

Open Finance

The financial sector is continuously evolving through the rapid development and adoption of new technologies. The term 'FinTech' generally refers to financial innovation that seeks to provide enhanced financial service offerings through the utilisation of enabling technologies. These generally include Distributed Ledger Technology & Smart Contracts, Artificial Intelligence, Machine Learning & Big Data, Cloud Computing, Web 3.0, Application Programme Interfaces and Micro-Services, Robotic Process Automation, and the Internet of Things.

As part of the MFSA's initiatives to generate awareness, drive culture and deliver a cross-sectoral knowledge platform which can support the MFSA's functions in preparing for the financial services of tomorrow, these insights will delve into enabling technologies, enabling innovations and their sectoral applications.

1 What is Open Finance?

On 28 June 2023, the European Commission published the draft proposal for the Financial Data Access Regulation (FIDA), which will serve as the legislative framework for Open Finance in the EU, a cornerstone of the EU Digital Finance strategy. Open Finance involves the sharing, access, and reuse of both personal and non-personal data to provide a wide range of financial services. The main objective of Open Finance is to promote innovative financial products and services, benefitting both consumers and businesses. Moreover, the regulations outlined in FIDA aim to enhance consumer protection and competition in electronic payments.

This can be seen as an evolution of Open Banking, which had a narrower focus and was introduced in the EU through the second Payment Services Directive (PSD2). Open Banking primarily pertained to payment account-related data, with the aim of promoting competition in the EU payment market by granting third-party providers access to payment accounts held at account-servicing payment service providers. Currently, Open Finance solutions have been progressing at a slower pace due to the absence of clear regulations, as was the case when Open Banking services were delivered prior to the enactment of PSD2.

1.1 Key Elements within Open Finance

Open Finance presents new opportunities beyond payments, increasing access to data, making it easier for financial institutions to offer tailored products and services to customers. This drive to incorporate other types of financial data has the potential to spur further innovations, benefitting the overall financial ecosystem. In line with the aforementioned, FIDA places consumer interests, competition, security and trust at its centre.

Data Accessibility and Availability

In the context of Open Finance, it is crucial that these two components adhere to the principles of fairness, transparency and proportionality. In contrast to Open Banking, under FIDA, data holders will have the ability to request reasonable compensation for granting data access to data users. Moreover, while data users will be able to access the information, they will not have the capability to initiate transactions on behalf of their customers. It is essential to bear in mind that when organising data access, whether personal or non-personal, it must align with the intended use case, taking into consideration the existing regulatory frameworks.

Data and Customer Protection

FIDA strives to ensure that all consumers and firms have effective tools to control their financial data. This supports personal data protection in line with the General Data Protection Regulation (GDPR), and adheres to the general principles of business-to-business data sharing outlined in the EU Data Act. It is essential that data subjects retain control and monitoring capability over data they choose to share and those that have access to it. To this end, data sharing should be restricted to the specific purpose agreed upon with the data subject.

1.2 Key terms

Data Holders

Data holders are responsible for managing the data and sharing it with data users upon their customers' request. This data must be provided securely and promptly. They must also offer their customers a permission dashboard that allows them to monitor, renew and withdraw permissions for data users with ease. Naturally, the roles of these two parties are not mutually exclusive.

Data Users

Data users will need to be authorised by an EU National Competent Authority (NCA), such as the Maltese Financial Services Authority (MFSA), either as a financial institution authorised to provide regulated financial services or as a financial information services provider (FISP). Data users will require their customers' permission to access the data, and this access must align with the conditions specifically agreed upon by the customers beforehand.

Financial Data Sharing Schemes

Both data holders and data users will be required to join one or more Financial Data Sharing Scheme (FDSS), which will facilitate access to customer data in compliance with FIDA and other applicable EU rules. The purpose of the FDSS includes the development of data interface standards, dispute resolution and compensation rules to harmonise open finance across the EU.

1.3 Open Finance Use Cases

The developments being made in Open Finance give rise to several real-world use cases within the financial sector, impacting data sharing and data reuse for both customers and businesses. These include:

Mortgages

Open Finance has the potential to enhance the mortgage credit market for consumers in the European financial data space. It can improve product choices and creditworthiness assessments, addressing the lack of transparency and unclear approval processes associated with securing a mortgage. By streamlining this process, customers can access an improved experience, accompanied by a more efficient and cost-effective data access process.

Energy, Sustainability and Climate Data

As the world grapples with climate change, the financial services industry can also contribute through Open Finance. This may involve providing consumers with information about their carbon footprint and offering products designed to reduce their environmental impact, thereby working toward achieving net-zero emissions. This approach can help maintain the value of consumers' property while simultaneously aiding financial institutions in fulfilling their corporate social responsibilities.

2 Benefits and Risks

When assessing emerging technologies like Open Finance, one notes numerous benefits for both consumers and innovators. FIDA strives to ensure that the EU's financial sector is fit for purpose and capable of adapting to the ongoing digital transformation. Nevertheless, due consideration should be given to the risks and challenges arising from Open Finance.

BENEFITS | **Customer experience** – Enhancing the customer experience by providing more efficient and less costly services while fostering competition in the financial services market. Through Open Finance, customers gain access to a wider and more personalised range of products and services in a more accessible manner. For example, customers who share a broader set of data with their insurance company can receive bespoke insurance products. In this way, financial institutions can also better assess risks and make decisions based on a deeper understanding of their customers.

Financial inclusion – Open Finance initiatives have the potential to improve financial access through FinTech applications built on data sharing arrangements. This means that SMEs and individuals currently excluded from traditional finance can participate and access a growing range of products and services.

Customer control – Customers gain meaningful control and increased transparency over how their data is shared and reused. They can securely share financial data with authorised third-party providers, simplifying processes such as switching providers with a significant reduction in paperwork.

RISKS | **Data security and privacy** – Given the increasing amount of data being generated, risks emerge around the sharing of sensitive and personal information. This increased exposure could lead to vulnerabilities, including potential breaches such as data misuse or fraud.

Ethical implications – Depending on a customer's risk profile, ethical concerns could arise relating to financial exclusion, unfair discrimination, and overcharging. Providers must comply not only with the relevant laws and regulations but also with the ethical principles and norms governing Open Finance.

Operational risk – This encompasses risks related to complex data control and management resulting from increasing data sharing and reuse. Cybersecurity risks can also threaten customers, data holders, or underlying infrastructure, potentially compromising both personal and non-personal data.

Supplementary Reads...

European Commission, 2022. Report on Open Finance of the Expert Group on European financial data space. Available [online](#).

OECD, 2023. Shifting from Open Banking to Open Finance. Available [online](#).

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