

OPEN BANKING

SME lending Task Force Sprint Meeting 6 - 31/05/2024

Attendees:

Chair : Charlotte Crosswell (CFIT)

Secretariat : Nick Davey, Richard Koch (Open Banking)

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

Agnieszka Scott	DBT
Alan Ainsworth	CCAF
Amber Boodt	Nationwide
Andrew Neeson	Visa
Archi Shrimpton	Lloyds
Caroline Haynes	Lloyds
Ghela Boskovich	Fdata
Glen Keller	CRIF
Helene Oger-Zaher	FCA
Isabel Pitt	Nationwide
Jason Turner	Barclays
Jon Roughley	Experian
Lauren Woolaston	Experian
Leon Jayasinghe	Tide
Lynsey Rodger	Natwest
Neil Taylor	MC
Nicole Green	Yapily
Owen Heeley	Transunion
Peter Cornforth	FCA
Phillip Mind	UK Finance
Stephen Wright	Natwest
Terence Trench	Sage
Tom Williams	MoneyHub

OPEN BANKING

Apologies:

Adam Jackson	Innovate Finance
Celso Nogueira	TransUnion
Conrad Ford	Allica Bank
Dame Jayne-Anne Ghadia	Ozone API
Dom Hallas	Startup Coalition
Francesco Simoneschi	Truelayer
Gary Parlett	Answer Digital
Gavin Starks	Icebreaker One
Hannah Gurga	ABI
Henk Van Hulle	Open Banking Limited
Hetal POPAT	HSBC
Kerstin Mathias	CoLC
Krystyna Biller	Iwoca
Linda McKensey	Santander
Markos Zachariadis	Academic
Martin McTague	Federation of Small Businesses
Nick Lee	OakNorth
Nilixa Devlukia	OFA
Rebecca Hickman	Addleshaw Goddard
Robert McKechnie	Equifax
Robert Pivoris	Intuit
Robert Sullivan	Token
Rory Tanner	Revolut

New Actions Arising:

1. Secretariat to circulate 2nd Survey to taskforce members. Responses due 6th June.
2. Chair and secretariat to discuss SME education aspects with FSB.

Actions carried forward

3. Chair and Secretariat to look at suggested international comparisons where data sharing models work currently and the conditions that allowed them to come to market.
4. Secretariat to explore potential sources of Invoice data.
5. Secretariat to explore potential sources of Asset / Securities data.

Summary of meeting:

Agenda:

- 1) Welcome – relevant updates since the previous meeting
- 2) Financial Incentive Models part 2
- 3) Consent and SME Education
- 4) Survey 2
- 5) AOB

Welcome and background

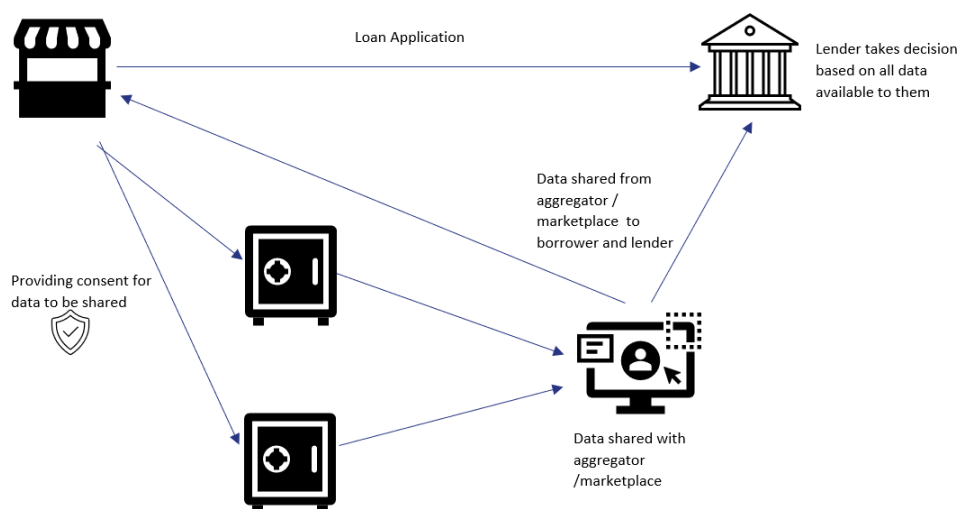
- The Chair welcomed attendees to the meeting. The Chair reiterated that the sprint would continue to broadly the same deadlines as previously set out but with an additional session booked in. We had decided to extend the sprint by an additional week and allow extra time for the taskforce to review the final report with the additional time afforded by the election.
- In terms of socialising the draft of the report with Government departments this was anticipated to happen end-June. The date of publication is now expected to be somewhere around the week commencing of 15th July.
- The session this week covered off actions from the previous financial incentives meeting and cover consent, standards and SME education.

Financial incentive models part 2

- In the previous financial incentives meeting, taskforce members had responded to a survey that looked at 4 different financial models. The two that broadly gained most likelihood of bringing benefits were: a model of multiple data providers connecting directly to a lender and the lender using data in the loan application; and a model where a third party aggregator took data from many data providers and provided a consolidated set of data to the lender. In the previous meeting the taskforce asked that more consideration was given to use cases and variants of the aggregator model, 'Model 4'.
- The taskforce discussed 3 variants of Model 4 as discussed below and a new model, Model 5 which was proposed by one of the respondents to the first taskforce survey.

Model 4 and Variant models

Model 4.1 – stylised 'pass through' aggregator model



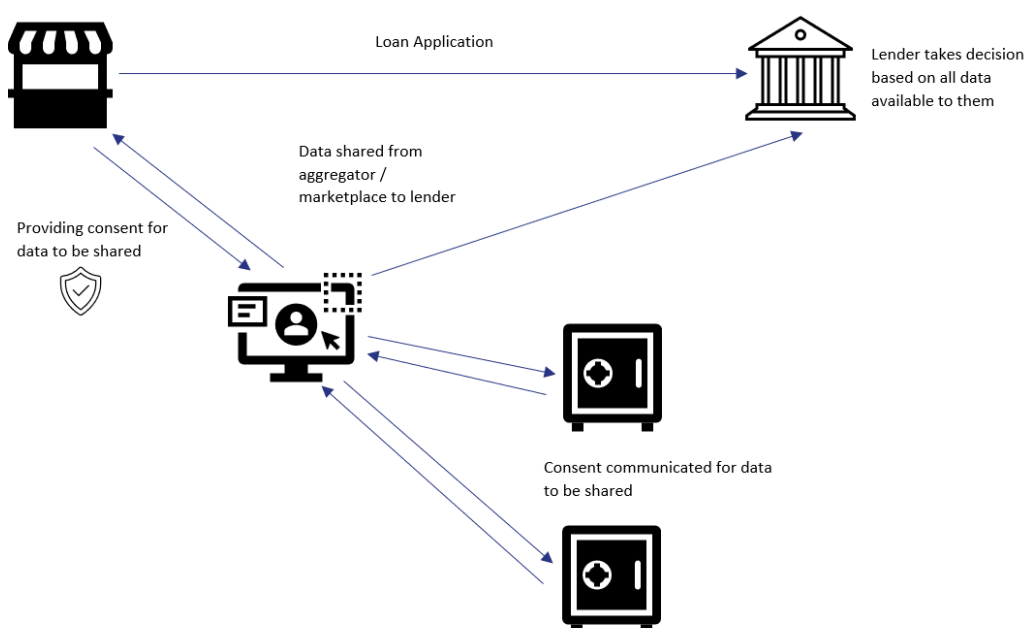
- Model 4.1 was similar to the original model 4 as originally discussed. It outlined the SME applying for a loan from a lender and, as part of that application, the SME consenting to different data providers to provide that data directly to the aggregator and ultimately the lender. Therefore the lender can make a decision based on either: new data it wouldn't previously had access too, data from a trusted third source (or separately validated) where previously the SME supplied it, or data in a better digital format, in order to automate the process more. It was generally determined that there could be multiple reasons why it

OPEN BANKING

would be beneficial for a lender to receive data from an aggregator under a smart data framework.

- The taskforce still suggested that this model provided significant benefits for SMEs and lenders and a commercial model could incentivise the aggregator to build products and services.

Model 4.2 – where the passthrough aggregator also becomes the consent manager

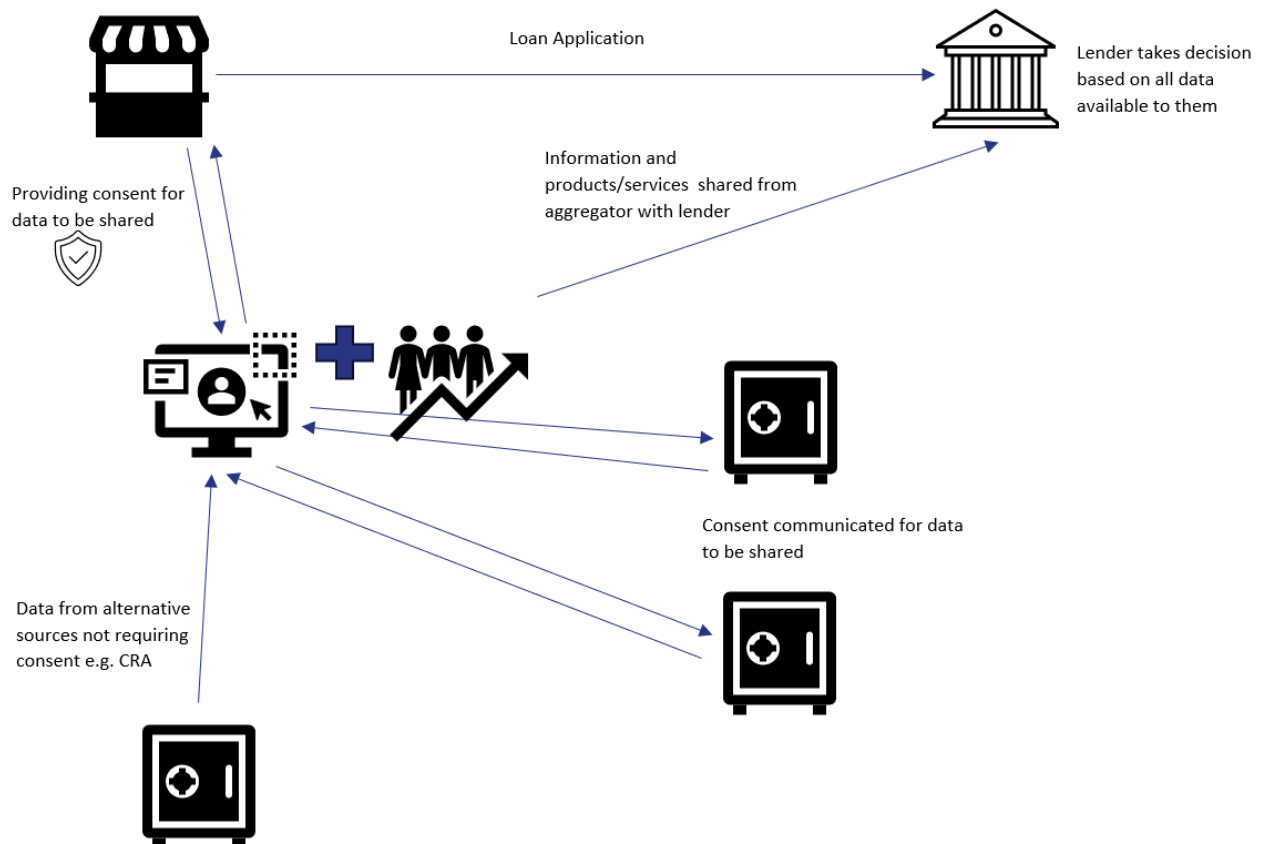


- In this model the SME applies for the loan with the lender, however the lender introduces the SME to the aggregator that it uses to get smart data for the loan application. The SME agrees with the aggregator that it consents for multiple data providers to provide it with data for the loan application. As such the aggregator also becomes the consent manager; passing on the consent it has been given to the data providers so that data can be supplied to the aggregator.
- The benefits from this model primarily for the SME that removes the need to consent to data sharing in multiple places, by agreeing with the aggregator to collect the data from the various sources. This removes issues with having different screens and conditions and use cases for sharing data, and therefore removes the likelihood of consent fatigue. It also allows for potential benefits such as a screen that shows all consents and conditions for sharing the data, and allows more centralised control by the SME.

OPEN BANKING

- The taskforce discussed whether this model could exist, as current models are typically consent on a 'one to one' basis rather than a 'one to many' basis. Members of the taskforce explained that this model can operate today on a permissioned basis; and that GDPR appears to allow for this scenario. For reliance on a consent manager role it was felt there needed to be some form of digital identity that allows the data providers to be sure that the consent has been provided by the SME. This needs to be communicated effectively and securely between the aggregator and data providers.
- Some members of the taskforce noted the importance of regulatory status of the aggregator. For example in a world where it is open banking data, then the Aggregator would be an Account Information Service Provider (AISP) and is authorised and regulated by the FCA. The AISP can be a data aggregator from multiple accounts held by a consumer or Business. There is no regulatory status for aggregators of other smart data which is something that would likely need to be established.

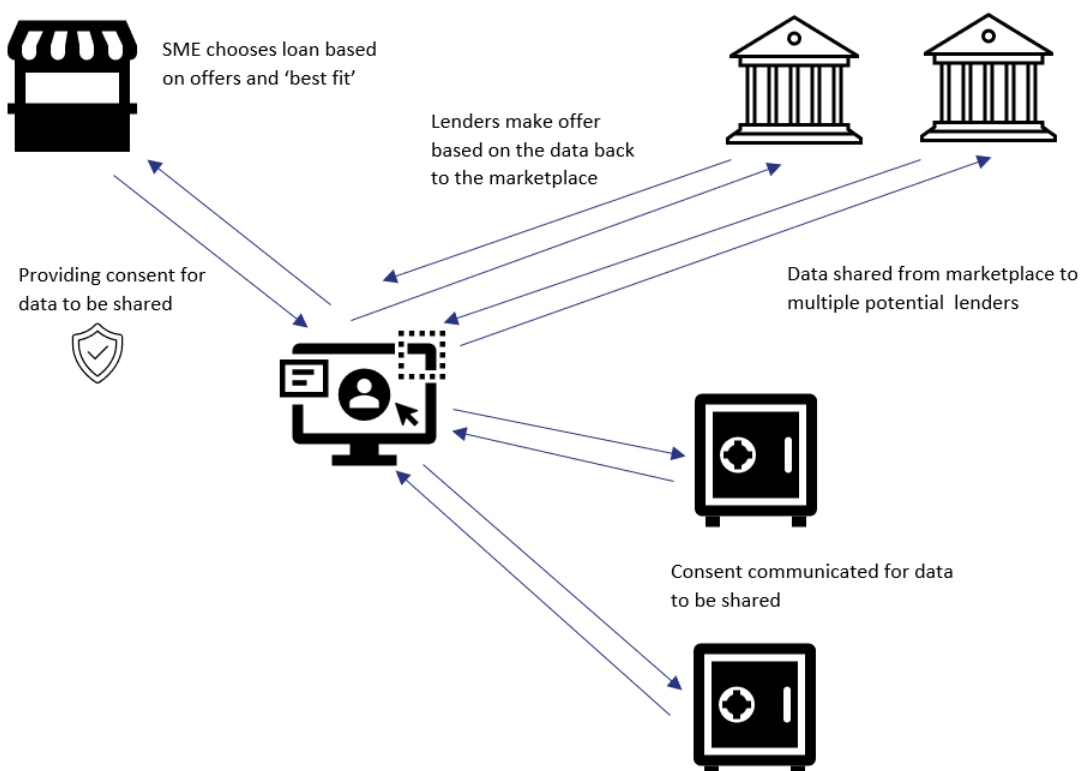
Model 4.3 aggregator and consent manager also augments data with other products and services



OPEN BANKING

- Model 4.3 is a build on the previous model, 4.2, where the consent is also managed by the aggregator. This means the same issues apply here as in 4.2. However, here the data is being augmented by data from other suppliers which is not consented in the same manner as the smart data, but in a different manner. Multiple data sources and consent types are being combined into both a data feed for the lender but also additional value-add products and services such as a risk rating; and/or the data from the different sources is being compared to give a greater level of validation.
- Variants of this product exist in the market today, although taskforce members said that consent is still managed through each data supplier rather than on a centralised basis in existing models.

Model 5: Smart Data Marketplace Aggregator



- This was the new model that had been proposed in a response to the previous survey. In this model, model 5, the SME did not start an application with a lender but instead started a process to look for a loan via a third party marketplace, which also worked as an aggregator combining the smart data into information for a panel of lenders. The lenders getting the

OPEN BANKING

same data feed and any value-add products run the data in order to come up with any offers they want to make back to the SME.

- The taskforce noted that in practice there is unlikely to be just one entity that provides the connectivity to the data providers, and the entity connecting to the cohort of lenders. In practice this is likely to be two entities, a data/network provider and the entity connected to the lenders. There may also be additional products available beyond loans such as insurance. It was the case that there could be a competitive market in suppliers of connectivity and data aggregation services, and competition in the marketplaces with financial service firms.
- The taskforce discussed financial incentives with model 5, because unlike the other models the lenders don't have a direct relationship with the SME and there is no application directly with a lender. So the question was posed, is there still the ability for the lender to pay for the data, putting incentives to the aggregator, or is this model one where the SME pays for a service? The taskforce suggested that there would still be financial incentives between the lender(s) and the aggregator and then downstream to the individual data providers. The incentives could be similar in previous models, but more likely a fee would be paid to the aggregator in the form of an introduction fee or on completion of a loan. It was noted that the data would have to be provided before the loan would be complete which mean that the model would have to work on the basis the aggregator is paid after data had been provided to the panel of lenders and not upfront.
- There were versions of model 5 where the aggregator function is part of a wider offering to the SME. This could be independent financial advice, or as a accounting provider. The model would mean that these services were augmented with gathering additional data to be able to provide information to a panel of lenders and then get offers back. It is likely the model would work from SME paying fees in addition to any income from lenders.
- Finally a member of the taskforce noted that you could have intermediary data aggregators that could, for example, aggregate data from a specific cohort of data suppliers and supply that onward down the chain. This would limit the number of connectors a marketplace aggregator would need to interact with and could also provide specialist inputs and value add-services for that sector for example. For this model to work downstream fees would have to be enough to provide a sustainable ecosystem of 'sub-aggregators'.
- It was noted that consideration of these models may be used in the final report, to explain how the market could evolve and evaluate what would be required to make a competitive market successful.

Standards

- The need for data standards had come up in previous meetings and in the previous survey. It was noted in models where there were multiple data providers providing data directly to lenders then there were benefits to having a set of data standards. This was especially the case if there were multiple providers of comparable data e.g. cloud accounting providers, or where validation of data sources could be undertaken e.g. checking sales against Open Banking data. However it seemed less clear cut when there was an aggregator providing a consolidated data submission to the lender.
- The taskforce discussed the question whether you needed standards in an aggregator model? Members of the taskforce suggested that there were many benefits to aggregators from standardisation, in the same way as there would be for lenders in the models where lenders connected directly with data suppliers. For aggregators there was cost and complexity in navigating the feeds from multiple data providers which mean higher costs that would be passed on. In addition, there is a desire to send and receive the most up-to-date information, and a lack of standards can slow that process down.
- It was therefore agreed that standards are important in every model and something that should be progressed, and therefore should be a recommendation in the final report. As yet it is uncertain which organisations would take that role, this could be in the Open Banking space or via a commercial provider.
- One member of the taskforce noted that the standards conversation has been to date very much focussed on data standards and API access. There are many other aspects of standards that should also be included, such as security, consent and what the data could be used for and other important aspects surrounding the process. It was agreed that these should be included in any future proposals too.

3. Consent and SME education

- The taskforce noted that SMEs were self-incentivised to consent to sharing their data during a loan application. They are incentivised because it will be easier for SMEs to have to do less to amalgamate different data sources themselves as part of the application. And for lenders they will have a faster turnaround on the application with a greater level of trust in the data having had it supplied directly via third parties.
- However, how does the SME know it is going to benefit from consenting to sharing data, and who's role is it to educate the SME that consenting is beneficial for them? The taskforce

felt that in practice it is probably a range of entities that should explain the benefits to SMEs. In some cases it will be part of the application process so the SMEs will need to consent if they want to progress. However lending is a competitive market, and if SMEs are wary of providing consent, because the benefits have not landed well with them, they may opt for lenders who do not require it, and loans that may not be as advantageous, or a worse fit for the SME.

- It was felt that many different actors within this space could do their fair share to educate SMEs. In models where the SME applies for a loan then the lender is able to explain what the process is and why sharing data is required and will be beneficial. In models where the SME has a relationship with an aggregator, the Aggregator can do a lot of explain what data will be accessed and how it will be used, as well as how consent can be managed. For organisations that provide independent financial advice to SMEs and/or other business products such as accountancy software, they are also able to explain what benefits can arise for sharing data in loan applications. And SME representative organisations e.g. FSB could provide advice and guidance to its members.
- The taskforce suggested it want just about who communicates but also what they communicate. Two examples of lessons learned were given from different taskforce members. Firstly contactless payments which had a gradual adoption. But that eventually landing on common language, the common logos and consistent messaging helped consumers understand what it was and how it worked. Secondly the implementation of Open Banking gaining traction suggested a need for standardisation in how it is referred, noting different language and messages hindered adoption at the beginning. With those in mind the taskforce wanted to recommend that there was consistent language and explanations about what giving consent meant and the products that accessed and used the data.
- It was noted that there were no SMEs or representatives of SMEs able to attend the meeting and that some of these suggestions should be discussed with them before taking forward.

Taskforce Survey 2

- A survey was being prepared that would be circulated to taskforce members after the meeting. It was to double check some of the work to date such as on the data workstream and commercial models – also to give any members unable to attend previous meetings to feed in any views. It also asks overarching questions on anything we may have missed and should include.

OPEN BANKING

- The survey is to be returned by June 6th, however noting this is the day before the next meeting and there would need to be time to evaluate the answers, early submission was welcomed.

AOB

- There was no AOB so the Chair thanked the taskforce members for attending and looked forward to the next meeting on 7 June to discuss early responses to the 2nd survey and emerging recommendations.

[End Summary]