

From Open Banking to Open Everything

John Fingleton May 2018

The rise of data and sophisticated yield management techniques, also known as price discrimination, has made many markets far more complex for consumers than they once were. It can be hard to make meaningful price and product comparisons, which locks consumers into incumbent suppliers. In some markets, there is an additional barrier if consumers need their historic data, either to get a better offer or to move with them when they switch.

This incumbency lock-in weakens rivalry among existing firms, makes cross-selling of inferior products easier, and raises entry barriers for smaller firms, especially single-offering firms. The result of less competition is lower productivity growth, more regressive market outcomes, political discontent and lower consumer welfare.

Regulating to restrict price discrimination is difficult and likely to be counterproductive. Instead we should focus on equipping consumers with the tools to match the supply side complexity.

Much of that framework already exists: just as restaurant guides were an early example of the market solving a market failure (asymmetric information in experience goods), price comparison websites and other advisory services and platforms have sprung up. But these cannot fully address the issue when data complexity or retention prevents information from being available for them to use.

This is best illustrated by business and personal current accounts in banking. A decade of regulatory intervention by competition authorities to improve competition failed to address the fundamental barriers related to data comparability and retention. The latest intervention in the UK, Open Banking, may change that.

Open Banking as a model

In 2014, Fingleton Associates and the Open Data Institute wrote [a Report for HM Treasury](#) that provided intellectual underpinnings for Open Banking. We believed that the banking sector suffered from most of the problems I have already mentioned.

Consumers and businesses found it difficult to compare services, bring transaction data with them when they switched, and share data to prove creditworthiness, so they were often locked in to their existing bank. New fintech apps were generally resorting to insecure screen-scraping to access people's account information. Our Report recommended open APIs for transaction and other customer data to allow customers to securely open their accounts to trusted third parties.

The Competition and Markets Authority's Retail Banking Investigation implemented Open Banking as a remedy, which came into effect in January of this year. Switching and multi-

homing should now be easier. Open Banking may also improve the SME lending market by giving third party lenders greater data access to determine creditworthiness.

These principles could be applied beyond banking. We could enable consumers across a whole range of markets to share their data with multiple providers in a secure, ongoing and standardised format, at their discretion. As in banking, this would have benefits in three broad ways:

1. Enabling easier comparison between services and easier supply of complex products with costs that vary between consumers—for example, in energy and telecoms, where tariffs proliferate and vary between customers, or in insurance and borrowing, where costs depend on consumer characteristics, and historic personal data can get consumers better offers.
2. Allowing consumers and workers to transfer information between suppliers and employers. In the gig economy, this could allow workers to port their reputation between different services such as Uber or Taskrabbit, lowering uncertainty for potential customers and employers. With many digital service providers, losing data built up over many years can stop people from moving to a better product, and this could correct that.
3. Making it easier for consumers to disaggregate bundled product offerings and opt for third party suppliers of single products alongside a main product offering. In energy, half-hourly smart meter data could allow demand management to take advantage of off-peak rates. In healthcare, access to health records could lead to innovative combinations of existing data (eg lifestyle, genetic or health history). In education, standardised access to grades and timetabling could allow third parties to offer bespoke degrees for students, mixing online modules from other universities with traditional degree courses.

In some of these markets, consumer engagement may be low. But creating the environment above will also allow innovation by businesses in how to engage consumers by allowing them to offer better propositions.

The road to ‘Open Everything’

Doing this requires a set of legal rights and obligations, combined with the right standards to enable a market-based solution to emerge, as is currently happening with Open Banking. Different markets will require different approaches—these should be explored in case study markets to generate wider guiding principles.

Both sector regulators and government have a role to play. For regulators, there are four things to focus on:

1. For the CMA and FCA, make Open Banking a success. They should not let go of their hold on the banks, and must ensure that the Second Payment Services Directive (PSD2) successfully extends Open Banking across consumer financial services generally. They should be documenting what works and what doesn’t, and why.
2. For other regulators, begin to extend the idea to other markets. Identify regulated markets where such open standards would improve competition and empower consumers. Energy and telecoms are probably good places to start.

3. Collectively, identify and advise government on what general legislative provisions would best enable this. GDPR is a start, and the Enterprise Act may help, but creating standards around API access may be required.
4. Regulators should also begin thinking about where richer data could harm vulnerable consumers. Health data, for example, could lead to people with pre-existing medical conditions facing much higher prices for certain forms of insurance. As a matter of consumer protection, it may be necessary to restrict access to certain kinds of data in some cases.

Central government has a critical role to play in getting the overall framework for open data working. The consultation process on recently published Consumer Green Paper provides a superb opportunity for thinking about ‘Smart Data’, as they call it. Some of this may involve new legislation.

Giving consumers meaningful, ongoing power over their data has enormous potential. It could drive a great unbundling of products and services, opening up new parts of the economy to technological innovation and choice without creating anti-competitive complexity and driving increased competition. All of this will raise consumer power, drive productivity growth, and help restore faith in markets.