Open Finance Association (OFA) response to HM Treasury's Financial Services Growth & Competitiveness Strategy: Call for Evidence

12 December 2024

About OFA

The Open Finance Association (OFA) represents leading fintech companies focused on empowering consumers and businesses to access account data and make safe and secure payments through open APIs (application programming interfaces). We represent open finance providers and users of open finance. OFA members are responsible for the majority of all payment and data API calls initiated in the UK Open Banking ecosystem. We have brought millions of pounds of investment to the UK and employ thousands of highly skilled staff.

Our members are:

Armalytix	Plaid
Crezco	Token
finAPI	TrueLayer
GoCardless	Volt
MoneyHub	Worldline
Ordo	Yapily

Response to the Call for Evidence

Why should open banking be a priority sector? How does it power growth?

We agree with the Government's observation that the financial services sector, including fintech, has a central role in delivering its growth mission.

The fintech industry is unique in how it drives economic growth – both through the continued growth of the fintech industry itself, but also by enabling innovation and efficiencies across the wider economy.

Open banking has a specific role to play in driving this growth:

- **Cheaper payments costs for UK businesses (and the public sector):** Accepting card payments from customers costs merchants 2 - 5% of every transaction. The Startup Coalition, Federation of Small Business (FSB), British Retail Consortium (BRC) and other trade bodies say this amounts to a £5bn cost to UK businesses every year.[1] By comparison, open banking providers typically charge c. 1-1.5%[2] - a saving which can run into thousands of pounds every month for merchants and other organisations (like the public sector), which in turn can be reinvested into more productive activities that support economic growth.

- **Businesses get paid faster, helping with cash flow:** FSB research estimates that 50,000 SMEs go out of business each year referencing cash flow as a cause[3]. When a merchant takes a card payment from a customer, it typically takes 2 - 3 working days for the money to arrive in their bank account, but can be up to seven days[4]. With open banking transactions, the money physically lands in the merchant's bank account almost instantly. This makes understanding their cash position and planning considerably easier. The same benefit is also true for the paying consumer i.e. they are able to manage their finances more dynamically and accurately. Ultimately, this means they are better able to consume business' goods and services - a virtuous circle for the economy.

- **UK jobs and financial services sector growth:** The UK's open banking sector is worth c. £4.1bn and employs c. 5,000 people in highly skilled jobs.[5] However, with the market for real-time payments predicted to quadruple to $376bn by 2030, the potential for growth is vast with multiplier effects that create value for the whole financial services sector.[6]

- **A significant export opportunity:** over 60 countries have followed the UK's lead and started their own open banking initiatives. UK fintechs are well placed to export their product abroad whilst there are additional consultancy/advisory service

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[1] https://startupcoalition.io/news/the-4bn-open-banking-ecosystem/
[2] https://gocardless.com/pricing/
[3]https://assets.publishing.service.gov.uk/media/65df15d2b8da630f42c86223/the-prompt-payment-and-cashflow-review-2023_.pdf
[4]https://www.barclaycard.co.uk/business/accepting-payments/learn-about-taking-payments/taking-card-payments-beginners-guide#
[5] https://startupcoalition.io/news/the-4bn-open-banking-ecosystem/
[6] https://www.statista.com/statistics/1387179/instant-payments-global-market-size/

opportunities.

- **Driving competition and boosting resilience:** As the market currently stands, UK payments are dominated by the use of Visa and MasterCard, further entrenched by the use of digital wallets provided by Google and Apple. This is bad for competition, maintains high fees for business and poses a resilience risk. The recently published National Payments Vision (NPV) acknowledges the need to develop account-to-account payments, powered by open banking, as a ubiquitous payment method. The NPV states this will provide greater choice to consumers and merchants to spur innovation and downward competitive pressure on the cost of payments.

However, open banking is still a young industry and in a fragile state. Open banking infrastructure providers have not grown as much as anticipated and some are in precarious financial positions. There is a real risk that this important, innovative sector disappears or is swallowed up by incumbents and foreign players.

The recently published UK National Payments Vision (NPV) is a welcome step in addressing some of these issues, highlighting the vital role open banking will play in driving account-to-account (A2A) payments, unlocking many of the growth benefits outlined above.

We would strongly encourage HMT to endorse and progress the work of the NPV as a cornerstone of its Financial Services Growth and Competitiveness Strategy to ensure the UK capitalises on the gains it has made in growing its open banking sector.

Open banking technology is most easily at our disposal to drive productivity and growth

An application programming interface, or API, is a technology which connects different IT systems together so that they can exchange data. One system can 'call' or request data from the other system and receive that data in a standard format.

Open banking APIs are used to connect third party providers to banks in a secure and uniform way. Banks provide their own APIs for use by Third Party Providers, such as open banking providers.

The transformative potential of open banking APIs should excite the UK Government more than any other technology. They already exist, are reliable, and building new ones is easy and inexpensive. They also have product market fit in retail banking i.e. there is merchant demand for the payment and broader data services they facilitate, such as better, more accurate and faster credit risk assessments. This feature alone has resulted in people often in vulnerable situations getting access to financial services (e.g. loans and credit) from which they would otherwise be excluded.

In short, the up front investment has already been made. Driving home the return on that investment will be a lot easier than investing in new technologies noted by the call for evidence, some of which require significant development. They are unlikely to have a practical application in mainstream financial services, or support economic growth, for many years.

For open banking to take off, all that is required is for Government to ensure that the objectives for A2A payments and open banking noted in the NPV are implemented, many of which are 90% complete from years of regulatory and industry discussions under the auspices of the Joint Regulatory Oversight Committee (JROC). It's a small ask with almost zero cost to the public purse[7], but it is also crucial: without strong Government and regulator support open banking will likely fail given the dependency on incumbents who are not incentivised to support competition with existing payment methods.

This is why we believe the Government should prioritise open banking over and above other workstreams being contemplated within scope of the 'fintech growth opportunity' element of its strategy.

Open banking should act as a foundation stone for open finance and other smart data schemes

Achieving the milestone of ubiquitous open banking payments, powered by open banking APIs, should be seen as the gateway for developing open finance and other smart data schemes. A key lesson from OFA members' experience of the past seven years of open banking being live in the UK is that little progress is made unless there are clear goals and ruthless prioritisation backed by the whole ecosystem.

If the UK concentrates on open finance and other smart data schemes in parallel it's likely that they will all suffer from a lack of focus, duplication and the inability to leverage all the expertise earned from open banking. Australia's Consumer Data Right is a notable international example of this occurring: after years of trying to do too much over too many different sectors, the Australian government has recently reset and narrowed the scope of its focus considerably.

Our advice would be to finish the job on open banking, then move on to the next priority sector. Given the obvious connections - including with banking data - open finance would in our view be the most logical next priority over and above other smart data schemes.

[7] The cost to Government is the time spent by officials and Ministers only.

OFA would be happy to expand on its responses with HM Treasury if helpful.

Contact

Join us and be the voice of Open Finance in the EU and UK.

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