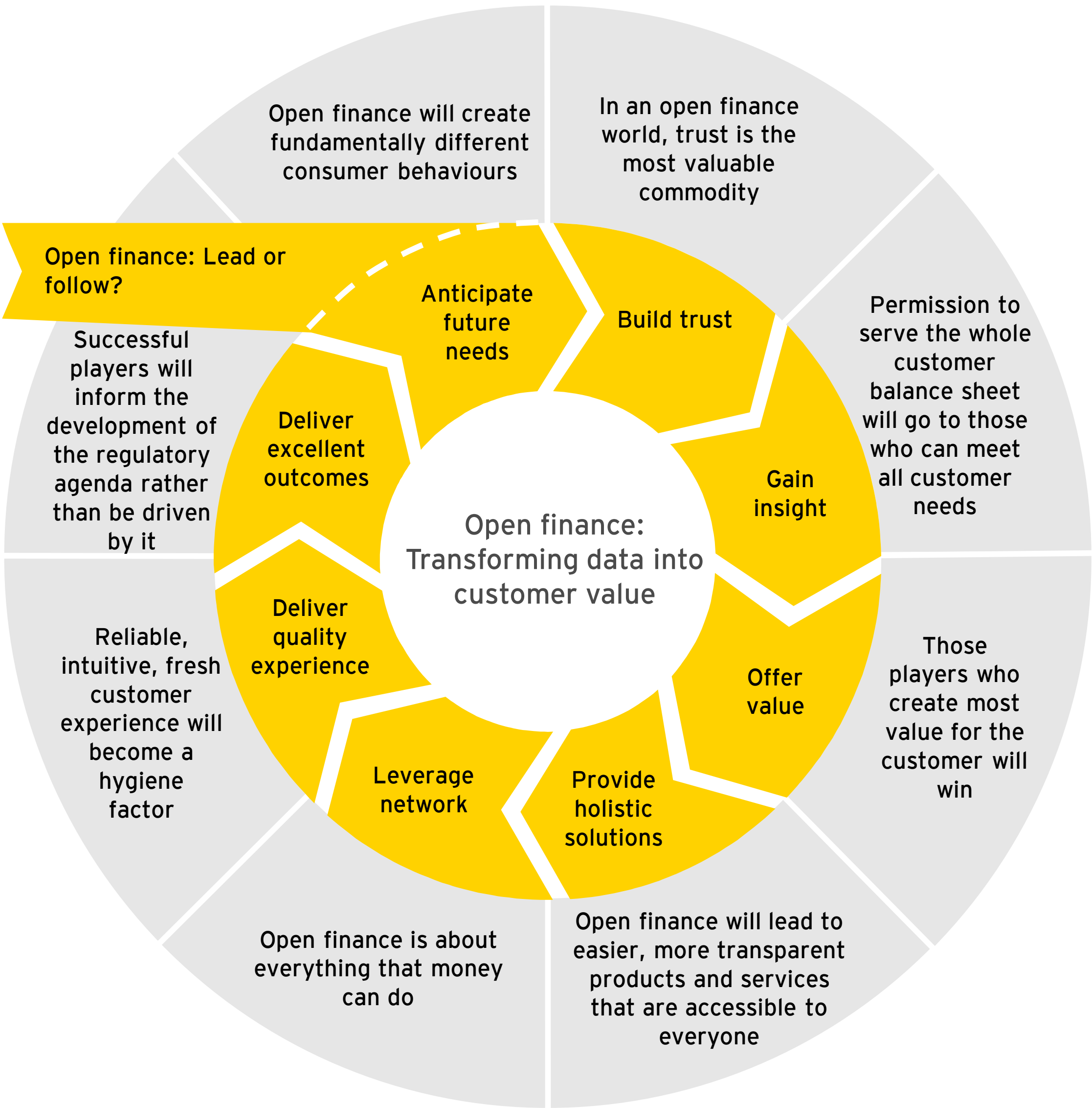
Open finance overview



Hypothesis 1: Customer and strategy

1.1 Open finance will create fundamentally different consumer behaviours

As customers, open finance is uncharted territory: we haven't been here before, and we don't know how to navigate it. We don't know what we can do when we see our finances in one place, because we haven't previously been able to do it.

As an industry, open finance presents us with new challenges. As the slow response to open banking has shown, we may not be able to rely on customers to tell us what they want. With the tools they have today, people are not engaged with their money. We need to imagine for them: create solutions to needs they may not even know they have – and learn how to inspire them to step into this new world of finance.

It won't just be a question of offering good propositions: we will need to engage and educate customers to help them see the benefits of managing their finances in a new way.

But we also need to be ready to keep up with their demands once their imaginations are fired up.

Citizens of the open finance world will work with their providers in very different ways. Some principles are already understood, such as the effectiveness of 'nudge' solutions and tools that help people default to good choices. But over time, customers are likely to become more active and engaged – though not necessarily in the way we expect. Open finance may create behaviours that have more in common with those seen in digital marketplaces than traditional financial services:

- Customers may come to see their primary relationship as being with the open finance consolidator platform that brings it all together
- Providers might be seen as only sellers on the consolidation platform, carrying trust based on brand and previous performance, but ultimately only one of many
- Money will increasingly be viewed as fungible by the customer, and be allocated to the 'pots' and players that provide the best value
- Old boundaries between industry roles will break down – and conversely, all players will have to choose very carefully which roles they want to play. Some of a company's existing roles may no longer be sustainable, and ones it does not play today may become critical to its future.

These are big changes, and some traditional providers may be hesitant because of the risk of back book erosion from opening up 'their' data for others to see and use. But we think this ignores the risk that regulation, consumer demand or market pressure will compel them to open up anyway – and those who respond grudgingly will be vulnerable to those who do invest in exciting propositions that engage their customers.

General insurers have already seen something of this with comparison sites: customers who use them are many times more likely to switch provider, and the sites work hard to make the customer feel that the primary relationship is with them. Insurers have fought back by broadening relationships and sharing value with the customer through multi-product discounts – but even so, regulatory concerns about the competitiveness of general insurance are raising the pressure to include it in open finance.

In addition to changing how customers perceive their providers, it may also change how providers see customers.

The average UK defined contribution pension is reported to be £27,000 – but there are 2.5 pots and rising per UK pensions saver. EY professionals estimate that 50% of couples have combined pension wealth of over £100,000. The value of a customer with a sleepy legacy product may turn out to be far higher than we thought – and there is a chance to capture more of it if the industry can earn the right. The case for embracing these changes should be taken seriously.

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Fundamentally changing consumer behaviours will create opportunities for those open finance players that can anticipate future needs, and create new markets for products that do not currently exist.”

Penney Frohling, UK Financial Services Strategy Leader, Ernst & Young LLP

Case study:

China’s red envelope payments revolution

Overview

- China’s popular messaging services have dramatically changed the way consumers find and pay for services by combining social media features with wallet functionality.
- The mobile payments revolution started with a feature that let customers use these services to send ‘hongbao’ (red envelopes) – traditional Chinese New Year monetary gifts.
- This has transformed gifting behaviour; from 8m participants in 2014 to 688m in 2018 – and has now extended beyond gifting; most consumers in major Chinese cities now to buy just about everything from the messaging app on their phone.

What can we learn from it?

Providers can ‘break the dam’ of customer reticence and trigger a revolution in customer behaviour if they can find a killer use case that eliminates significant customer pain points.

1.2 In an open finance world, trust is the most valuable asset

Each successive wave of internet developments has reinforced the same lesson: when data moves across organisational boundaries, it increases the risk of something going wrong. Cyber-attacks, data breaches, fraud, scams, system failures and plain old user error become significantly more likely with each step towards openness – and much of the thinking around open finance centres on how to manage the incremental risk.

Industry initiatives have adopted a variety of models. Open finance is backed by a strong legal liability framework, whereas the TeX Electronic Transfer of Assets service has a contractual framework and infrastructure based on establishing and managing trust between participants. Open finance contracts typically make it very clear where the financial risk lies at any point in time. Thinking is turning towards establishing a trust framework to help customers to understand where to seek recourse and trust marks to let customers know where an open finance proposition has been authorised.

Those are sensible safeguards for an environment where established providers rub shoulders with start-ups and where customers rather than companies control who sees what. But we believe that the brands that succeed in the open finance world will maintain focus on a bigger picture.

Customers' willingness to use open finance solutions will correlate strongly with how much they understand the benefits that open finance solutions can offer, but also how much they trust the companies who provide them. And here traditional providers have a major potential advantage: customers trust long-established financial brands with their money far more than they do start-ups or non-financial companies. It takes a long time to build up the kind of trust that earns the right to handle customers' investments and personal financial data.

But lurking behind that is the knowledge that one bad incident can destroy that trust.

We think that successful players in the open finance world will recognise the critical importance of maintaining trust, and build their operations on that basis:

- Whilst taking every precaution to prevent incidents, the nature and pace of change in an open finance environment makes it sensible to plan on the basis that sooner or later an incident will happen – although as of November 2019 TeX had reported no breaches in several years since inception of operations.
- It is critical to recognise the difference between liability and customer impact: central to building and maintaining trust is customers' confidence that things will be made right, whoever is at fault.
- Those who build trust will draw a distinction between resolving customers' issues and establishing legal and regulatory liability. In risk terms, they will balance reputational against financial risk, and establish a framework that allows them to minimise one while containing the other.

- For end customers, trust will be helped by using a federated digital identity scheme that can authenticate them to a provider but also give confidence that they are in control of where and how their personal data is shared – if they can understand it.
- Underpinning everything will be rigorous standards and processes for ensuring that the identity and permissions of every party in the transaction are valid and appropriate – and that customers feel they are.

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It has been easy for providers to think that the older generation, who own the majority of assets, will never trust online, digital financial services experiences. This is not true. This group just requires more investment and a longer-term approach to building trust – and those who do this will be greatly rewarded.”

Gavin Littlejohn, Chairman, Financial Data and Technology Association

Case study:

BankID - electronic identity in Norway

Overview

- BankID is a multipurpose eID and eSignature scheme in Norway, used by 90% of the Norwegian population to access over 6,000 digital services, making it one of the most prevalent digital identity solutions in the world. These services include filing tax returns, accessing and sharing medical or student records, performing payments, signing loan agreements, ridesharing and even authenticating profiles in dating apps.
- The scheme is offered free of charge to citizens, and from Vipps on commercial terms to banks, financial services providers, public sector, and to a network of resellers targeting private businesses, aimed at ensuring the long-term value and relevance of eID and eSignature through the bundling and integration of complementary, value-adding services.
- BankID is based on one common ‘centralized PKI’ infrastructure, designed to comply with the highest standards for security and risk assurance. As a result, 97% of the Norwegian population state that BankID is easy to use, and 96% trust BankID as a service. The high trust and perceived easy usability make it possible for financial services businesses and the public sector to launch new digitised services with fast adoption and broad usage, as well as simple integration of third parties.

What can we learn from it?

The compelling use cases of BankID have allowed it to reach a critical mass of adoption and use across both the public and private sector. This has created a symbiotic relationship between the Government and financial services sector in Norway, with mutual data-sharing. Breaking today’s fragmented approach, however, requires collaboration and mutual trust between financial services businesses, one channel (app), one user experience and strong control of risk to maintain the chain of trust.

1.3 Permission to serve the whole customer balance sheet will go to those who can meet all customer needs

Just because customers can share their whole financial life with you, it doesn't mean that they will. EY's *Open Banking Opportunity Index* rated consumer sentiment in the UK as only 2.66 out of 10, versus 4.90 in mainland China. More than twice as many Chinese customers are comfortable sharing financial information compared with those in the UK.

Partly this is about trust – half of negative social media comments in the UK mention 'data protection' or 'cyber security', despite the UK's world-leading regulatory framework – but it's likely that an underlying reason is that providers have not given customers a strong reason to share.

The UK has not yet found that 'killer app' for open banking – and open finance will demand an even more compelling use case. This is because most financial relationships involve products and providers outside the remit of open banking, but also because customers are only likely to share data when they can see a compelling reason for doing so. To earn the right to greater insight into their lives and wallets, we believe the key watchwords will be:

- **Utility** – the benefit of offering the data must be clear.
- **Relevance** – customers must be able to see why that data is essential to fulfilling the need.
- **Personalisation** – the data must be used to give them insights that are specific to them, and not generic.
- **Seamless access** – the speed and simplicity of safely drawing together data across multiple sources will be key to keeping customers engaged.
- **Control** – customers will be more willing to share if they feel able to manage what they share, with whom and when. The ability to easily manage how much they share will become a hygiene factor.
- **Security** – consumers must be reassured that their data is safe.

But gaining insight also creates regulatory challenges. In the current UK regulatory environment, there is a lot of uncertainty about how far interactions can be tailored to a customer before they risk being classified as personal financial advice. How far does the FCA's focus on outcomes allow providers to go in offering personalised suggestions? Can you genuinely create a compelling use case within the limits of personalisation you are comfortable offering? At what point does it become lower cost and risk to offer advice rather than guidance?

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The number of providers requesting access to customers’ personal data is only going to increase, making it more important for providers to stand out. Companies can do this by being the best at turning that data into useful insights that help them serve their customers.”

Hamish Thomas, UK Open Banking Leader, Ernst & Young LLP

Case study:

Insight-driven health ecosystems

Overview

- Several players have attempted to create a holistic healthcare ecosystem for ageing individuals. A leading US player leverages wearable technology – and the data these devices generate – to provide customers with tailored access to doctors, drug retailers and insurance products
- Achieving 250,000 customers since launching in 2014, the service has found success through the incentivisation it gives customers to remain healthy, and the benefits it offers insurance partners by improving underwriting accuracy

What can we learn from it?

In an open finance world, providers must equip themselves to take advantage of increased data flows from the customer, and drive insights from that data.

1.4 Those players who create most value for the customer will win

A key principle for designing online financial experiences is that value must be clearly articulated and delivered early and often. The less you ask for from a customer before offering something in return, the less likely they are to drop out. That initial value can be small – a comparison to with a peer group or even the lure of moving a partial profile closer to 100% - but customers only give when they get. This approach is often referred to as gamification – but it might be better to think of it as giving customers return on investment for the data they share.

Small measures may be enough to get things started, but in the longer term it will demand more radical thinking about creating value, because open finance fundamentally changes the basis of competition.

Historically, the competition in financial services has been at the product level: the industry designed products to fit a narrow need, selling them based on having the right features or the best investment performance for that need. That began to change with the emergence of Wealth platforms that enabled more of a service ethos, assembling a range of financial instruments and managing towards goals on an ongoing basis. Regulatory changes such as the Retail Distribution Review and Longstanding Customers Thematic Review have reinforced this shift.

But open finance tilts the balance even further towards financial services rather than products – and increases the pressure to create clear value for customers. The critical change is that control of data is back in customers' hands: under open finance they can easily share their financial data with whomever they choose. The expectations we have today from online retail haven't fully translated into financial services – but as customers come to see what can be done with open finance, they will look to what other sectors are doing with data and demand it in finance too.

As the market and customer attitudes mature, customers will gravitate to those who help them get the most for their money. And that is likely to mean addressing the full financial picture – debt and insurance, saving and spending. The winners in an open finance world will be those who make it easiest for customers to make each pound go further.

Transparency of value is also likely to be key – financial literacy will improve over time, but trust will be earned in the short term by showing the value of a broader relationship in terms that customers can understand. One key challenge is that value might mean different things in different contexts – amount saved, improved rates, fund performance, fees, risk/return curves – but tackling them all might be confusing. We believe that key principles for creating and demonstrating value will include:

- Drive better outcomes – a simple and consistent way to distil complex measures is to focus on progress towards the customer's goals. Percentage completion, chance of success and time to goal metrics are easy for customers to understand – but need to be backed up with actionable insights that help customers improve them.
- Put risk in context – however, focusing on future goals runs the risk of customers responding badly to short term

volatility and other adverse influences, even if they are within the tolerances of the plan. Timely, easily digestible messaging and education around understanding risk and reacting to it sensibly will be a critical component.

- Demystify, educate and deepen – having an ongoing relationship creates opportunities to provide further content and improve customers' understanding and ability to dig deeper into the underlying drivers of the top-level measures.
- Be transparent – the need for trust places a premium on providers who are clear about how they make money and how that compares with the alternatives. It may even become the norm to show how much value you as a provider are taking from the relationship – and how much you are sharing with the customer.

"Customers are becoming increasingly aware of the value of their personal data. Providers must clearly establish the link between data and value, demonstrating the value they are giving in return for each incremental piece of information."

James Tufts, UK Life & Pensions Leader, Ernst & Young LLP

Case study:

Better spending and budgeting through open banking

Overview

- A UK-based AI chatbot solution uses transaction data from a customer's bank account to understand their transaction behaviour and proactively provide spending and budgeting advice, such as suggesting when switching energy provider would save money.
- Since launch in 2017, the platform has successfully grown to c.350,000 active users in the UK and 600,000 in the US – comparing well with robo investment advisors (one leading UK provider has only c.50,0000 despite extensive marketing).

What can we learn from it?

A provider that can turn a customer's data into actionable insights – and connect them effectively to valuable propositions – will quickly earn a loyal customer base and enjoy high promoter scores.

Hypothesis 2: Provider and supplier

2.1 Open finance will lead to easier, more transparent products that are accessible to everyone

The era of complex products seeking differentiation through lists of features is already over, but open finance will drive the industry further towards simplified products that deliver a clear purpose and have everything else stripped back to the bare minimum.

A relentless focus on removing unnecessary cost will be critical. The standardised Application Programming Interfaces (APIs) that will underpin open finance will enable much greater automation of interactions across organisational boundaries. Over time, smart contracts and blockchains have the potential to enable even complex transactions with minimal human intervention.

In parallel, the ability – and agility – to assemble combinations of simple components into holistic solutions will become critical. At the same time, faced with more complexity customers will look to their providers to give them answers even more than they do today. Advice propositions will be important but will need to become more holistic to respond appropriately to 'whole balance sheet' questions and must also become far more cost effective if they are to reach a wide market.

Advice providers are already moving towards hybrid models, with a strong human component but making use of advice automation technologies to focus manual effort on high-value tasks. We think this is only a first step. Addressing all the opportunities and needs inherent in open finance will mean reaching across traditional boundaries between different types of advice – investment, protection, property and mortgages, tax and health, amongst others. That can only be achieved by using technology to mediate the collaboration between advisors.

The increase in transparency and connectivity from open finance creates an imperative for firms to rethink their operating model and cost base. The successful firms of the future are likely to adopt high levels of automation and design in resilience, security and exceptionally low costs both within and across company boundaries. Some players have already embarked on the required transformation, but the scale and pace of change required is only likely to accelerate.

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Open finance will remove the need for long underwriting questionnaires, endless application processes, and complex claims processes. All of a customer's relevant data will be readily available to be used in sales, underwriting and servicing processes thereby demystifying and democratising financial services for everyone."

Anita Kimber, UK Financial Services Innovation Leader, Ernst & Young LLP

Case study:

Modular protection in Australia

Overview

- In 2019 - an Australian insurer created a 'modular' insurance product - with components that can be combined by the advisor to create a bespoke insurance package that is tailored to the customer's individual needs.
- This solution relies on advisors being able to make their clients comfortable with sharing a large amount of personal and sensitive data and, like open finance, requires the development of trust between the client, advisor and the provider's value proposition.

What can we learn from it?

By building up holistic solutions that consist of simple products and services, providers can create easy to understand but bespoke propositions that address each individual customer's needs.

2.2 Open finance is about everything that money can do

Serving the whole customer balance sheet means being able to offer solutions for all their needs, but open finance does not mean having to source those yourself – it will be increasingly possible to use the infrastructure to offer strategically selected solutions or components to address specific risks, borrowing needs or saving and investment goals.

As open finance builds towards addressing customers' financial lives more holistically, a core part of a successful proposition will be a network of trusted providers who can provide the range of components needed to fulfil customers' needs.

Over time, this will drive further strategic rethinking and portfolio decisions by companies. Open sourcing – to coin a phrase – will force an evaluation of what role or roles it is best to play:

- What is our primary purpose: product manufacturer? Customer champion?
- If we continue to manufacture, for which components are we genuinely competitive in manufacturing?
- Which peers are we competing with? Which are we collaborating with? Where is the overlap?
- What is our channel strategy? Are we working with advisors, offering advice, going direct to customer, or some combination?
- What emerging players and models do we need to include in our proposition? Where is there value in crossing beyond financial services?
- Will open finance finally deliver the key to unlocking how to serve customers through the workplace and address all of their salary rather than just a pension contribution? How will we offer the same service to workers in the gig economy?

Disaggregation of the value chain will accelerate, but the real story behind these changes will be the convergence of players from very different backgrounds on ownership of the customer relationship – especially at the gateway points in our financial lives – as the key competitive space.

Asset managers, wealth managers, IFAs, life and pensions providers, insurers, comparison sites, banks and FinTechs will all be targeting the same customer relationships – and often literally the same customer, given the range of providers most people use today. This presents some important questions for providers to overcome.

Success will be as much about how companies leverage their network as what you do yourself. The strategic imperative for many financial services providers has been to focus in on propositions where they are differentiated and competitive, and few can cover the whole waterfront anymore – but to be relevant across the personal financial balance sheet means having solutions for every aspect of that balance sheet. That is likely to mean building and managing a network of partners and collaborators to pull together a complete proposition set, with the additional complexity and risk that entails. The infrastructure that arises for open finance may help with that – TeX now operates as an non-profit industry utility governed by an independent board and councils representing the different classes of member - which would allow players to use it to manage products from an ecosystem of partners on behalf of their customers – but strategic, operational and cultural changes will be needed too.

Ultimately, open finance is about everything that money can do – and more. Propositions helping with purchases, managing expenses and living healthily are already emerging, and over time will become holistic ‘wellbeing’ propositions dealing with more than just money. No one provider will be able to address that on their own, which is essential.

> “In an open finance world, if you focus on what you’re good at, and leverage other providers to complete your offering, you’ll be more successful than those who try to do everything.”
>
> **Gill Lofts,** UK Wealth and Asset Management Leader, Ernst & Young LLP

Case study:

Challenger bank as financial hub

Overview

- Leading neo banks in the UK have been developing partnerships to offer an extensive range of financial products (and more) to customers.
- One bank, with over 800,000 active monthly users, offers savings accounts, FX, trading, insurance, mortgage broking and even ride hailing through a collection of third-party providers.
- Whilst these players are currently unable to cater for the whole balance sheet, their position as a ‘hub’ for financial life positions them well to capitalise on the open finance opportunity.

What can we learn from it?

Through proactive engagement with third parties to help serve the whole customer balance sheet, players can attain a leadership position in the network of providers that will make up the open finance ecosystem.

2.3 Reliable, intuitive, fresh customer experience will become a hygiene factor

The transition to wealth platforms has driven huge changes in an industry that has historically lagged the banking sector in adapting to working online. Providers are learning that a platform is more than just another piece of technology. Platforms need to be active 24/7, with customers and advisors demanding high availability and reliability, strong data protection and cyber security, constant evolution of the proposition and process while preserving what they like and enabling intermittent users to execute complex transactions without making mistakes. And when things do go wrong, the IT and product support needs to be excellent.

The unspoken metric by which all propositions are judged is ‘how much time, effort and hassle do I have to expend to get the outcome I want’ – but operating online throws any friction in the system into sharper relief. Errors will only be forgiven slowly, and only for a genuinely differentiating product.

For most companies, traditional operating models cannot meet the demands of this environment, forcing a shift to agile modes of operation in which the business and IT work together much more closely on far tighter development schedules and to far higher tolerances.

Open finance, with enhanced portability between providers, accentuates these pressures still further. And while platform businesses are generally built around a single, relatively modern piece of core software, open finance will ask providers to share data that today lives on legacy systems that were never designed for high availability. Delivery roadmaps will need to consider whether to integrate these systems, accelerate re-platforming to a more modern solution, or rely on an offline data store as many banks have done for open banking.

The challenges don’t stop at the organisational boundary; if it happens under your brand, customers will see it as your responsibility. That means it extends to your network as well – your proposition will be judged by the whole process chain and the consistency of the end-to-end experience. Managing suppliers to those standards will be another radical shift in how companies operate. Third party risk management is already on the regulators’ agenda – but in an open finance world it becomes a core strategic competence.

Open finance will drive big changes in the technology estate. But the process, people and cultural changes will be at least as significant.

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Open finance is the industry’s biggest chance to reimagine the customer, advisor and partner experience; aligning it to other 21st century experiences in media, entertainment and shopping.”

Peter Neufeld, UK Leader, EY-Seren

Case study:

IFA feedback on wealth platforms

Overview

- The expectations of independent financial advisors have changed dramatically over the past few years, driven by pain points and heightened competitive pressures. 65% of advisors say that they spend most of their time dealing with client onboarding, a problem exacerbated by the need to be serving ever more clients (and for lower fees) to drive growth.
- IFAs now expect platforms and tools with slick user interfaces, that are user friendly and easy to navigate; allowing them to change products and allocate assets with ease.
- Advisors are increasingly intolerant of counter-intuitive user experiences and out of date technology and product features, but also expect high availability and reliability. A major source of complaints is when they aren’t alerted to uninvested money sitting on platforms.
- Driving these changes in expectation has been heavy investment by some providers into digital transformation; creating a differentiated gap in advisor experience that renders some providers unable to compete without significant further investment. 35% of wealth management firms in the UK say that they spend 5-10% of their investment budget on digital change, whilst c.40% spend less than 2% of their budget.

What can we learn from it?

Open finance exposes the internal workings of a provider to customers and distributors. Out of date approaches and flaws in processes will be hard to hide, so providers will need a technology and operations model dedicated to relentless improvement.

Hypothesis 3: Regulatory

3.1 Successful players will inform the development of the regulatory agenda rather than be driven by it

We are already at a point of inflection in regulation – the FCA has signalled an intent to shift towards a regulatory approach based on outcomes and evidence. The direction of travel is clear, with the Financial Advice Market Review, Retirement Outcomes Review and the evolving open finance strategy pointing the way towards a model with an ever-improving standard of good practice illustrated by case examples.

But both the industry and the regulator will need time to fully internalise such a large change, and in the meantime old regulatory habits die hard. Both regulators and the industry have to start from a regulatory backdrop designed for a world of infrequent interactions and largely static information in the hands of the industry. We are entering a world where technology enables more frequent touch points and far richer data that will also be accessible to customers. How we transition between them is uncertain: there is a lack of clarity about how far we can let go of old models and embrace the new. The line between guidance and personal financial advice remains frustratingly unclear in the eyes of most providers.

More positively, the FCA has indicated a willingness to hold back on regulating specifically for open finance provided the industry takes a lead in delivering the desired customer outcomes for themselves. However, this is not a free pass: the FCA has already shown a willingness to intervene decisively on specific issues, while keeping a watching brief on areas that are evolving satisfactorily. There is clearly an intent to improve the market by promoting emerging good practice to all players – which gives an opportunity to inform the future regulatory landscape to those who seize it in good faith and lead the market in developing good practice.

Overall, it represents a once-in-a-generation chance to get on the front foot for players that can clearly evidence how their approach is driving better customer outcomes. With the lack of clarity around the future regulatory model and standards, taking the lead is a bold move. But our expectation is that those who do grasp the opportunity have the chance to build a significant advantage.

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Open Finance is an essential component of the FCA’s plan to improve consumer financial wellbeing and the industry needs to show its support. Enabling people to access their own data through trusted digital services, underpinned by a common industry solution, would be a clear demonstration to the regulator of our sectors commitment to open finance and the benefits this will offer all households in the UK.”

David Dalton-Brown, Chief Executive Officer, TISA

Case study:

TeX – the TISA Exchange

Overview

- Following encouragement from the FCA for the industry to introduce automated standards for the re registration of funds in a timely and secure manner, TISA established the TISA Exchange to facilitate the transfer of wrappers and assets between any firm which holds investment products on behalf of investors; including fund managers, platforms, wealth managers.
- The exchange was developed by a cross-industry partnership, to establish and agree common standards and associated service level agreements. As a result, the regulator gave the industry an opportunity to take the lead in developing a solution and signalled that this was a clearly preferred alternative to direct regulatory intervention.
- TeX has grown from a standing start to have a membership representing 95% of platform AUA and over 90% of industry AUM, and 75% of account transfers and 90% of re registrations are now initiated online.
- The majority of transfers and re-registrations are covered by TeX with over 50% of these being fully digital and to date (due to its robust model), no consumer has suffered from financial loss.

What can we learn from it?

The FCA and other regulators will make open finance happen if necessary – but recognise that outcomes are likely to be better for all stakeholders if the industry can shape a model that works for them as well as customers. The opportunity to shape the agenda is there to be seized.

Contacts

To find out how EY professionals can support you on your journey to open finance, please contact a member of the team.

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To find out more about the TISA Open Savings & Investments Project, please visit:
https://www.tisa.uk.com/tisa-groups-projects/open-savings-investments/

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EYG no. 000045-20Gbl
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