

Financial institutions battle to mold the CFPB's open banking plan to benefit themselves

Article

The news: The feedback period on the Consumer Financial Protection Bureau's (CFPB's) open banking plan closed on December 29, 2023 with over 11,000 comments.

- Multiple banking associations and financial institutions (FIs) urged the CFPB to address key concerns before implementing the plan.

Banking concerns varied by financial institution type: Conflicting commentary highlights a battle heating up between big banks and nonbanks, rather than between FIs and the CFPB.

- The American Bankers Association (ABA), the Bank Policy Institute, and the Clearing House Association all called for a complete ban of screen scraping.
- And the Consumer Bankers Association wrote a 57-page letter highlighting the risks and costs of screen scraping—urging the CFPB to take action against third parties that partake in this practice.
- Individual FIs expressed concerns around the added compliance costs and urged the CFPB to allow them to charge fees to third parties such as fintechs to offset their expenses.

Meanwhile, smaller banks want to be able to charge fees to consumers.

- They cited the cost of having to purchase new systems from core providers to meet new requirements.
- The International Community Bankers Association (ICBA) asked the CFPB to exempt small banks from the new data-sharing requirements, and that non-exempt FIs still be allowed to charge customers for their data.

Fintechs are another story: The American Fintech Council (AFC) expressed support for consumers' right to access and control their financial data, emphasizing the importance of advancing competition through broader data access.

- These nonbanks fought for easier access, stating that it would facilitate their advertising and product development.
- They view banks' efforts to charge fees for access as a way of blocking competition.
- Fintechs also expressed concern regarding whether the same restrictions would apply to anonymous data, which they felt could throttle innovation.

The US open banking rollout isn't looking like the UK rollout: While UK FIs worried about open banking prior to its 2018 implementation, their lobbying efforts against it were relatively subdued.

- Though some of the changes conflicted with their financial interests, the UK’s large banks “showed signs of embracing open banking,” according to the UK Competition and Markets Authority.
- Prior to the implementation, incumbent FIs studied customer insights and took actions to address customer concerns.
- Nevertheless, as of one year ago, 60% of UK consumers didn’t fully understand open banking, and 84% didn’t fully trust it. That means UK customers aren’t taking advantage of the new system, and public education efforts are necessary if this is the goal.

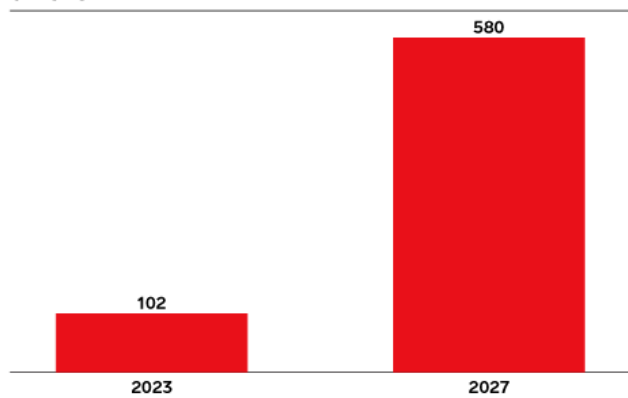
In contrast, US FIs may also feel emboldened by some lobbying wins last year, which encourages them to take a proactive approach to providing feedback.

Key takeaways: The contrasting opinions on the CFPB’s proposal signals a rift between traditional FIs and non-traditional financial players.

- The final wording of the CFPB’s plan could contribute to (or detract from) the financial health of FIs in the coming years, as how well they adapt to these changes will factor into determining their profitability.

API Calls Generated by Open Banking Worldwide, 2023 & 2027

billions



Source: Juniper Research, "Open Banking: Opportunities, Competitor Leaderboard & Market Forecasts 2023-2027" as cited in press release, May 3, 2023

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