

# OPEN BANKING

## SME lending Task Force Sprint Meeting 3 - 10/05/2024

### Attendees:

Chair : Charlotte Croswell (CFIT)

Secretariat : Nick Davey, Richard Koch (Open Banking)

CFIT: Ezechi Britton; Leon Ifayemi; Teresa Lam; Tom Laing-Baker

Name	Organisation
Alan Ainsworth	<b>CCAF</b>
Amber Boodt	<b>Nationwide</b>
Andrew Neeson	<b>Visa</b>
Archi Shrimpton	<b>Lloyds</b>
Celso Nogueira	<b>TransUnion</b>
Gary Parlett	<b>Answer Digital</b>
Gavin Starks	<b>Icebreaker One</b>
Ghela Boskovich	<b>Fdata</b>
Glen Keller	<b>CRIF</b>
Hetal POPAT	<b>HSBC</b>
Jason Turner	<b>Barclays</b>
John Fitzpatrick	<b>FCA</b>
Kerstin Mathias	<b>CoLC</b>
Krystyna Biller	<b>Iwoca</b>
Lauren Woolaston	<b>Experian</b>
Leon Jayasinghe	<b>Tide</b>
Louise Beaumont	<b>Mastercard</b>
Lynsey Rodger	<b>Natwest</b>
Mark Wilcocks	<b>Visa</b>
Markos Zachariadis	<b>Academic</b>
Martin McTague	<b>Federation of Small Businesses</b>
Nick Lee	<b>OakNorth</b>
Nicole Green	<b>Yapily</b>
Phillip Mind	<b>UK Finance</b>
Rebecca Hickman	<b>Addleshaw Goddard</b>
Robert Pivoris	<b>Intuit</b>
Rory Tanner	<b>Revolut</b>
Scott Harrison	<b>Experian</b>
Shrey Agarwal	<b>Revolut</b>
Terence Trench	<b>Sage</b>
Tom Williams	<b>MoneyHub</b>

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## Apologies:

Name	Organisation
Adam Jackson	<b>Innovate Finance</b>
Conrad Ford	<b>Allica Bank</b>
Dame Jayne-Anne Ghadia	<b>Ozone API</b>
Dom Hallas	<b>Startup Coalition</b>
Francesco Simoneschi	<b>Truelayer</b>
Hannah Gurga	<b>ABI</b>
Henk Van Hulle	<b>Open Banking Limited</b>
Linda McKensey	<b>Santander</b>
Nilixa Devlukia	<b>OFA</b>
Robert McKechnie	<b>Equifax</b>
Robert Sullivan	<b>Token</b>

## New Actions Arising:

1. Secretariat to look at specific use cases for Model 4 in the presentation and list variants of model 4 and how incentives would work as well as which barriers may exist.
2. Chair and Secretariat to look at domestic and international comparisons where data sharing models work.
3. Secretariat to propose how MLAs could be constructed to bring about enhanced outcomes.
4. Taskforce members to feedback any questions or areas that should be covered in the international comparisons session for week 5 – 24<sup>th</sup> May.

## Actions carried forward

5. Participants to provide information on individual data items within data sets that should be prioritised.
6. Chair and Secretariat to explore whether data which is included in VAT returns is flagged in Accountancy packages once sent.
7. Secretariat to explore potential sources of Invoice data.
8. Secretariat to explore potential sources of Asset / Securities data.

## Summary of meeting:

### Agenda:

- 1) Welcome – relevant updates since the previous meeting
- 2) Financial Incentives Survey and responses
  - a. Models
  - b. Overarching questions
  - c. Next steps
- 3) Questions remaining on the taskforce to be discussed at future sessions
- 4) AOB

### Welcome and background

- The Chair welcomed attendees to the meeting and in noting good progress since the last session. The Chair also thanked attendees for responding to the financial incentives survey, which was the main theme of the session. Progress was being made at pace but there was still more to do.
- The Chair noted that she had a request for an update from the EST (who launched the taskforce). An update was being prepared currently which summarised the work the taskforce had progressed to date.
- The Chair also noted bilateral meetings were still ongoing with key stakeholders, such as potential data providers. This include private sector as well as public sector organisations. In addition lenders had been reaching out. These meetings were to further the work, but the key focus for the moment was to determine which of the prioritised data sets could be made available within a short to medium time frame.

## Financial Incentives Workstream

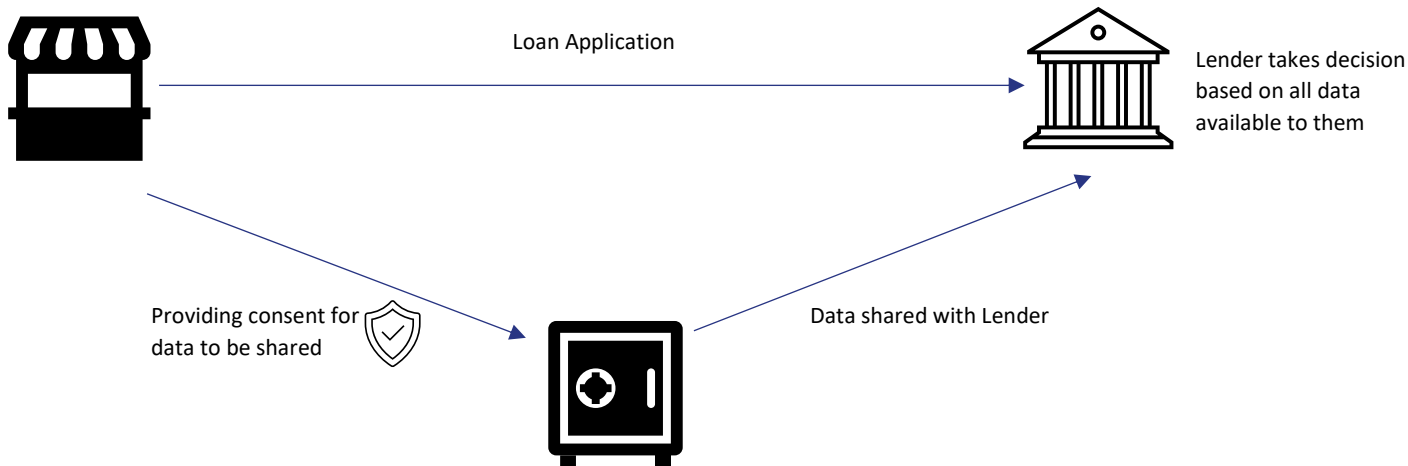
- The session primarily focussed on responses from a survey on financial incentives that had been circulated to the taskforce the previous week.
- The survey noted a number of potential models that could be adopted and asked broadly 3 questions – do financial incentives need to be placed to catalyse the adoption of the model; are there any additional issues with liabilities arising from the model; and are there any other barriers to adoption? Following on from the models there were a further 4 overarching questions.
- Just over a third of taskforce members (excluding those that are from representative bodies) responded to the survey. This was a good response rate.
- Respondents encompassed large banks, smaller challenger banks, specialist lenders, fintech and infrastructure providers, accounting product providers and legal services. On the basis of the number of respondents and the wide range of backgrounds, the Chair and secretariat were happy that the survey was representative of the taskforce and the sector.
- Also it was noted that the survey was sent out before the previous meeting concluded that there are multiple smart data sources that are deemed beneficial to be opened up which is relevant for some of the models presented through the survey.

*Below we look at the models as presented at the meeting – some participants suggested enhancements to the model diagrams which will be considered if they are recreated in the final report.*

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## Model 1

### Stylised SME loan between SME and a lender with 1 Open Data provider involved:

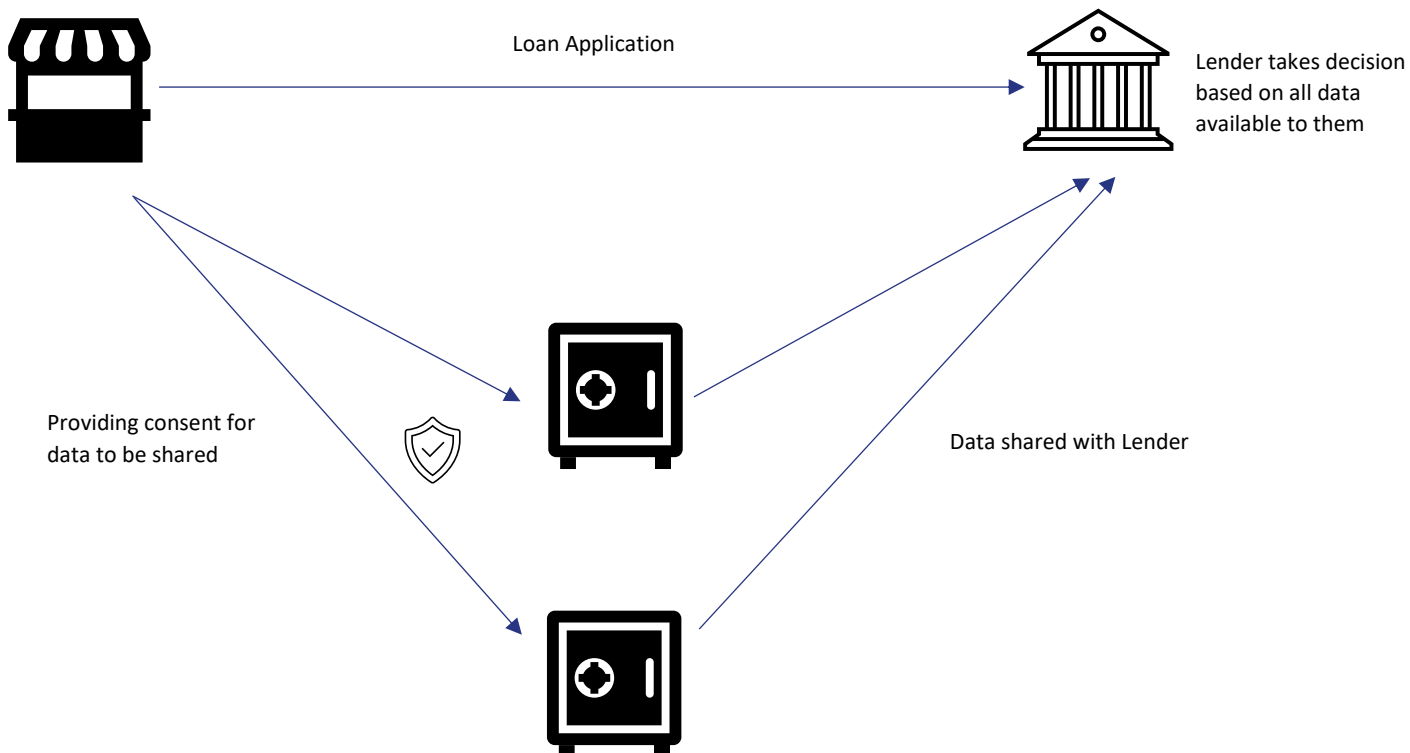


- Feedback on this model suggested that it was unlikely to be just 1 data provider that would be useful for unlocking SME lending. However on the basis of this stylised model the financial incentives were unlikely to be needed by either the SME or the lender. The SME instead will be incentivised by a quicker, smarter and more efficient process rather than by any financial return. The lender will have benefit for greater levels of automation in decision making and associated cost savings. The financial incentives need to be placed at the level of the data provider.
- While there was no consensus, most respondents suggested the lender would pay the data provider for the data rather than the SME paying.
- There were no new liabilities expressed as a function of this model from the current environment.
- Barriers to entry was around the data quality and data standards implemented in order to derive the benefits of efficient and cost savings.
- The Taskforce members agreed with the respondents that this model was unlikely to be the one that would drive the changes they wanted to see, or was particularly realistic.

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Model 2:

## Stylised SME loan between SME and a lender with multiple Data providers:

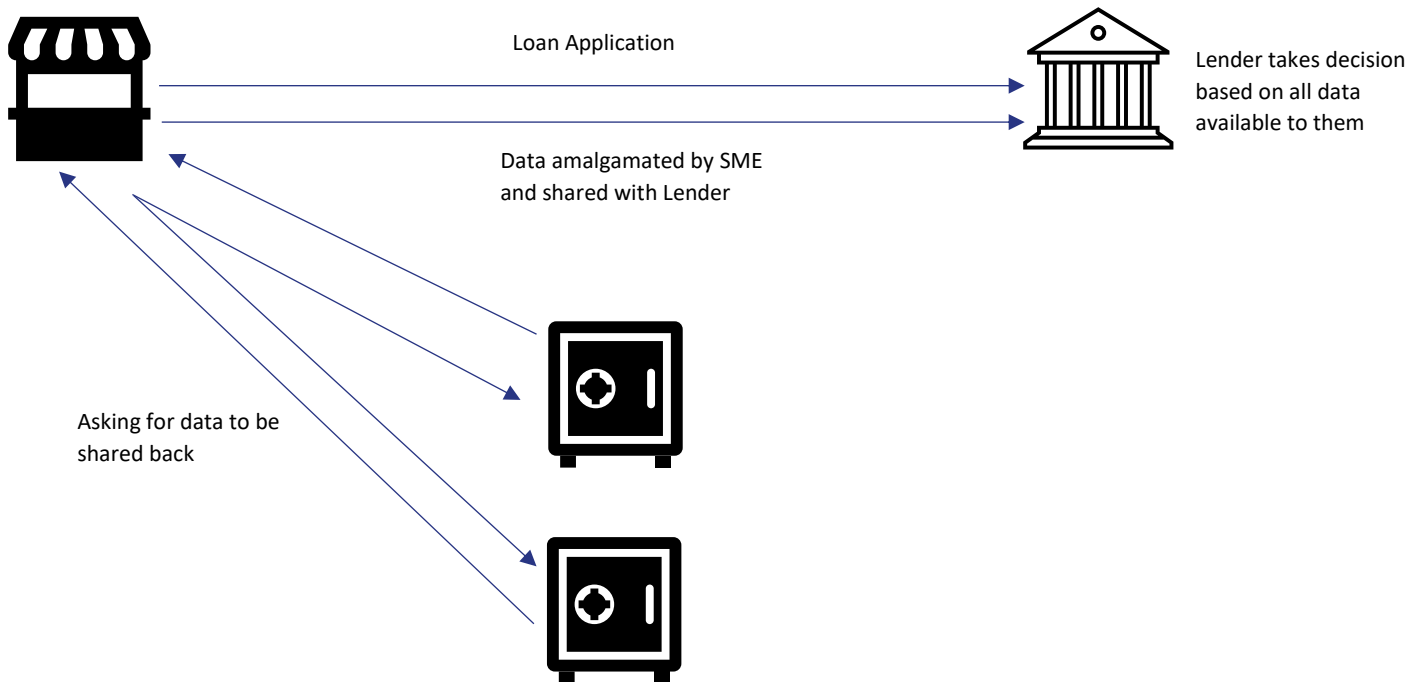


- The taskforce discussed the respondents views of model 2. This is where multiple data providers supply data to the lender, each getting consent from the SME applying for the loan. This was seen as more realistic than model 1 and had advantages as encapsulating different data providers and difference data sources. Noting that in the previous taskforce meeting on data, there were 4 or so potential data sets that were seen as potentially useful.
- Drawbacks to this model were also apparent such as on the SME side. You could get consent fatigue for example. Or SMEs may consent to some datasets but not to others, especially datasets that may make them look less advantageous for a loan. Other drawbacks are that the lender will need to do separate implementations to request and receive data from each data provider. There may also be some circularity in that banks will only want to invest in implementing a solution with a data provider if the data is of value; however until they get that data they will probably not know if it will be valuable.
- There was no additional liability but other barriers suggested was an even more acute need for standards especially if there are multiple providers of similar data e.g. cloud accounting software providers. Some respondents also suggested financial incentives should be considered for the body that is setting and maintaining those standards.

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## Model 3:

Stylised SME loan between SME and a lender with 2 or more Data providers but the data being aggregated by the borrower and supplied to the lender via the application:

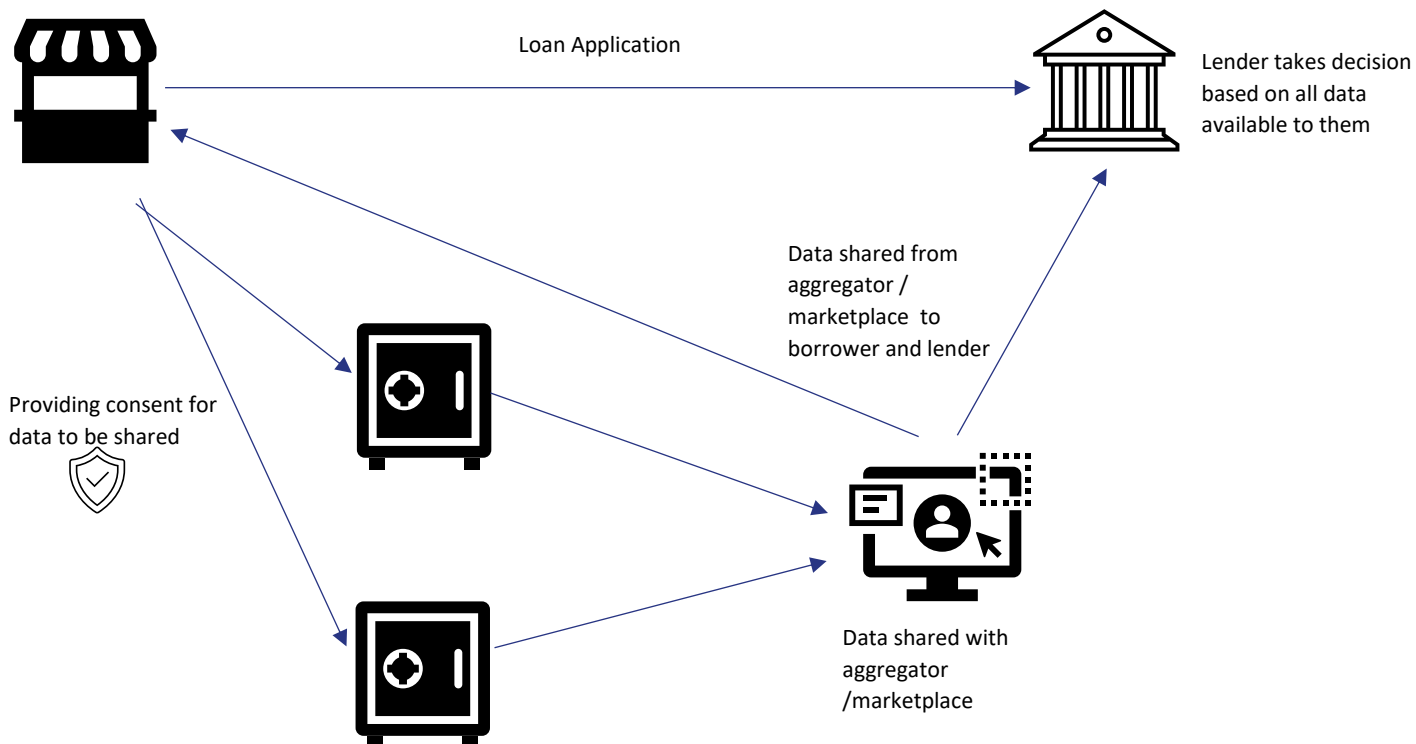


- In this model the SME would gain digital data from the data providers and combining that themselves would then supply it to the lender.
- The benefit of this model is that a lender could arrange a data set that could be used for multiple applications.
- Respondents suggested this model is pretty much the status quo as currently the SMEs do need to provide a consolidated set of data for the loan applications. That effectively this model doesn't move anything on or solve for the problem statement.
- It was also noted that SMEs are unlikely to pay for their own data, even if there are improvements in how the data is organised and presented that still allows for some efficiency savings.
- Taskforce members noted that from the SME perspective the demand is to make processes easier and more efficient and this model seems to put them again having to do the majority of the work.
- Lenders suggested that this model removes the trusted third party elements that brings benefits. So it is difficult to trust the validity of the data.
- In terms of liability there were no new issues that this model brought with it.

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## Model 4:

Stylised SME loan between SME and a lender with a third party aggregating data from multiple data providers and providing this back to the borrower and lender:



- Model 4 introduces the concept of an aggregator that brings together many different data sources which are consolidated and provided to the lender. In this model the SME still consents to each different provider upstream and that data is then used via an aggregator. There can be multiple aggregators and they can provide different levels of service.
- Different survey respondents noted that aggregators can be passthrough in that their role is to lessen the need for lenders to have multiple connections to different providers and have just 1, but that the aggregator simply passes on the data; or that the aggregator can build specific products and services such as consistency checks, dashboards, affordability scores on top.
- Some respondents noted that there can be two versions of the world one where the aggregator is selling the data and services to lenders, the other where the lender chooses an aggregator to outsource to.
- Parallels were drawn with existing open banking models dependent of the view of what the aggregator was doing.



- The task force then discussed the benefits of this model, it was more scalable; and aggregators could tailor data and information to specific lenders based on their sectors and risk appetites.
- Financial incentives were expected in a waterfall from lender to aggregator and aggregator to data providers. Again SMEs were not expected to pay or be paid.
- While there were some clear benefits from this model the draw back was on cost. There were more intermediaries in this model which was likely to increase costs. There would be an associated benefit because the lender only needs to do a single integration, but lenders would need to understand the CBA trade off from this model as opposed to contract with data providers directly.
- Again there would need to be standards set and adhered to.
- And while there was no additional liabilities identified it was also noted that with an additional level in the chain then contracts would need reflect who was liable for what.
- Discussion on this model suggested that there were variants of it that could be explored as well as specific examples of use cases. The secretariat took an action of fleshing out this model in more detail.

## Overarching questions

- The first overarching question asked whether the respondents expected to see these four model, were any of a surprise and were any missed out. The taskforce agreed these were the models they were expecting to see, but that model 3 was a surprise.
- The taskforce asked whether they were expecting to rate models in order of preference or choose a winner? The secretariat explained that these models could exist today – there was some evidence that some already did. That these models were not mutually exclusive and so there was no winner. However the taskforce had to make recommendations about which models they expected to make the most traction in solving the problem statement and prioritise the associated actions accordingly to foster a successful market.
- The second overarching question asked whether the model would develop based on bilateral contracting or whether Multilateral Agreements referred to as MLAs were required.
- Respondents to this question were mixed. Some noted that the market for data was already existent based on bilateral contracts and could evolve; others suggested that a market was unlikely to evolve until such a time as MLAs existed and covered a number of issues.
- The taskforce discussed the reality of agreeing one or more MLAs in a short time frame noting other Open Banking proposed MLAs had taken some time to get going where as bilateral contracts could be negotiated immediately. However there were still benefits to MLAs as they could address consistent access, consent, API and messaging standards and disputes. MLAs didn't need to fix prices which could still be bilaterally negotiated.

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- It was agreed that the final report should look at what could be addressed through MLAs but with an aim to ensure that these could be created relatively quickly. It was anticipated that to do so the MLAs would only focus on the areas that needed standardisation for now; with a suggestion of areas that could be included at a later date for example.
- The third overarching question asked about the models and if any would be positive or negative for competition. Responses suggested that models with multiple data providers and multiple aggregators would be positive for competition, this was broadly models 2 and 4. Other models such as model 1 was considered competition neutral and model 3 was seen as negative. This helps in the prioritisation work.
- The final overarching question asked about whether there are examples of these models that already exist in the UK or overseas. Respondents provided a number of sources which will be researched further.

## Next steps

- The survey was another step shift in progress of the taskforce. It helped crystallise the aspects of a commercial model that is needed to progress an effective market in products and services. However it was clear there is more work required on bringing model 4 to life. Therefore this is the next aspect of the work.
- Along side this is work on what standards are required and how to finance those standards being created. This is in addition to looking at what aspects would need to be covered in agreed MLAs surrounding those standards.

## AOB

- There was no AOB so the secretariat thanked the taskforce members for attending and looked forward to the next meeting on 24<sup>th</sup> May to discuss international comparisons.

[End Summary]