

# Power to the people

*David Birch is excited by the imminent launch of 'Open Banking' in the UK, which will lead to more competition in the sector and a new financial services environment*

**A**s Mervyn King, the former governor of the Bank of England, eloquently pointed out in his book, *The End of Alchemy*, banks are institutions that pre-date modern capitalism and “owe much to the technologies of an earlier age”. There is no reason to expect them to continue in their current form as they face the technological, regulatory, social and business pressures for change that are about to overwhelm them.

If that sounds like waffle futurism that can safely be ignored, you could not be more wrong. In the UK, those changes are going to begin in January when the world of “Open Banking” is created by the implementation of the Competition and Markets Authority (CMA) “remedies”. The nine largest banks will provide application programming interfaces (APIs) for third-party applications to access bank accounts, a milestone in a long journey to bring a revolutionary degree of competition to the sector.

The emergence of Open Banking stems from the frustration of UK regulators who want more competition in the banking sector. They tried forcing the banks to spend a billion or so pounds on an account-switching service that consumers by and large ignored. Consumers do not bother to switch accounts without heavy bribes because they see all banks as essentially the same. The regulators then decided that they had to look to more radical solutions.

This frustration at both the national and European level has turned the UK banking industry into a laboratory without parallel, where the “perfect storm” combination of the second Payment Services Directive (PSD2) coming from Brussels, the Treasury’s push for competition in retail banking and the impact of the CMA report means that new business models, never mind new products, will be developed and explored. What is more, as I have learned on my recent travels, other jurisdictions are looking at this laboratory with great interest.

The PSD2 provisions for access to payment accounts include a set of proposals that are due to come into force in 2018. Some of those proposals are for what we in the business call “XS2A”, the weird version of “access to accounts” – the proposals that force banks to permit the initiation of credit transfer (“push payments”) and account information queries. Even at a pure compliance level, these PSD2 regulations pose significant questions for the structure of the existing

payments industry. Although PSD2 does not mandate APIs, an Open Banking API is the obvious way to implement the PSD2 provisions. While PSD2 was under development, the Treasury was pushing for more competition in retail banking. Its pressure led to the creation of the Open Banking Working Group, which published its report in 2016 and began to socialise the concept of Open Banking.

Meanwhile, the CMA report on the remedies set the beginning of 2018 as the target date for the UK banks. This is a big deal, especially in payments, where *Wired* magazine

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recently said that Open Banking “makes it possible to pay with lightning speed directly from a bank account – in effect, creating an Amazon ‘One Click’ for the entire internet”.

I think the use of Amazon in this example is far more disruptive than the author may have intended. Amazon Payments is, in my opinion, precisely the kind of business that will benefit from Open Banking. It will not be fintech start-ups that eviscerate the existing payments industry, it will be the heavy hitters who are able to gain access to bank accounts and merge that ability with their colossal resources and gigantic data reservoirs to create new customer experiences.

In computer terms, it is rather as if the banks are being obliged to install sockets that anyone can plug into. Who knows what will be created by companies using these standard plugs to access your bank account, with your permission, of course. There is a genuinely new financial services environment coming into existence only a few weeks from now and I am excited about the possibilities. ■



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