



A Perspective on Open Finance Delivery in Europe

About Konsentus

Konsentus provides specialist advisory services and technology solutions to support the national implementation of open finance ecosystems. Subject matter experts, Konsentus advisors have a proven track record in navigating complex, multi-stakeholder ecosystems and understanding individual regulatory and market requirements.

Konsentus' award-winning technology powers national open finance infrastructures. Modular and scalable by design, our trust infrastructure solutions are tailored to individual market requirements, enabling ecosystem participants to seamlessly identify each other and interact within a safe and trusted environment.

Konsentus is active across 37 markets and counts many of the largest global financial institutions as clients.

Konsentus is ISO 27001 certified.



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Introduction

It has been over five years since open banking was introduced in the UK and the European Economic Area (EEA). Open banking is now either live or in progress in over 65 countries around the world.

Whilst great strides have been made, policymakers and the private sector have struggled to define and create the appropriate market conditions for an open finance ecosystem. This challenge is not only experienced in the UK and EEA but all over the world.

Konsentus has had a unique and privileged position to witness and participate in the developments of many open banking ecosystems globally. As open banking makes way for open finance, and as part of our mandate to educate and develop best practice for open finance ecosystems, Konsentus has developed a set of core guiding principles that we believe are universal considerations.

As the European market gets ready to discuss PSD3, Konsentus has taken these principles and applied them to the EEA, as it continues its quest towards open finance, and ultimately, we hope, open data.

“...a unique and privileged position to witness and participate...”



1 Open Data rather than Open Banking/Finance

Access to data and the increase of competitive and innovative services are not specific to the financial industry. Solely looking at Open Banking or Open Finance risks building silos that are increasingly outdated. Open Finance should be viewed through the lens of horizontal regulation.

Finance is not the only utility business that utilises large pools of customer data. In addition, the line between financial services and other data sectors is also blurring making delineating between industry data even less appealing.

The European Commission, responsible for European legislation and specifying how competent authorities and market participants should comply with legislative obligations, should ensure a clear strategic drive towards opening-up data sets from other industries so customers can have a comprehensive picture of their data and services portfolio. Combined with a predictable regulatory timetable, this would allow for private-sector planning and investment. This could also enable broader monetisation and commercial opportunities as financial data sets can be complemented with other data sources.

The European Commission should initiate a horizontal discussion on data regulation that includes, at a minimum, the Second Payment Services Directive, General Data Protection Regulation, Data Governance Act, Data Act, Digital Markets Act and the Artificial Intelligence Act. By provisioning regulation specific to industry verticals risks creating a lock-in that cannot be applied or implemented by other sectors and could create significant interoperability issues.

Konsentus believes there is a need for a coherent and predictable European approach to open data access.

Konsentus believes in iterative development of Open Finance in conjunction with broader discussion and regulation on a cross-industry data sharing framework.



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Programme Management and Metrics

Without management information and metrics, it is impossible to understand whether Open Banking is meeting its objectives, if there are risks, and where to focus industry and regulatory efforts.

The European Open Banking market is currently blind. There is no central programme management that oversees the success or failure of the ecosystem. There is no central entity that is responsible for managing additional requirements e.g. the dispute resolution process. There's also no calculation of API success rates, conversion or Open Banking market usage.

The market needs stronger tools to assess implementation and enhance accountability. The UK is an example of how useful this data can be both in ensuring success as well as building trust in the ecosystem. The EEA is a complex market with specific requirements. The European Commission should investigate the potential of following a similar model.

Konsentus believes that there is a need for a central entity to manage the progress of Open Banking and Open Finance in the EEA, much like there is in other markets.

This entity would be responsible for ensuring there is a harmonised approach to Open Finance in the EEA and act as a forum for co-innovation between all stakeholders in the ecosystem.



...there needs to be a clear, concise framework that the private sector can build upon...

3

Balancing Regulation with Innovation

Regulation in the EEA has been a useful starting point for Open Banking, however given that PSD2 is a Directive and not Regulation, there has been significant disparity in the way it has been implemented across the continent. Regulations have binding legal force throughout every Member State. Directives lay down certain results that must be achieved but each Member State is free to decide how to transpose directives into national laws. This background has meant not only has there been fragmentation across Member States but also, without baseline specifications and rules, there has been a disparity in the services that citizens receive across the region. This fragmentation has made it challenging for new market entrants. This can lead to regulatory shopping. There needs to be stronger alignment between national regulators to avoid this and to ensure a level playing field between different countries.

It has become clear that PSD2, whilst promoting competition and innovation, has some deficiencies. The fragmentation of implementation in the market has led to a slower rate of adoption than in other jurisdictions. Whilst Konsentus advocates a lightweight PSD3/Open Finance regulation as an iterative step, it also recognises the need for a base level of service across the EU to ensure ubiquity and interoperability. There needs to be a clear, concise framework that the private sector can build upon without undue fragmentation. If there is a market desire for value added services to be built, via contract and agreement between third parties and data holders, then any regulation should not preclude this.

Konsentus believes there is a need for an holistic implementation that unites legal, technical, operational and business requirements.

Konsentus believes that a 'Central Entity' (as referenced in point 2 above) should act as the forum for this.

4 Incentives to Support Regulation

Data-driven business models must be powered by the private sector. The market dynamics need to be fair for all and allow a framework for commercialisation.

Konsentus welcomes the SEPA Payment Account Access (SPAA) initiative as a way for the industry to come together and seek a framework for commercialisation. Ultimately, there is a need to enable more services, based on accessible data, as the world moves towards a data-driven

economy. However, this must be achieved in a way that all players can realise commercial opportunities. Konsentus is aware of jurisdictions outside of Europe that define the parameters for 'free' market access and the boundaries that exist between this and commercial models. The European Commission needs to investigate all opportunities and ensure that any future Open Finance regulation allows for commercial opportunities to thrive. This will be the only way for Open Finance to succeed in the long term.

Konsentus believes that the appropriate incentivisation model needs to be developed as the industry moves towards Open Finance and ultimately Open Data.

A collaborative effort should be started to understand whether the SPAA initiative would be fit for purpose for the future Open Finance ecosystem to ensure that the industry is not locked in and can seamlessly transition into Open Data and beyond.



5 Increased Harmonisation of Standards

API fragmentation is a challenge that needs to be overcome to ensure not only harmonisation and enhanced interoperability, but also easier access to market for new TPPs and new data sets.

Konsentus recognises that multiple API standards now exist across the EU to ensure PSD2 compliance (e.g. The Berlin Group, STET etc.) and there are even variations of these main standards. This is partly due to a lack of direction in the original legislation. Whilst Konsentus is cognizant that there is little market incentive to change the status quo it must be recognised that the existing fragmentation can lead to situations where TPPs only connect to the bank APIs providing the most volume and dismiss connection to smaller banks,

leaving end customers uncatered for. As new data sets are used from across financial services and beyond, this could result in a web of connections being required leading to increased complexity, further development and maintenance costs and increased time to market – all jeopardizing the underlying benefits. If we take the interbank payments infrastructure as an example, the industry has spent many years agreeing on a de facto standard (ISO 20022) to avoid translation, interpretation and supporting a multiplicity of standards. Where variances exist, there is a framework to enable harmonisation. There is room for a standardised framework that can then be built upon to cater for regional/commercial differences whilst still preserving the upfront investment already made.

Konsentus believes that the multiple API standards will ultimately converge but market-driven convergence will be slow. Therefore, there needs to be an industry body tasked with coordinating these efforts and increased regulatory interest in this area.



6 Unambiguous Identification of Parties

Real-time data and real-time payment-initiation, requires real time and automated identification of registered entities. This is a critical foundation for trust and transparency in the ecosystem and requires the existence of a real-time directory.

The immutable knowledge of the services each entity is authorised to provide in each jurisdiction is of paramount importance. The delay and/or duplication of data can lead to loss and fraud. The European Banking Authority (EBA) as part of its technical advice on the review of Directive (EU) 2015/2366 on payment services in the EEA identified certain challenges with the implementation of the EBA central

register. However, Konsentus does not believe this burden should be carried by the National Competent Authorities (NCAs) alone. The private sector has existing tools that can provide a more efficient and rapid time-to-market enabling NCAs to dedicate their resources to the registration and certification of entities. By leveraging the good work done in the private sector, NCAs could only be required to maintain national registers and not be required to provide information to the EBA on a real-time basis. DG FISMA has invested heavily in the EU Digital Finance Platform, and the Data Hub as an extension of that platform. Its aim is to boost innovation by better connecting innovative financial firms and supervisory authorities.

Konsentus believes that the European Commission and the EBA should investigate the role of the private sector in supporting the delivery of the central register as Konsentus believes that the private sector can add significant value. Konsentus encourages DG FISMA to investigate the use of the Digital Finance Platform as an alternative (or supplement) to the EBA.



7 An Appropriate Security-UX Balance

The current Strong Customer Authentication (SCA) approach deployed by some ASPSPs (Account Servicing Payment Service Provider) makes deploying Open Banking in certain use cases, particularly physical retail, extremely challenging.

Konsentus recognises the role SCA has played in reducing fraud and ensuring trust in the use of Open Banking services. Konsentus also recognises and welcomes the investigation into how the newly legislated EUDI wallets, as part of eIDAS 2.0, could enable a more uniform way to perform SCA. However, the current SCA method(s) offered to customers is decided by the ASPSP. Some ASPSPs only offer One-Time-Passwords, or TAN (Transaction Authentication Number) based SCA. This hinders the realisation of Open Banking in the physical retail space and hampers progress in one of the key policy objectives.

Konsentus believes that the security-user experience (UX) balance has yet to reach optimal levels for certain use cases. Konsentus invites the industry to discuss the necessary components to make Open Banking in the physical retail space a reality.



8 Enabling Physical Retail Payments

Open banking-based account-to-account payments are a key deliverable of many open finance regulations. However, physical retail use cases are often hindered by tight control of Point of Sale (POS) by terminal providers creating barriers to further implementation and innovation.

Payment Initiation Services enable democratisation of the payments value chain. New entrants into the market can provide innovative solutions that leverage account aggregation and payment initiation. Payment Initiation Services in the e-commerce space have enabled merchants to take advantage of cheaper, faster payments whilst reducing fraud. Merchants who want to leverage PIS for their in-store experience are often presented with significant barriers to adoption and third parties cannot scale their payment offering to physical retail transactions. Without further analysis into these barriers, open banking payment initiation may fail to achieve its full potential.

Konsentus believes that payment initiation services based on open banking are yet to reach their full potential. Konsentus welcomes industry discussions on the challenges in delivering payment initiation at Point of Sale. Konsentus particularly welcomes input from the terminal providers on how to overcome this challenge.



9 Clarity on Participant Scope

Without recognising the complexity of the ecosystem (which is more than a “Third Party”) legitimate actors will be blocked, and justified or unjustified claims will be raised by customers and stakeholders about access to data.

The provision of data and payment services leads to rich ecosystems with multiple parties playing different roles. Sometimes this is simple outsourcing, sometimes there are agent and reseller models. While regulators recognise a

“Third Party” that brokers information between a financial institution and a customer, in every open banking ecosystem, the role of the third party can be split, resulting in those who access the information, and those who provide the information to the customer, leading to “fourth parties”. There are also ambiguities about whom the ultimate user of the data is (sometimes known as ‘fifth parties’). The role of aggregators, TPP-as-a service and agents all need to be clear from a legal, technical and operational perspective.

Konsentus would welcome clarity on the scope of participants in the open finance ecosystem, that covers agents and their responsibilities within a trust framework.

Conclusion

Europe has laid strong foundations for a sound Open Banking ecosystem; however, these foundations need further engineering to ensure that open banking and open finance create innovative end user benefits, do not create high barriers to entry and are based on reusable components in a truly open data future. Financial Services in Europe have always been developed in close alliance with all stakeholders. Konsentus believes that Europe can use this strong cooperative history to harmonise and plug gaps that have appeared across the market. However, additional regulation without taking stock of these gaps and charting a course of action will only lead to further complexity. Konsentus believes predictable and navigable regulation, combined with effective industry collaboration, is vital for the success of open finance in Europe.

Powering Trust in Open Ecosystems



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