

# STRATEGIC IMPLICATIONS OF FIDA – THE NEXT STEP TOWARDS OPEN FINANCE

Food for Thought

November 13th, 2024



# KEY QUESTIONS FOR TODAY

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**1**

**What is FIDA and why is it important for financial institutions?**

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**2**

How will FIDA impact financial institutions and what are their strategic options?

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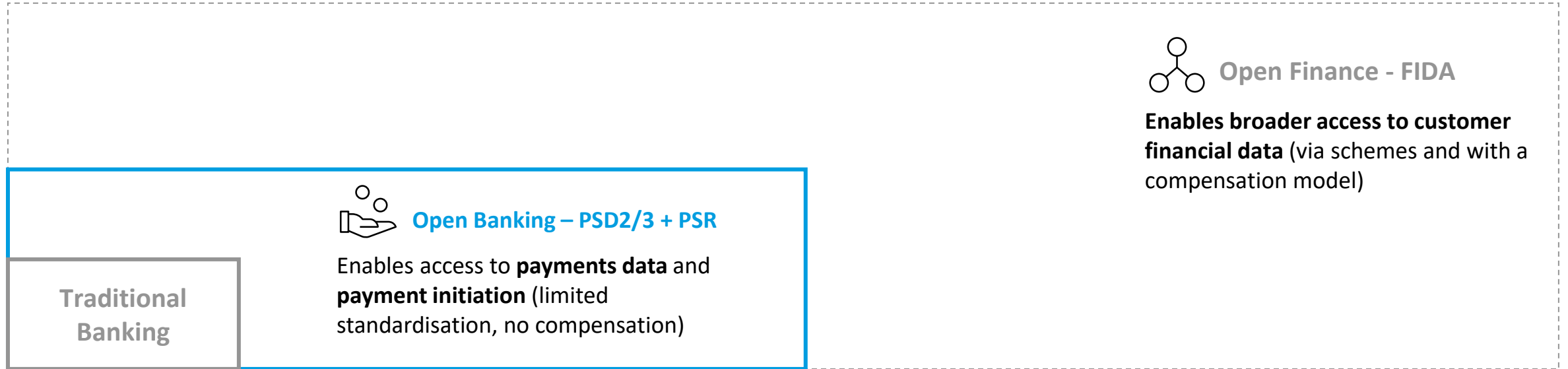
**3**

What should financial institutions do?

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# IN EUROPE, THE FIDA REGULATION IS COMING AND WILL PROVIDE CUSTOMERS WITH FULL CONTROL OF THEIR FINANCIAL DATA – THE NEXT STEP TOWARDS OPEN FINANCE

## New FIDA Regulation



### Horizontal regulation



**GDPR**

Protection of **natural persons** regarding the processing of personal data



**DMA/DSA**

Obliges platforms (“**gatekeepers**”) to grant access to platform data



**Data Act**

Obliges access to data generated by **connected devices & services** (IoT)

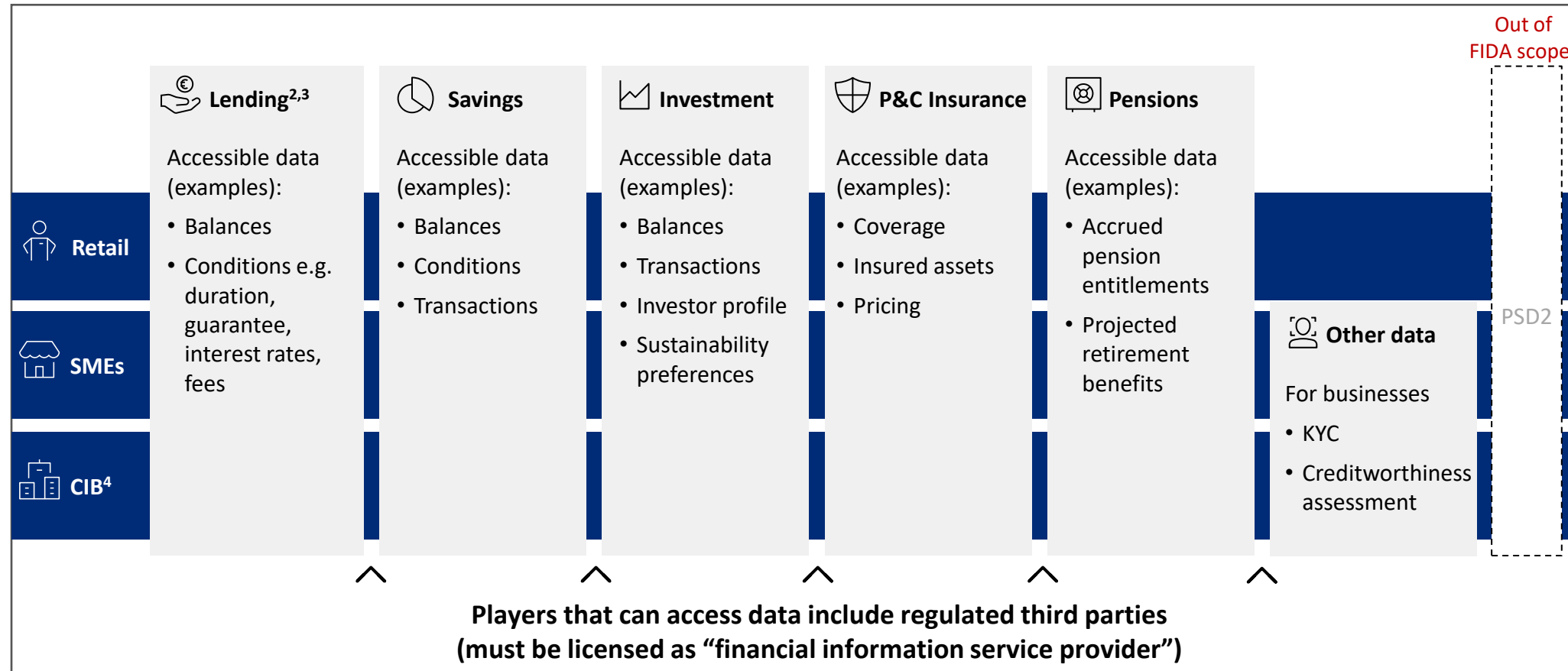


**eIDAS2**

Obliges **EUDI wallet** to store and share identity data for identification and authentication purposes

# FIDA COVERS MOST PRODUCTS OF FINANCIAL INSTITUTIONS AND AN EXTENSIVE SET OF CUSTOMER DATA WHICH WILL BE ACCESSIBLE BY REGULATED THIRD PARTIES

## Scope of FIDA<sup>1</sup>



## Key messages

- **Most product categories are in scope** impacting various financial players (banks, insurers, wealth managers, credit providers etc)
- FIDA applies to an **extensive set of 'raw data' within each product** allowing for an exhaustive view of customers
- **FIDA applies to all customer segments** (e.g., retail, SMEs and Corporate)

1. Scope and timelines of FIDA are not yet finalized; 2. Includes mortgages; 3. For CIB incl. Investment Banking, Trade Finance, Project Finance, Export Finance products & services; 4. Current assumption: Institutional Clients are out of scope, 5. e.g., Credit institutions, payment institutions, e-money institutions, pension providers, investment firms, insurance providers, fintechs, Bigtech, 6. Also out of FIDA's scope are: consumer credit score, internal scoring models, life, health, sickness insurance, public pension

# FIDA GOES WAY BEYOND PSD2... AND THUS, CAN LEAD TO THE TRANSFORMATION OF THE FINANCIAL ECOSYSTEM

FIDA is **NOT THE SAME AS PSD2**

## Broader **SCOPE OF DATA**

**Broader scope of data** across numerous product categories and institutions

## Changed **MARKET LANDSCAPE**

- Since PSD2, **financial institutions have digitised significantly**, and many new (regulated) FinTechs have been introduced
- **Customers have** gradually become accustomed to **sharing data** in return of receiving value/benefits
- The introduction of **generative AI will further propel trends** within the financial industry – data driven insights, customer centricity, hyper personalization

## FIDA **SCHEMES**

- FIDA introduces schemes - **a coalition of data holders/ users that determine the mechanisms** for accessing a specific scope of data in a particular geographic market
- Large initial **cost** in the **creation and tailoring of schemes across each country/product**

## **MONETIZATION**

**Possibility to monetize the data provided** by setting up a compensation model aimed at establishing fees for Financial Institutions that share the data with others

## Severe **FINES**

**Severe fines** imposed by the EU regulator for FIDA non-compliance – 4.5% of yearly group revenues

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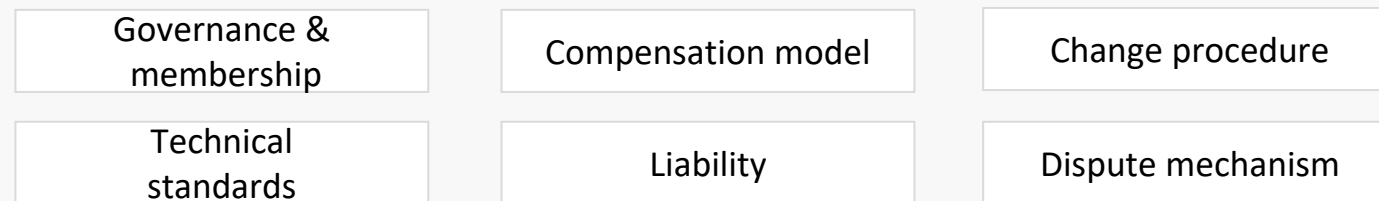
The EU Regulator is applying many of the lessons learned from PSD2 (e.g., monetization, market driven approach)

# FINANCIAL INSTITUTIONS WILL MOST LIKELY NEED TO NAVIGATE A FRAGMENTATED FIDA SCHEME LANDSCAPE – PRODUCT/COUNTRY SPECIFIC SCHEMES LIKELY TO EMERGE



 Lending  
  Savings  
  Investment  
  P&C Insurance  
  Pensions

## Components of Financial Data Access Scheme



## Number of FIDA schemes across Europe



## Key messages

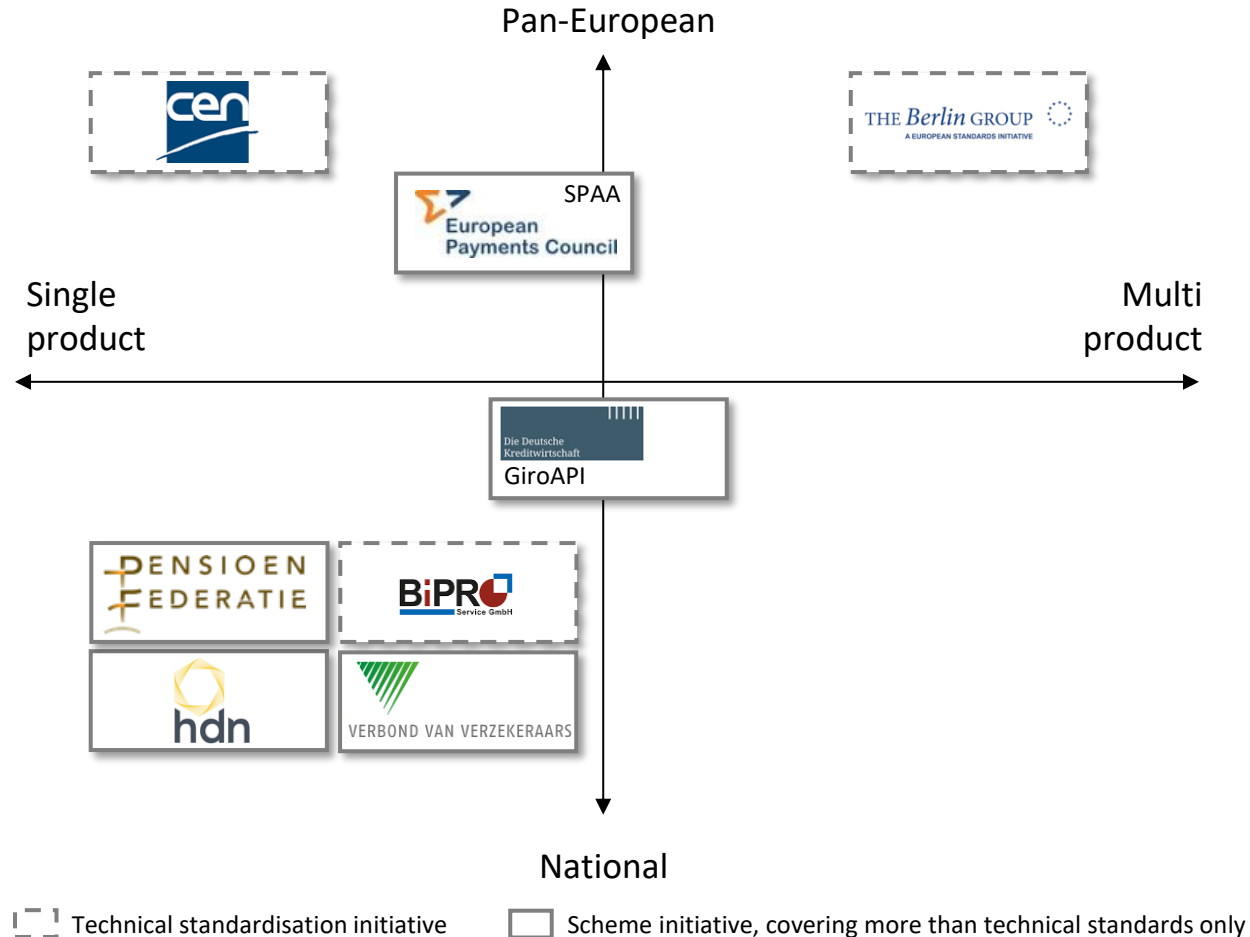
- FIDA schemes are the **rules and mechanisms for accessing a specific scope of data** in a geographic market
- **All financial institutions must participate in schemes and the market is required to create them**
- **In case of market failure** to set-up schemes, the regulator can step in by defining rules

## Scheme Challenges

- Without coordination, a total of **~135 possible schemes** could emerge
- Given market led approach, **creating schemes will be complex and costly**
- Large financial institutions will likely have a **complex participation in many schemes across country, sector/product**
- **Fragmented customer experience & implementation**

# FINANCIAL INSTITUTIONS HAVE A STRATEGIC CHOICE TO MAKE IN HOW THEY WANT TO ORGANISE THE DEVELOPMENT OF FIDA SCHEMES AND SET-UP OF RELATED GOVERNANCE

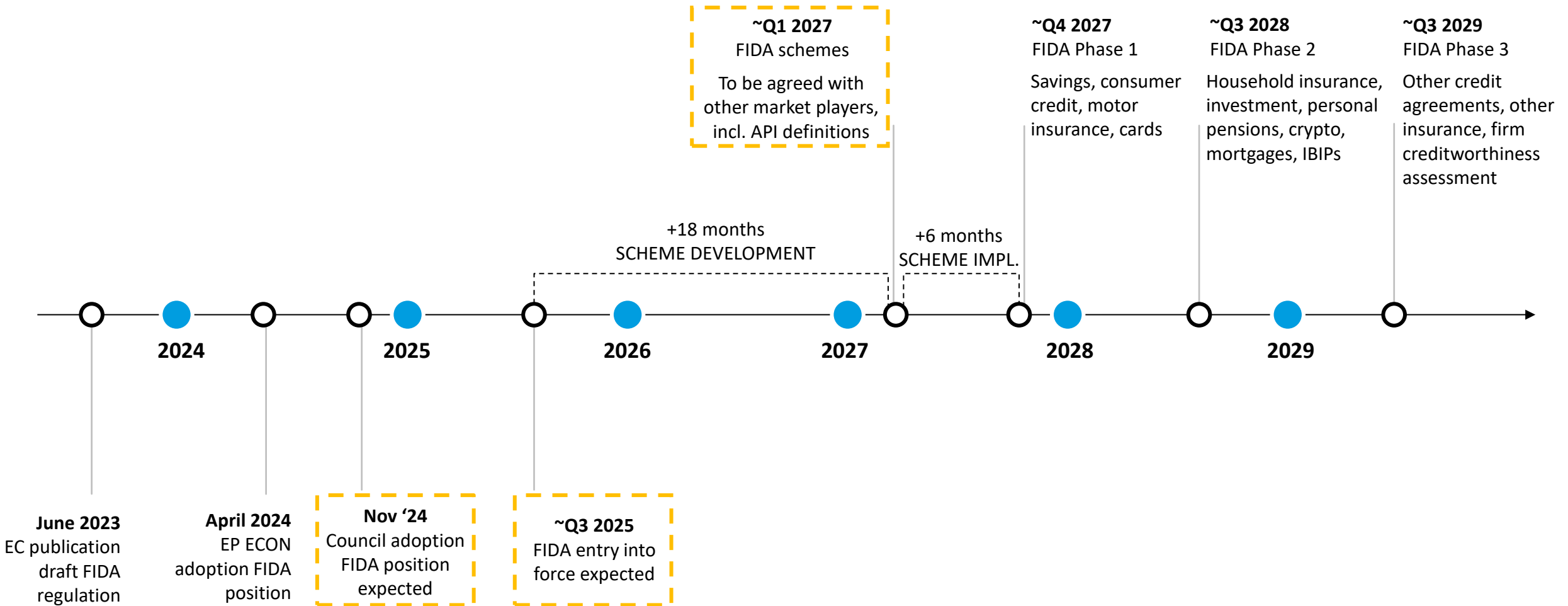
FIDA schemes can be developed on different levels...



... FIDA leaves room to the financial sector to define “rules of the game”

- FIDA schemes can be product and/or country specific
- For any given scheme, members must represent a “significant proportion” of the market:
  - i.e. at least 25% of customers served for a given product/geographical market
  - must be open for data holders/users to join
- FIDA allows reuse of existing standardisation initiatives, but does not impose use of specific standards
- Current observations on FIDA schemes:
  - Some actors start early to win time, and defensive move to retain strategic control over data access
  - Some national financial sector associations orchestrate collaboration among their members
  - Schemes have national orientation, focus on single product
  - Aim to reduce (governance) complexity, and leverage national standards where possible to reduce costs
  - EU standardisation initiatives are just a piece of the puzzle, as they do not cover all FIDA scheme requirements

# FIDA TIMELINE IS NOT FINAL YET, ALTHOUGH LATEST PROPOSAL INDICATES ENTRY INTO FORCE BY MID 2025, RESULTING IN FIRST IMPLEMENTATION IN 2027





# REPRESENTATIVES OF THE EU FINANCIAL SERVICES INDUSTRY ACROSS DIFFERENT SECTORS ARE URGING THE COUNCIL TO CONSIDER 5 FUNDAMENTAL IMPROVEMENTS



## Confidentiality

Exclude confidential business data, trade secrets, and inferred and derived data from the scope of the Regulation

## Scope

Focus the scope of FIDA on retail customers, including SMEs, and exclude professional and institutional clients

## Scheme Enforcement

Ensure FIDA data sharing only takes place through schemes to incentivise scheme participation and ensure data security

## Market Demand

Integrate market demand into data sharing and scheme development

## Timelines

Introduce adequate scheme implementation and operationalisation timelines



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**How will FIDA impact financial institutions and what are their strategic options?**

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What should financial institutions do?

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# FIDA PRESENTS A SIGNIFICANT DISRUPTION TO THE MARKET AND ENABLES NEW TOP LINE GROWTH OPPORTUNITIES FOR FINANCIAL INSTITUTIONS

## FIDA strategic **DISRUPTION FACTORS**

### New Customer propositions

Given **broad extent of available data**, players will be able to offer **new customer propositions beyond traditional banking** (e.g., embedded finance, adjacent offers)

### Embedded solutions

**Data users that occupy the client interface** (e.g., Apple, SAP), can now serve the clients much better with embedded solutions that provide more value

### Ecosystem roles

FIDA can **reshape roles that different players occupy in the ecosystem**, e.g., by allowing to bypass current distribution partners

### AI development

**The continuous development of generative AI** combined with access to a broad spectrum of data propel FIDA

## **MAIN OPPORTUNITIES** for financial institutions

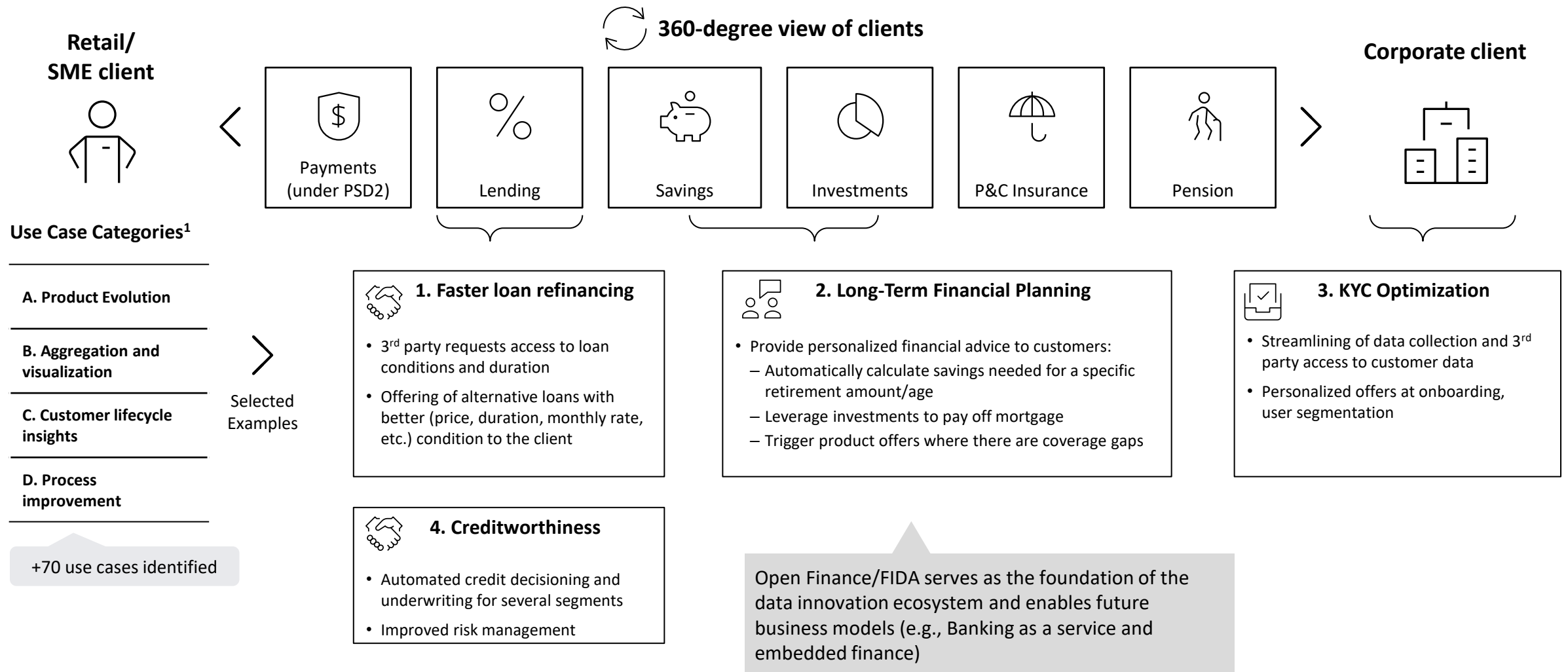
**Hyper personalized products** through a **true 360-view of the customer** for all 3<sup>rd</sup> parties given consent

Access to new and broader data will allow to improve **existing products and services through greater insights** (e.g., pricing, personalisation/tailoring)

Investing in data infrastructure can lead to **increased operational efficiency** (e.g., KYC/onboarding) & channelling of investments towards most valuable customers

**Opportunity to monetize data sharing** via schemes incentivising other market players to invest in FIDA instead of viewing it as a compliance project only

# FIDA DATA – WITH CUSTOMER PERMISSION – ALLOWS THIRD-PARTIES TO GET A 360-DEGREE CUSTOMER VIEW ENABLING A VARIETY OF NEW USE CASES AND BUSINESS MODELS



1. Non-exhaustive preliminary categories to map use cases

# HOWEVER, THE INTRODUCTION OF FIDA ALSO POSES SOME RELEVANT THREATS FOR FINANCIAL INSTITUTIONS

## Main threats for incumbent banks



**New players capturing the customer interface**, pushing banks into a role of a product commodity

Deep dive on next slide



**Significant revenues at risk** from **increased competition** from third parties leveraging financial customer data **to offer products with improved conditions** (e.g., interest rates of loans)



**Significant costs stemming from compliance only** (~80-90% of total investment costs)



**Potentially complex and fragmented operating model** due to the multiple schemes emerging across several countries and product categories (e.g., +135 possible schemes)

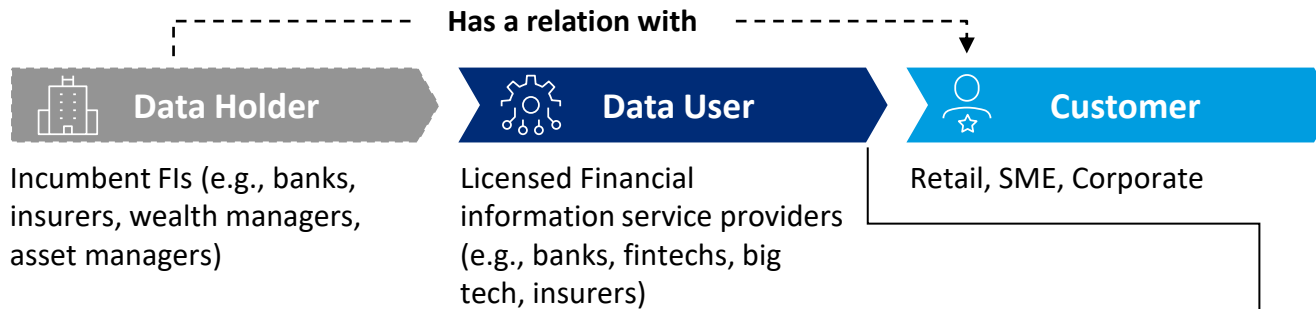


**Increased fraud and AML risk** for financial institutions as fraudsters have access to additional channels and information

# FINANCIAL INSTITUTIONS RUN THE RISK OF LOSING THEIR DIRECT RELATIONSHIP WITH THE CUSTOMER AS WELL AS SEEING SIGNIFICANT REVENUES AT RISK

## Impact on Institutions

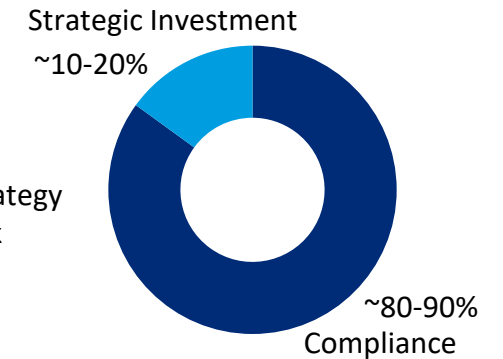
### 1 Risk of losing the customer relationship



Lifecycle	Awareness	Consideration	Purchase	Retention	Switching
Propositions	Overview	Action	Onboarding	Monitoring	Benchmarking
	Insight	Personal advice	Affordability	Personalisation	
			Pricing	Upsell	
				Loyalty	

2 Up to **40%** of revenue in certain product categories and with certain clients will be at risk due to additional churn caused by FIDA impacting retail, SME and corporate clients

3 **Compliance costs will be significant** regardless of strategy and leave institutions at risk



## Implication for Banks

- Institutions that only play a data holder role will be susceptible to threats that disintermediate them and impact their customer relationships
- Given large revenue at risk and significant estimated compliance costs, financial institutions need to think about making strategic investments

# BESIDES BUSINESS AND REVENUE IMPACT, FIDA REQUIRES ADJUSTMENTS ON PRODUCTS AND IT-ARCHITECTURE, RESULTING IN LARGER TRANSFORMATION PROGRAM

## FIDA technical requirements

- **Open IT systems** that hold customer data via technical interfaces ('APIs')
- **Provide continuous & real-time data access**
- **Develop dashboard** for customers to manage data access permissions
- **Accommodate different FIDA schemes**, each with its own IT requirements/standards

## Business implications

- **Higher level of (price) transparency** in the market across financial products
- **More competition by entry of new players**, putting further pressure on economics
- **More personalised offerings**, threatening existing client relationships

## With significant impact on financial institutions

Product ~80% of products impacted by FIDA

IT ~70% of IT systems impacted by FIDA









Financial ~up to 40% of revenues at risk

Capex investment 2-3x PSD2 investments

FIDA presents a significant IT & business transformation, requiring a multi-year change program to achieve FIDA compliance and capitalize on opportunities

# THERE ARE DIFFERENT WAYS HOW BANKS CAN REACT TO THE OPPORTUNITIES AND CHALLENGES OFFERED BY FIDA

## Dimensions determining strategic positioning

Dimension	Description	Sub-dimension	Spectrum (Illustrative example)
 <b>Compliance readiness</b>	Degree to which financial institution complies with FIDA regulation, ranging from adhering to minimum requirements to full scope compliance	<b>Regulatory compliance</b>	Fulfilment: Min. vs. Max.  <i>Comply to the absolute minimum without seeking to enable seamless data access</i>
 <b>Breadth of usage/use cases</b>	Degree to which FIDA data will be used within the financial institution, ranging from not leveraging it for business purposes to the development of new business models	<b>Leverage to increase in operational efficiency</b>	Leverage: Min. vs. Max.  <i>Utilization of data for improving internal processes (e.g., KYC)</i>
		<b>Leverage to improve offering and/or CX</b>	Leverage: Min. vs. Max.  <i>Leveraging of data to improve existing product offerings</i>
		<b>Leverage to develop new propositions for monetarization</b>	Leverage: Min. vs. Max.  <i>No/limited creation of new models</i>
 <b>Scheme role</b>	Degree to which financial institution aims to be driving FIDA developments in the overall ecosystem, both by role and scope	<b>Role in the ecosystem</b>	Passive/participant vs. Proactive/orchestrator  <i>Participate passively in schemes that arise to fulfil regulatory obligations</i>



# THIS TRANSLATES INTO 4 MAIN ARCHETYPES THAT CAN GUIDE FINANCIAL INSTITUTIONS' POSITIONING IN A FIDA ECOSYSTEM

	<b>A</b> Regulatory follower	<b>B</b> Data optimizer	<b>C</b> Data monetizer	<b>D</b> Ecosystem leader
<b>Description</b>	<ul style="list-style-type: none"> <li>Defensive strategy, FI acts purely in role as data holder to meet compliance requirements</li> <li>Not leveraging data for potential business opportunities or improvements, keeping investments at minimum</li> <li>Passive participant in FIDA schemes, follow 'rules of the game' defined by others</li> </ul>	<ul style="list-style-type: none"> <li>FI complies with regulatory requirements but also monetizes data for business purposes</li> <li>Focus on using data to improve operational processes, mainly internally oriented</li> <li>FI is a more active actor in the FIDA ecosystem</li> </ul>	<ul style="list-style-type: none"> <li>FI strategically explores new business opportunities to monetize expanded data access</li> <li>Next to efficiency gains, improve (existing) product &amp; service offering and customer experience</li> <li>Requires agility via 'test-and-learn' approach of new use cases</li> <li>FI is active actor in FIDA ecosystem, shaping FIDA schemes to business needs</li> </ul>	<ul style="list-style-type: none"> <li>FI strategically explores new business opportunities to monetize expanded data access with focus on developing new products/services and business models</li> <li>FI positions at forefront of industry efforts, leveraging first mover advantage of becoming an orchestrator facilitating collaboration in schemes and defining 'rules of the game'</li> </ul>
Transformational impact/revenue				
Transformational effort/cost				

Financial institutions can consider capturing transformational gains through a marginal increase in investment

# RECOGNISING THE POTENTIAL HURDLES OF A LARGE SCALE FIDA ADOPTION, FINANCIAL INSTITUTIONS THAT LEAD THE STORY STAND TO BENEFIT

## Potential hurdles of FIDA's success



### PSD2 time to maturity

- **PSD2 has taken several years to gain significant traction in the market**
  - Select large scale use cases have started to gain traction (e.g., credit decisioning)



### Customer adoption

- **Initial hesitation from customers to provide consent** to third parties to access financial data
  - Changing market environment has led to **increased adoption of solutions** (~11% of UK retail customers use OB in 2024)
  - FIDA could offer **higher value for customers** who are more used to providing consent (e.g., AI)



### Scheme setup

- The **rules and mechanisms** of FIDA schemes could be **setup in a way that encourages slower adoption** by financial institutions (e.g., creating frictions in customer experience, high monetization costs for data users)
  - **First movers** in each market **will be able to cement their strategic positioning** (offensive vs defensive)



### Scheme Fragmentation

- **Risk of significant proliferation of FIDA schemes across markets and product categories**
  - Possible significant **operational complexity and cost for financial institutions that operate in several countries** to participate in the creation and tailoring of schemes across countries/products



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# IN EUROPE, FINANCIAL INSTITUTIONS HAVE STARTED TO POSITION THEMSELVES ON FIDA AND TO PREPARE THE FIDA PROGRAMS FOR THEIR GROUPS

## Internal awareness

- **Setup workings groups and define required roles** to assess FIDA implications in pre-study (including IT, Business impact stream, Product, etc.)
- **Conduct internal awareness program** to communicate all staff about FIDA's implications
- Evaluate **strategic direction and timing for scheme creation**

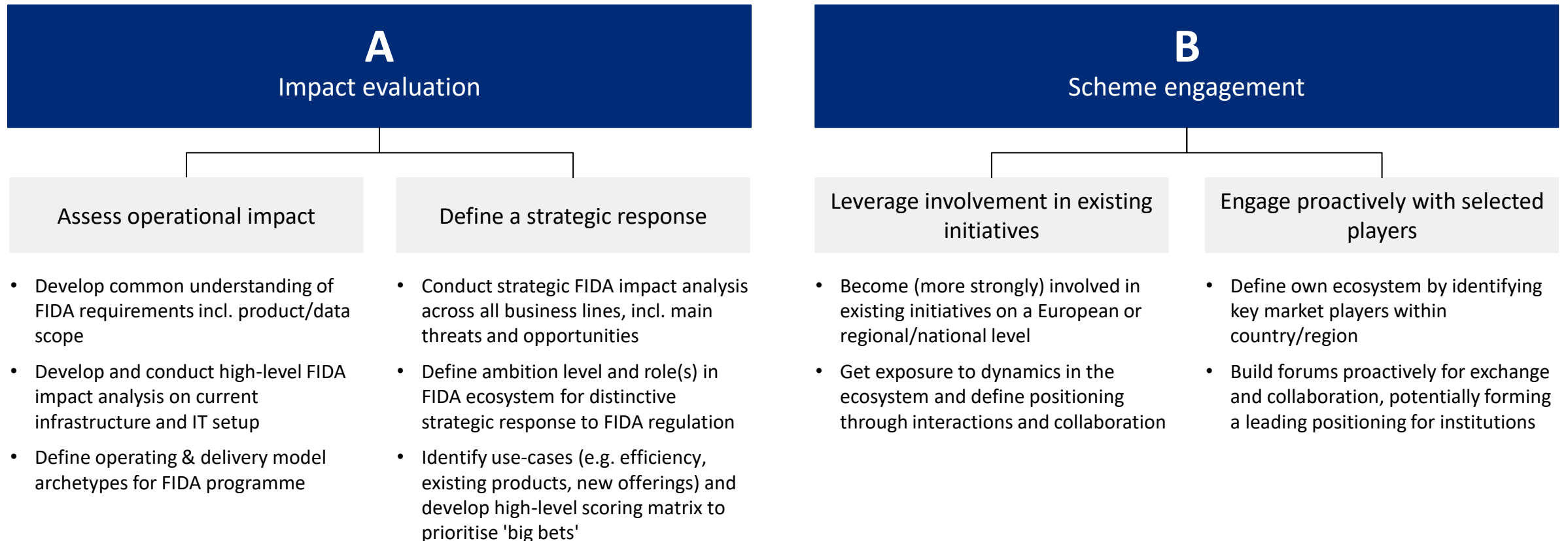
## Pre-study on FIDA's implications

- Perform a **comprehensive assessment of FIDA's implications** for the business' strategy and revenues at risk (across product/client segments) and upside opportunities
- Identify **relevant use cases for opportunities** (if data user role part of strategic decision)
- Define a **strategic approach ("north star")**
- Assess **FIDA's implications on IT systems and define target FIDA architecture**
- Assess **budget implications**
- Define an **implementation plan** incl. FIDA program setup and governance

## Setup of FIDA program

- **Rollout of FIDA implementation program**
- Execute and deploy **technical integrations and updates**
- Design and implement **target operating model for FIDA**
- **Develop first products and services for data user role of FIDA (if chosen)**
- **Test changes and new functionalities** to ensure compliance with FIDA requirements
- **Train staff** on new systems and compliance requirements
- **Inform customers** about how their data will be handled

# WE SEE MANY FINANCIAL INSTITUTIONS HAVE BEGUN TO THINK ABOUT FIDA'S IMPACT THROUGH AN IMPACT ASSESSMENT AND EXPLORING SCHEME INITIATIVES



# THANK YOU FOR YOUR ATTENTION! I AM HAPPY TO TAKE YOUR QUESTIONS



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