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Open Banking Past and Present – is it a sham?

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Two reports have recently been issued from within the UK's Open Banking ecosystem about the future 'roadmap' for Open Banking, both based on the assumption that there is unanimity about Open Banking's status now. Both reports claim a high degree of market penetration for Open Banking – but are the statistics watertight?

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[1] https://www.connectorbanks.com/ – the club which carried forward 'BankBoston Connector', accessed on 20 February 2023
[2] https://www.ibosassociation.com/ accessed on 20 February 2023

Open Banking Past and Present – is it a sham?

Executive overview

Open Banking (OB) produces statistics on its market penetration and success that are not watertight.

The transition of the steerage of the OB Implementation Entity from the Competition and Markets Authority (CMA), through the OB Trustee (Charlotte Cresswell) and now on to a 'Joint Regulatory Oversight Committee' is proceeding as if there were no question but that OB has been a success.

The discussion is limited to the future 'roadmap'.

However, embarking on a new 'roadmap' without a thorough validation of the statistics would be a case of crossing a bridge once OB had passed it. That should not be permitted.

The 'Joint Regulatory Oversight Committee' should commission such a validation so as to ensure that OB is not a sham, and one that will get bigger as a new 'roadmap' is embarked upon.

OB could easily be a sham, designed by Fintech evangelists for Fintech evangelists. The field already has two shams – cryptocurrency and non-fungible tokens – and to encourage another one would be quite careless.

Introduction

The OB ecosystem – which includes the government - recently claimed that OB had reached a 'milestone' and that it had attracted 6.5 million consumers and business who are supposedly 'benefitting' from OB services.[3] On closer inspection the 'milestone' is a combination of a governance transition and the end of a 'roadmap' for an implementation phase that seems to have been written retrospectively, as if implementation was always planned to take several years. Nevertheless, success has been claimed and the statistic on user numbers widely repeated, albeit inconsistently, sometimes just as 'users', elsewhere as 'regular users', sometimes with users 'benefitting' and sometimes not.

It is always suspicious when the same statistic is widely repeated, when it is the only one regularly referred to, when it is repeated with small but meaningful differences, and when everyone who refers to it believes it to be an indicator of success.

The purpose of this paper is to demonstrate how far adrift from reality that statistic for user numbers – and OB's claim to success – could be.

The problems are to do with the topology of OB, its openness to practices that serve to inflate volumes, and the fact that almost everyone involved has a vested interest in making out it is successful, including the authority that has supervised it thus far.

OB could be an example of a tiny group of activists and evangelists contriving to create an impression of a groundswell in how people and businesses want to access financial services, but based on very little.

This would be disappointing: OB is an important public project. More has been invested in it than just time and money. It was supposed to transform the UK's financial landscape. A 'milestone' should offer an opportunity to validate the statistics and prove whether it has done so or not, before it is allowed to hog a further chunk of attention, time and money.

[3] https://www.gov.uk/government/news/millions-of-customers-benefit-as-open-banking-reaches-milestone accessed on 17 February 2023

Voice of the customer

Where is the 'voice of the customer' in all this? Does the customer have a central voice, or is the customer a tiny minority in the committees where OB is discussed? Within those committees does the voice of the customer come directly from the customer, or does it come, second hand, through advocacy intermediaries like 'an SME Expert' or 'a Consumer Expert'?

The advocacy industry has been represented in the many committees in the payments field over the last 7 or 8 years, albeit normally outweighed by digital payment industry insiders: in the Pay.UK advisory panels, the Payment Strategy Forum, the Payment Systems Regulator Panel, the Digital Payments Initiative, the APP Scams working group, and the Bank of England's forums researching a Central Bank Digital Currency and so on.

The same small number of people rotate through these committees, being selected repeatedly through whatever process, and always claiming to represent and speak for consumers, the vulnerable, small businesses or whoever, and repeating the manta that the customer wants digital services: the advocates supposedly speaking for the customer become indistinguishable from the advocates of digital payments.

The Digital Payments Initiative had several such advocates on it: it was set up by the Payment Services Regulator, as part of their 'Access to Cash' work, to recommend digital alternatives to situations where physical cash is used now.

It was an oxymoron that the Payment Services Regulator should offer an open door to digital payments advocates within a project that was meant to be about protecting access to physical cash. The Digital Payments Initiative failed to identify workable and available digital alternatives. Instead it recommended that its 'work' be taken forward by OB, the Payment Services Regulator being part of OB's new governance.

This is a good example of how ostensibly autonomous processes are actually parts of the same single campaign – to push digitization – and how advocates for the customer fuse with advocates for digital payments. Any debate about fundamentals can be dispensed with, and the focus can be on timing and on how to 'educate' and communicate with customers, as well as on increasing scope.

The customer is dehumanized, enabling the related process to become abstracted from reality

Within the digital world the customer – a person, an individual – is ubiquitously referred to as a 'consumer', as if a person had no other activities in their life but buying things online and eating some of them.

The person becomes a digital identity, upon which the government is currently 'consulting' i.e. going through with a sham process when the timing of the passing of the legislation to go ahead is already laid down.[4]

The person becomes dehumanized, and the public processes dealing with matters like OB and digitization become abstracted from reality. In the author's own world no family member uses OB and no-one at all in my hearing has ever referred to it by name.

This reflects both the direct voice of one customer (the author) and the partial and indirect voices of others, and it is the polar opposite of the supposed 'voice of the customer' as it percolates into the OB project.

OB market penetration – number of providers

The UK, according to Nuapay, has 246 OB providers compared to 338 in the entirety of the remainder of the European Economic Area. Is that an apples-to-apples comparison, though? Does Nuapay's definition of 'OB provider' include both the Account-Servicing Institutions (ASIs) and the Third-Party Providers (known collectively as TTPs and comprising Account Information Service Providers or AISPs, and Payment Initiation Services Providers or PISPs)? Are the rest-of-EEA numbers supplied on the same basis?

[4] https://www.gov.uk/government/consultations/draft-legislation-to-help-more-people-prove-their-identity-online/consultation-on-draft-legislation-to-support-identity-verification accessed on 20 February 2023

If both statistics identify TTPs only, then that is a huge business in the UK compared to across the rest of Europe. The UK's number of OB providers would be 1 for every 285,000 of population; the rest of the EEA's would be 1 OB provider for every 1,133,136 of population: what is so special about the UK that the demand for OB providers is almost exactly 400% what it is in the rest of the EEA?[5] On the other hand, if the statistics cover ASIs as well as TTPs, they are meaningless, because any number of Fintechs and neo-banks can act as ASIs without having many accounts in their books, but they will register on the same level as an institution that has tens of millions of accounts. From now on in this document an OB provider = a TTP, not an ASI.

OB market penetration – number of 'users'

Taking into account the supposed 6.5 million 'users', if there really are 246 TTPs, it means there are 26,400 'users' per OB provider. But what counts as a 'user'? Is a 'user' defined in the same way in the rest of the EEA, and what is the average number of users of the 338 OB providers in the rest of the EEA?

A 'user' should be identified from the OB provider side, not the ASI side. Otherwise 6.5 million 'users' could mean 6.5 million accounts at ASIs being hooked up to an OB provider. On that basis the actual number of users could be well below 1 million, if they each cause 7 or 8 accounts to be hooked up. The number of accounts hooked up by each ASI to an OB provider needs to be tracked (including where the same account is hooked up to more than one OB provider), as well as the number of accounts hooked up at each OB provider – and these numbers need to match.

Whilst a 'user' should basically be a single instance of a private person or a business identity, as registered with an OB provider, there needs to be tracking of another dimension of duplication. This is where multiple such 'users' are actually the same controlling brain: a single person acting in their private capacity as a consumer, as a sole trader in their own name, as one or more 'trading as' identities where the same sole trader has additional identities, and as a principal in one or more limited liability companies. On that basis 6.5 million 'users' could be accounted for by fewer than 1 million people, or actually far fewer if one controlling brain has caused their multiple accounts to become hooked up to multiple OB providers in parallel, for example one to manage their balances, one for loan applications, one for credit scoring and so on.

If in fact 6.5 million is the number of accounts, each 'user' has several accounts (which is the whole point of OB), multiple 'users' resolve into a single person, and the single person has their accounts hooked up to several OB providers, the 6.5 million could reduce by 95%+.

OB market penetration – number of transactions

OB providers generate 1 billion 'API calls' per month, or about 5 per day per user, whatever an 'API call' reflects in terms of the operation that ensues from it, and however a 'user' is defined. How does this compare with EEA-level statistics?

What does an 'API call' do, though? Is that one operation? Could it be several operations? Could it just be part of an operation? How many are needed in order to fetch all available data points from one ASI? What if the 'user' has 10 accounts set up? How many are needed to carry out a single payment? Are all the answers consistent across all OB providers and ASIs? Are the answers the same in the rest of the EEA?

The OB statistics and claims sound very impressive, but, without robust contexting, they mean little. That contexting now needs to be delivered, and not by OB evangelists.

The Milestone and the transition into new governance and a new roadmap

Almost none of the above merits a mention in the recent report from an OB 'Strategic Working Group' or SWG entitled the 'Future Development of Open Banking in the UK'. The report is meant to be a seminal one to guide the future of OB. It is addressed to the 'Joint Regulatory Oversight Committee' ('JROC'), this body being the grandchild of the Competition and Markets Authority (the CMA).

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[5] EEA population: 453 million, of which the UK is taken to be 70 million.

OB has now been bequeathed to this 'JROC', via one short intervening generation – the lifetime of the OB Trustee. This was an individual – Charlotte Cresswell - whose role was akin to a solicitor acting as an executor under the CMA's will: Charlotte Cresswell wound up the estate of the deceased in her final report and recommendations on 30th January 2023 in a document entitled 'Trustee End of Implementation Roadmap Report: Recommendations for the Future of Open Banking'.

This game of pass-the-parcel is the governance transition referred to above. The 'Implementation Roadmap', which has supposedly been fulfilled, differs markedly from the documentation issued by the CMA at the start of OB. In fact the 'roadmap' appears to have been drafted at the end of implementation and not the start, like Ferdinand Magellan being issued with a blank sheet of parchment by Portugal's leading cartographers and being asked to fill it in on his way round the world.[6] The impact of doing that is to conjure up this milestone and pretend that all has gone to plan. One becomes confused as to whether one is in the UK in 2023 or is attending a Congress of the Communist Party of the Union of Soviet and Socialist Republics at which the successful completion of the most recent Five Year Plan is being announced, with the plan having been re-issued to require whatever was the status at the end.

The trustee's report is not really worth reading as it is no more than a summary of what the SWG has written. The SWG process has been running for a year, in parallel with the trustee doing whatever she has done, which may be just sitting in the SWG as she is quoted as a member of it. It is very odd, then, that she should issue a separate report: doing so betokens a separate process acting as a check-and-balance on the SWG, whereas her sitting on the SWG indicates no separation at all. The SWG consists overwhelmingly of people from the OB industry: the report is the OB industry's view, and it is not really good enough that a trustee simply reproduce it. Such unanimity is always suspicious: it betokens a necessity of holding to a 'party line' over getting the facts out into the open.

Now that the new 'Joint Regulatory Oversight Committee' has this report, 'JROC' must decide what to do (or, to use the common parlance, lay out its roadmap for OB's future).

Overview of the SWG's report

The report certainly achieves the 'thud factor' – it is nearly 200 pages long.[7]

Its size and framing, and its overriding tone of self-importance, are all very impressive-sounding on the surface. However, the report contains little or no analysis of whether OB has been successful, why, in what way, who for, with what propositions etc. in a section that might have been entitled 'Where we are today and how we got here'. Perhaps this is because the 'how we got here' could not have avoided mention of past governance issues at the OB Implementation Entity and the need for a £1 million, 300+ page report by Mishcon de Reya (which has enjoyed very limited circulation).

There is no mention of the original intention of OB: to loosen the stranglehold of the incumbent banks on business and personal current accounts. Has that been fulfilled? OB providers have emerged that have little or nothing to do with that intention, like credit scoring, making loan applications, and making your tax payments.

The impression given by the report is that all applications of OB have been equally successful, regardless of their service proposition, their ease-of-use, their detailed feature-and-function, and their degree of overlap with OB's original intention. This impression is not credible, and there should have been openness about what has worked and what has not.

Instead the report contains many ideas about how to 'improve' OB, mainly by increasing its scope and the resultant amount of customer data that OB providers would then have access to.

[6] With apologies to 'Blackadder Series II' for the borrowing of this analogy, where in the original it was England's leading cartographers who supplied the blank parchment to Lord Edmund prior to his departure on his voyage of discovery

[7] 'The thud factor' – a phrase common in management consultancy whereby a report achieves credibility by dint of its size and therefore, in its printed form, its impact when it is dropped onto a desk from 45cm

The report is short on data. It consists mainly of minutes of so-called 'sprint' meetings in which the attendees (all from the OB ecosystem) air their ideas and suggestions, which presumably are recorded on post-it notes. Post-it notes are stuck to flip-chart pages, each with a theme name written on them, and the flip-chart pages are blue-tacked to strips of brown paper that are blue-tacked to the wall. This is known as 'doing a brown paper', in management consultancy.

At the end of the session a secretariat copies what is on the post-it notes into a long document, the document being sectioned according to the titles on the flip-chart pages.[8] The usage of words like 'evidence' within the document lends the content greater substance than it deserves: the content consists predominantly of opinions, ideas and wishes, however lengthily expressed.

Key issues arising (for those who are not OB evangelists)

Hidden within the report are some substantial issues, which are not accorded special mention in the report but which are of great importance to the adjudication of the success or failure of OB thus far, and to the conclusions to be drawn from that adjudication as to what should happen next.

Reference	Subject	Comments
p. 7	HMRC usage of OB	• HMRC comes out as the top success story and beneficiary of OB – but it is neither a consumer nor a business • HMRC has appointed an OB provider, contrary to the logic of OB: the consumer or business should appoint the provider as a service to them, and based on competition between providers • Instead the OB provider servicing HMRC has a monopoly position vis a vis the taxpayers • While contractually it may be the case that the taxpayer appoints the provider, in substance they have no choice if they want to use an OB provider to settle their tax liability • There are around 200 million tax-liable entities in the UK: how many of OB's total of 6.5 million users have only registered because of HMRC? • How much activity would that give rise to? A couple of payments per annum, in January and July?
1.1.2 p.8	Fraud	• There is no mention of AISPs selling customer data • AISPs may not sell direct to a scammer but, once they have sold it at all, they have lost control of who it gets sold on to • The scammer can then the more easily groom the account owner because they can pose as the AISP or the bank, and with the customer's spending in front of them
1.1.5 p. 10	Extension of OB – extension of Variable Recurring Payments to 'non-sweeping' use cases	• OB providers want to expand the scope of the types of payment that can be done • Of course they do…
1.1.5 p. 10	Extension of OB – more data	• OB providers want access to more customer data • Of course they do… • That is where the value is and the revenue potential from selling the data (see point above on 'Fraud')
1.5 p. 18	Promoting Further Data Sharing	• OB providers want access to loan account data and savings account data • Of course they do – see the previous point and the one earlier about 'Fraud'
p. 23	End User Outcomes	• The phraseology used reveals that there is uncertainty as to whether users really are benefitting… • …and what Management Information would be needed in order to prove whether they were

[8] 'Sectioned' is not used here in the sense of a committal to a secure institution under the provisions of the Mental Health Act, although that meaning might well be appropriate to aspects of the substance and governance of Open Banking

Reference	Subject	Comments
p. 109	Supporting a loan application	• Reference is made to a user nominating an OB provider to be the conduit towards a lender for the data the lender requires in order to process the loan application • It would be interesting to know whether this was another case, like HMRC, where a lender had contracted with an OB provider to act as data conduit for all loan applications • If it had, then the user will have set up the service solely for this one purpose and may not use it again after the loan has been agreed to or declined • Does the service get shut off at that point, or does the lender continue to benefit from seeing the borrower's bank statements, even if the borrower does not look at them themselves? • Is that what OB is for? Borrower surveillance? • Or does the service just carry on uselessly fetching in the statements that neither the lender nor the borrower look at? • What is the effect on the OB statistics if that is happening?
p. 121 Area 3	Operationalizing the collection of data and reporting	• The shorthand manner of the description of this issue underplays its degree of difficulty • At least the wording reveals a realization that the reporting and statistics being produced now are not comprehensive
p. 124	High-value payments	• OB providers want to be able to instruct high-value payments • Of course they do…
1.19.2.2 p. 98	Statistics on technical performance	• There was a demand to 'improve API performance' and 'to increase the reporting and visibility of API performance and potentially other performance metrics such as response time and completions rates' • This discloses that the technical performance of OB is far from perfect

Problems in collecting meaningful data in a multibanking model: comparison of OB with IBOS, Connector and SWIFT Corporate Access

OB is a multibanking model, and will be familiar to anyone who has worked in Cash Management since the 1980s. The issue to be solved is that the user has several accounts at ASIs (Account Servicing Institutions), whether these now be at established banks, neo-banks, or Fintechs (eMoney Institutions and, to a limited extent, Payment Institutions). The user – to save themselves from logging into ***n*** different electronic banking services where ***n*** = the number of ASIs – is offered the chance to access all the ASIs through a single aggregator. In OB's case it is an OB provider – an AISP (Account Information Service Provider) or a PISP (Payment Initiation Service Provider) or one that is both. These are all frequently referred to as Third-Party Providers or TTPs, although we have stuck with the term 'OB provider'.

This compares with models like Connector and IBOS, where banks act as both the aggregator and the ASIs, with a service that embraces account information and payments as OB does. In SWIFT Corporate Access (with a similar service scope) the aggregator role is played by the central treasury of the user, whose SWIFT gateway acts as a central switch – all the message traffic between ASIs and the user's group companies goes through the switch.

OB has a topology without a central switch. Its topology is like that of IBOS once it had moved onto SWIFT in 1998, and unlike BankBoston's implementation of Connector.

IBOS – lack of a central switch after it moved onto SWIFT

Connector and IBOS both use SWIFT MT messages that travel from Sender BIC to Receiver BIC over SWIFTNet FIN, without going through any single BIC. Members of IBOS could have established a central switch at least for their own traffic by installing an 11-character routing BIC, behind which no accounts sat, rather than having their IBOS traffic go through their BIC8, their 11-character -XXX Head Office BIC, or an 11-character branch BIC. Absent the routing BIC, the IBOS traffic could not be distinguished from the non-IBOS traffic going over the same BIC.

Most of the European members as of 1998 did instal a routing BIC11 with suffix -IBO, but the effect of this was undermined by IBOS accepting four new banks from North America without an -IBO BIC, on the grounds that a new BIC would cost US$100,000. After that any new members could not be forced to get an -IBO BIC, although several saw the advantages in terms of supervision and control of the fulfilment of IBOS operations (e.g. that an MT101 sent out did generate a responding MT103 for a repatriation payment in near real-time or a MT195 for a rejection/return).

This breach-in-the-dyke was fatal for Management Information: unless all IBOS traffic ran over an -IBO BIC at all members, there was no way of validating what IBOS traffic had passed and reconciling it. Attempts at collating reliable Management Information degenerated into getting several types of reporting, all partial, late and requiring of lengthy explanation.

BankBoston Connector and the central switch for the bank's network traffic

BankBoston's implementation of Connector at launch in 1996 was simpler: BankBoston London controlled a switch for its own network traffic. The eight ASIs involved at launch (the bank's three offices in Europe plus five partner banks – eight countries in all) were each set up with a mailbox on the Bostonet electronic banking system. The mailboxes were overseen by the London Cash Management unit. The customer's payment orders were set up as Repetitive Linesheets (i.e. a Variable Recurring Payment) linked to the respective account in the Bostonet database. The two basic payment types were:

1. De-fund an in-country account in local currency and pay into an account at BankBoston London in the same currency and for the same account owner; and
2. The reverse.

The customer was invariably receiving, also through Bostonet, end-of-day reporting on both the in-country and London accounts. It was not perfect: customers could initiate the same payments through other platforms, like Multicash in Germany, but then the payment would not be treated on Connector terms: a flat fee paid by the payer, same-day settlement, and the full value was debited and credited. These were the key value points of Connector, before the euro and a decade before Payment Services Directive, and they were underpinned by a multilateral business, operational and technical agreement amongst the members.

The KPIs for BankBoston, that could be easily tracked, were:

1. Number of such payments by customer, and amounts of the payments, proving (or not) that BankBoston London was being used as the European concentration point;
2. Balances in the accounts at BankBoston London;
3. Balances in the in-country accounts and evidence of the activity over those accounts for both (i) external payments and (ii) transfers to and from the customer's other accounts in the same country – were the accounts being used as local concentration accounts and/or as main operating accounts?
4. Proof that the customer was drawing off the account statements.

Verifying revenues and volumes once in production compared to in Sales Bonus Sheets

One of the prime pitfalls in International Cash Management was (and possibly still is) setting up systems of accounts and electronic banking and then the customer not using them. At the time, in the mid-1990s, a certain global Dutch bank was particularly known for this, by making a sale to a central treasurer and failing to get buy-in from in-country treasurers, who did not move their balances and activity into the Cash Management arrangement, and frequently refused to pay the charges for their accounts to be reported to their group's own central treasury. Nevertheless, sales bonuses would be claimed and paid, based on what had been 'sold' to the central treasurer, even if large chunks became 'unsold' in implementation and production.

Chemical Bank was particularly strong for having a function that avoided this pitfall, by checking and validating sales bonus claims within the Sales unit, before they were subjected to the unforgiving consideration of the heads of the four Product Businesses (Funds Transfer, Cash Management, Securities, and Trust), which paid Sales' salaries, expenses and bonuses, and to whose tune Sales danced.

Open Banking facilities for verifying volumes

Open Banking looks as watertight as a colander by comparison. There is no central switch. Messages flow over the internet direct between ASIs and OB providers, without bilateral or multilateral agreements on key service points beyond what is in the CMA Order and in OBIE's documents.

It is susceptible to practices that are unfortunately common in the financial industry for making services or departments appear more successful than they are.

It is susceptible to the introduction of bots, which can simulate success if success is measured by the volume of internet message traffic.

It is susceptible furthermore to some specific circumstances in the UK financial services environment.

OB is susceptible to common practices in the financial industry

Certain practices are common in the financial industry which tend to inflate volumes compared to genuine underlying customer requirements:

- Reward schemes where payments are made to existing customers for the introduction of new customers;
- Reward schemes where employees are encouraged to solicit their friends, family and wider networks for the employer's service;
- Issuance of multiple payment instruments, one per provider, to the same entity and for the same purpose: only one instruments gets used and the others stay in the wallet or in a desk drawer at home. Nevertheless a sales bonus is paid out on all of them;
- Bonus payments being made to employees based on the achievement of KPIs, with artificial work-arounds being used to meet them (like different units in the same bank sending payments to one another and returning them all under Return Code 'Other', so as to boost clearing volumes of payments and receipts for both units).

In two recent cases such practices tipped over into outright malpractice:

- In the case of the 'Frank' student financial aid Fintech, the creation of fake users, as reported by Forbes: https://www.forbes.com/sites/alexandralevine/2023/01/11/jp-morgan-fake-customers-frank-charlie-javice/ (accessed on 15 February 2023);
- Wells Fargo opening bank accounts that the customer did not request, as reported by Forbes: https://www.forbes.com/sites/jackkelly/2020/02/24/wells-fargo-forced-to-pay-3-billion-for-the-banks-fake-account-scandal/ (accessed on 15 February 2023).

Bots and synthetic activity

One has to add in the facility offered by bots – an app that simulates a client by performing the actions that a server at a service provider would expect a human user to perform, and in large quantity.

A bot can be an irritation, it can be the launchpad for a 'distributed denial of service' attack, or it can simply be used to create network traffic.

An opportunity exists for bot-like actions to be undertaken by an OB provider to manufacture synthetic activity and cause an increase in the OB statistics.

In fact, where an OB provider and an ASI are connected, they have the opportunity to manufacture traffic between themselves (like the example of units of the same bank sending payments to one another). OB providers can be connected with ASIs through common ownership, or they can even carry out both activities through the same entity.

Specific aggravators in the UK's OB ecosystem

The risks of this sort of practice occurring within OB in the UK are aggravated by specific circumstances:

- The UK government's enthusiasm for Fintech and for digitization generally, as one of the devices through which the concentration of retail and small business banking on five or six major incumbents can be reduced;
- OB being, in the government's eyes, an antidote to the lock-in of business to an incumbent that is brought about by the customer using that incumbent's electronic banking system;
- The encouragement extended to venture capitalists to invest in Fintechs who are participating in this de-concentration, and to bring with them the business model imported from Silicon Valley - going through a series of stages with their own nomenclature such as 'angel', 'seed', 'first/second/third round' and so on, leading eventually to a large cashing-out when the enterprise gains a stock exchange listing;
- Fintech valuations being based on market penetration and customer/activity volumes as much as on revenues and profits;
- Banks, particularly neo-banks (another attack on market concentration), being able to open accounts online without provision by the customer of physical paperwork, a channel for bad actors to obtain accounts, and for good actors to obtain dozens of accounts;
- Fintechs being able to open a 'payment account' based on Simplified Due Diligence (yet another attack on market concentration), and without provision by the customer of physical paperwork, a channel for the establishment of accounts for fictitious actors, in addition to offering access to bad actors and to the proliferation of accounts for good actors;
- AISPs now not needing to do any Customer Due Diligence at all, enabling fictitious OB users to be established, as long as they have obtained accounts in the same fictitious style;
- A lack of a restriction at all OB-participating ASIs that a single account can only be linked to one OB provider: the same account can be accessed by multiple OB providers.

If some of the above practices smack of enabling financial crime, then that would be in line with the recent open letter sent by the author to The Payments Association, in view of its having recently launched a 'Project Financial Crime'.[9]

Contribution of Fintechs in multiple roles, and interaction with neo-banks

Whilst the CMA Order compelled certain banks to act as ASIs towards OB providers, the OB standards are open and available to Fintechs to act as ASIs if they wish to, and if they hold an appropriate licence (usually as an Electronic Money Institution or eMI).[10]

In fact Fintechs can act within the OB ecosystem in any one of three roles – OB provider, ASI, and IT solutions supplier – or a combination.

Several prominent Fintech organizations have followed the route of 'perm any two from three':

- Railsr offers an IT platform to assist start-up Fintechs (on which it offers 'Rewards-as-a-Service' or RaaS) and it acts as an ASI through two subsidiaries: PayrNet Ltd (UK) and PayrNet UAB (Lithuania);[11]
- Bottomline is both an OB provider itself and a supplier of IT solutions to Fintechs;
- Modulr FS Ltd is an OB provider and an ASI, holding an eMI licence.

[9] http://www.lyddonconsulting.com/open-letter-to-project-financial-crime-c-o-the-payments-association/ accessed on 15 February 2023
[10] 'CMA' is the UK Competition and Markets Authority which was the source of the 'CMA Order' establishing OB
[11] https://www.railsr.com/payrnet accessed on 15 February 2023

Cashfac appears to act as all three:

1. a platform supplier, in which it leads with its Virtual Accounts offering;[12]
2. an Authorised Payment Institution;[13]
3. an OB provider, through its subsidiary SlideBy.[14]

Neo-banks coalesce easily with OB providers.[15] OB is an important customer channel for neo-banks, but not for incumbent banks, who continue to have the largest market share of consumer and business current accounts. OB's prime objective was to alter this but it has not happened. Of the neo-banks, only Starling Bank has made inroads, but at least neo-banks can talk to OB providers and do stuff together, even if it has no wider impact because the neo-banks have so few accounts, and because an account at a neo-bank is unlikely to be the customer's main account.

Vested interests - of venture capitalists and of the authorities as well as of Fintechs

A vested interest in proclaiming success percolates across the OB ecosystem.

Amongst authority bodies, the government continues to back OB as one of the initiatives to reduce a detriment identified as contributing to the Global Financial Crisis – the concentration of business and private deposits on a small number of incumbent banks – and as a digitization initiative. The CMA wants to get OB off its books, given that it was the CMA that was charged with getting it going: the issues identified in Mishcon de Reya's report now need to be forgotten, a milestone announced, success claimed, and OB shipped off to someone else to deal with. The OB Implementation Entity has an interest in seeing OB take off as it would otherwise be shut down.

Amongst market actors, OB providers obviously want OB to be considered as taking off. ASI Fintechs have an interest in seeing OB take off as it delivers more volume to them. IT solutions suppliers want OB to prove successful because they get more customers and money if it is. VCs funding OB providers want to see their volumes increasing and the prospectus for an Initial Public Offering taking shape, because that is where they cash in.

The only organizations on the other side are the banks at whom the CMA Order was directed, who are a subset of established banks, albeit with a large combined market share of consumer and business current accounts.

The position of the incumbent banks is also nuanced:

- They cannot gang up against OB because that would risk a large fine for anti-competitive behaviour;
- They have a deal with the government that they are allowed to close their physical branches and ATMs, saving the money needed to upgrade their infrastructure for the digital age;
- OB is a central part of that digital age in the eyes of the government and in the eyes of OB evangelists, but it is a peripheral part of it for the incumbent banks;
- The incumbent banks want their customers to use their own products, but they will invest just enough in OB to achieve minimum compliance with OB standards, while working through the OB committees to ensure that the OB standards are set at a loose enough level not to be overly demanding and cost too much to implement and maintain;
- So the incumbents will pay lip-service to OB as featuring prominently in their vision of the digital world, whilst at the same time endorsing it as a potential way of reaching 'underserved communities', i.e. the places where they have recently closed their branches and ATMs.

And where is the customer in all of this?

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[12] https://cashfac.com/services/ accessed on 15 February 2023
[13] https://register.fca.org.uk/s/firm?id=0010X000049L7PcQAK accessed on 15 February 2023
[14] https://slideby.com/ accessed on 15 February 2023
[15] https://p2pfinancenews.co.uk/2023/02/16/challenger-banks-top-obies-open-data-service-quality-indicators/ accessed on 17 February 2023

Proliferation of accounts owned by a single person

There really is no control or overview of how widely spread or narrowly concentrated OB's supposed 6.5 million 'users' are.

A single genuine person can obtain dozens of new accounts, from neo-banks, from Fintechs and from quite a few established banks. A single fictitious person can do similar, but with less success at established banks; their accounts will all be accessible via OB, because only OB-accessible ASIs will be approached.

The single person can get accounts in as many styles as they have or can invent: personal (with variations of their own name), sole trader (with one or more 'trading as' styles), and limited liability companies (which bypass the exacting controls at Companies House and enable Michael E. Mouse to be named as a 'Person with significant control').

How an OB provider can recruit captive users, and work with other OB providers to maximise them

There are many ways for OB providers to boost volumes – other than genuine customer take-up of their service.

An OB provider can put in a rewards programme, for customers, employees, their friends and family etc. etc., with a pay-out for every new account that is put onto OB. One OB provider may even work with other OB providers to get the maximum apparent success out of this base: three or four OB providers setting up and reporting the exact same users and accounts.

One then has the potential for a very large number of new 'users' to feature in the OB statistics, on a tiny base. In fact if four OB providers managed to each create a network of 5,000 people, and then brought about that all 5,000 replicated their set-up at all four providers…and every single person was able to act in four styles and obtain twenty OB-eligible accounts in each style, the number of OB 'users' resulting would be:

4 x 4 x 5,000 x 4 x 20 = 6,400,000

Six million four hundred thousand is just 100,000 fewer than the statement of the success of OB that '6.5 million consumers and businesses are benefitting from it'.

On the other hand, if HMRC has managed to get 3% of its tax-liable clientele to use their OB provider to settle their tax bills, that is six million OB 'users' right there.

Who knows?

Potential role of bots

Assuming it is four OB providers acting as a 'concert party' and setting up OB towards 6.4 million accounts, the OB providers can programme themseves to act as a bot, send out API calls on all these accounts, fetch the account balances and feed them into the dashboard, but this will be meaningless activity. The supposed user is not going onto the app, is not using the information, and is not deriving any impact from being an OB user at all - and a goodly amount of the activity has no user behind it, because a fictitious actor was created solely in order to boost the statistics.

Proof of benefit of OB to OB 'users'

Empirical proof that any 'user' is 'benefitting' from an OB proposition is entirely absent. Enthusiastic testimonials will come from 'users' who are closely associated with the OB provider concerned, the association not being declared and not being checkable. Fictitious 'users' can be relied upon for the most glowing testimonials.

Summary and Recommendation

The report of the 'Strategic Working Group' contains some indication of awareness within the OB ecosystem that the statistics being produced are not watertight. However, since the contributors to the report are drawn from the OB ecosystem from which they make their living, they are not going to rain on their own parade.

The OB ecosystem is not structured such that watertight statistical reporting can easily be obtained. It is also prey to both practices common in financial services and specific UK circumstances that inflate reported statistics and overstate success.

There is a lack of built-in controls within the operations of OB, and there is a lack of challenge within its governance. In fact there is the potential here for a colossal sham, and one that will expand as OB accelerates along the next leg of its roadmap. This is not good enough for a project in which the UK has invested its hopes for innovation, new competition, better services and much more from the financial services sector.

The trustee has failed to deliver any degree of challenge, and has been satisfied to echo the OB industry's own claims to success, before passing-the-parcel on to 'JROC'.

'JROC' now needs to commission a proper examination of OB's statistics and to determine what they mean. This is overdue and needs to be completed before any future roadmap is agreed upon.

BL/21.2.23