Open pensions and open finance: building a better future for UK savers

Executive summary

Open Banking was only a stepping stone toward open finance. While Open Banking guaranteed consumers access to their payment account data, open finance aims to give consumers a holistic view of all their finances. This means a consumer should see their banking (current and savings accounts), mortgages, credit cards and pensions account in one place. But the question remains: which of these sectors has the broadest reach and maximum impact for UK consumers?

Every working individual in the UK either has or will have a pension. Most people have more than one or two. But it's still difficult to access basic information about costs, charges, and performance in a standardised digital format. As a result, pensions are the most commonly misunderstood financial product with very low levels of customer engagement.

Despite the importance of saving for retirement, almost 60% of pension savers[1] don't know their current pension balance, and 80% leave their pension behind when they switch jobs.[2] If we don't address this engagement gap and start to build ownership over pensions, we'll see many UK savers retiring into poverty.

Open finance can transform the way consumers interact with their pensions. By providing savers with basic information that's readily available and easy to understand, they can make more informed decisions about their retirement and start to feel a sense of ownership over their pensions. Open finance is an opportunity to shape the way millions of consumers engage with their finances. Nowhere is this needed more than pensions.

In this paper from Plaid and PensionBee, we outline the potential for open finance more broadly and focus on the concept of open pensions as a key early deliverable. We examine how open pensions can bring more value to savers than the government-led pensions dashboards project and help drive ownership over retirement for the vast majority of UK savers. We then look at the lessons that can be learned from the implementation of Open Banking regulations and suggest key considerations for policymakers as they develop open finance. Finally, we discuss open pensions and why it should be one of the first sectors to get a consumer mandate.

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1 https://bandce.co.uk/general-public-attitudes-towards-pension-dashboard/

2 http://www.pensions-institute.org/reports/CaveatVenditor.pdf

The potential of open finance

Open finance—or the concept of guaranteeing consumers access to their own financial data—isn't new, but with regulator support we could see open finance change financial services forever. In the US, Mint was one of the early purveyors of insights based upon account aggregation going back to 2006. It was a valuable business even then, selling to Intuit three years later for upwards of a reported $170 million.

Today, with the help of regulation and government initiatives, the UK alone has more than 150 businesses providing Open Banking based products and services.[3] This has spurred innovation within the payments sector, with products focused on giving the consumer more power over their finances. However, there are some limitations of Open Banking, namely the focus on payment accounts.

That is where open finance comes into play. If implemented successfully, open finance will allow consumers and firms to get an accurate real-time picture of all of the consumer's finances. It's a huge task but one that needs to be done if consumers are ever to have full visibility and control over their finances. Open finance will change the way consumers engage with their finances; at the tip of their finger they will be able to get a holistic view of their finances–this will allow consumers to make more informed decisions.

In the UK, regulators have recognised the need to provide access to a wider range of financial data and have issued a Call for Input (CFI) due in October. That CFI is broad in scope but lists some of the sectors that could be impacted: pensions, mortgages, insurance, and more.

Open finance will not happen overnight; industry and regulators will need to come together to ensure success.

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3 https://register.fca.org.uk/s/search?predefined=AIPISP

An introduction to open pensions

Open pensions will empower consumers to exercise a basic right to access their data in a way that is currently not possible. As a result, people will have real ownership of their pensions, better tools to make the most of their money, and, ultimately, happier retirements.

Ownership means that individuals can obtain data about their pensions to make important financial decisions, such as saving more, consolidating pension pots, and switching to lower-cost pension providers to prepare for or manage retirement. Ownership is predominantly a concept that applies to consumers with defined contribution pensions, as defined benefit pensions are guaranteed by an employer and the saver is usually best advised to keep them where they are.

The concept of ownership is different from that of a lost pension. Lost pensions are a well-recognised concept in the pensions industry. However, they are quite a small problem compared to the total size of the market. Data from the ABI shows that lost pensions are worth c.£20 billion, which represents just 2% of overall defined contribution entitlements, which are now worth c.£1 trillion.

It's essential to point out that open pensions differ greatly from the government-led pensions dashboard. For a long time, it wasn't entirely clear whether they were the same thing or how they were related. But now that the dashboard project is in full flight we can see the use cases are markedly different.

The pensions dashboard has one narrow use case: to reunite consumers with 'lost' pensions. These pensions could be held with one of 40,000 possible schemes, with differing levels of data preparedness and access to resources. The dashboard will spend many years trying to onboard the maximum number of schemes to reunite owners with basic information on their lost pots.

While the dashboard's policy goal is important to achieve, ownership through open pensions is a distinct and arguably more important policy objective. As overall entitlements in defined contribution pensions are closer to £1 trillion, open pensions can create more value for consumers than a pension finder service alone.

The vast majority of savers know who their provider is. In fact, customers know the name of their provider for 70% of the pensions they transfer.[4]
To receive information on that pension, consumers are often required to sign paper forms and send their valuable information all around the postal system. It can take several months for a consumer to receive a reply to their request for basic information. Consumers cannot have ownership, or take responsibility for their retirement as the government asks them to, if they cannot access basic information like balances, charges, performance, and investments easily online and in a standardised format.

Only through open pensions will consumers achieve the necessary benefits of ownership, thereby enabling them to make informed decisions, take advantage of digital tools, and ultimately prepare for and manage their retirements. The FCA should recognise that open pensions and the pension dashboard are for different target groups and should be allowed to develop in parallel rather than sequentially.

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[4] Based on analysis of nearly 250,000 pension records. Analysis done by PensionBee.

Delivering open pensions: Lessons learned from Open Banking

Regardless of the approach taken by policymakers, there are some proposals which should be considered to ensure open pensions is a success.

Since 2018, PSD2 and Open Banking have dramatically changed the payments landscape. More and more Open Banking powered products and services are entering the market. While it's still early days for Open Banking, we can draw some lessons regulators should consider if they want open finance to be a success.

- **Don't over-standardise.** Trying to implement a unified technology and governance standard across the entire financial sector will kill the movement before it starts. Firms need to compete, if everything is standard there isn't much competition within the market.
- **Think about regulatory requirements.** The requirement to be regulated should be considered proportionally to the size and scale of the firm, and smaller startups should be able to partner with larger firms where possible.
- **Don't let security kill the customer journey.** Consumer trust and security are paramount to the success of open finance, but PSD2 security requirement Secure Customer Authentication (SCA) has created unnecessary friction and will damage the long term success of Open Banking unless reformed.
- **Think about use cases.** Regulators should work with industry to identify potential use cases that could arise in the future before they develop principles/rules. By only thinking about current use cases in the market, regulators risk limiting future innovations.

In addition to the lessons learned from Open Banking implementation, policymakers and regulators should embrace two key policy considerations as they develop the open finance roadmap.

1. **A consumer data right** - A first step for policymakers is to open access to more data and enable third parties to access that data. We've already seen that access to payment account data in Open Banking has led to the proliferation of products and services that help consumers improve their financial lives. Access to all financial accounts can accelerate that transformation.
2. **Let the market develop open finance** - Aggregators, technical service providers (TSPs) and intermediaries need to play a role in open finance. They have the expertise and experience of building APIs to a variety of data sources, standardise consumers' data, and deliver it to third-party providers (TPPs) in the format best suited for consumers' desired use cases. Rather than introduce a standard API, encourage competition by allowing firms that specialise in API development to compete on quality.

A key element of the early success of open finance is to identify sectors that would be a quick win because of their synergies with the payment sector. From our experience, these include non-investment savings, consumer credit and pensions. Not only are these sectors similar to payments, but they can provide consumers with a holistic view of their finances—ultimately helping to deliver the benefits of PSD2 and Open Banking while moving towards the goals of open finance.

Pensions are the largest asset most people will have other than their home.

Open Banking has greatly improved competition and driven up financial capability and inclusion. There are an estimated 5.8 million people in the UK who cannot rely on traditional financial services because there's an insufficient amount of information about them, making it difficult for financial institutions to make decisions. These thin-file consumers are generally excluded from the type of financial products and services available, which in turn increases their cost of borrowing and living. Adding new data sources such as data from utility companies, along with Open Banking data, could reduce that thin-file population by 1.5 million people.[5]

There's no financial sector in the UK in greater need of these improvements than pensions. Open Banking has also shown the necessity and impact of using legislation in a market low in innovation and dominated by a set of incumbents offering similar products and services.

Pensions are a critical component of open finance and should be staged early, as pensions are the largest asset most people will have other than their home. Pensions is also the vertical where customers badly need basic data on their financial assets in standardised digital format.

5 https://www.finextra.com/blogposting/18331/two-years-later-and-open-banking-is-putting-consumers-firmly-in-control-of-their-finances

Easiest paths to open pensions success

A key success factor for Open Banking was the decision to get maximum market coverage with the smallest number of providers—the CMA9. One of the easiest paths to success for the FCA would be to work with a minimum number of providers to achieve maximum coverage.

PensionBee data shows that just 12 providers[6] own 80% of the defined contribution pension data in the ecosystem. These twelve providers already hold digital records and should be mandated by the FCA to open up pension data to consumers under open finance.

While the FCA-regulated providers have a long history and therefore more issues with matching consumers to their pensions, once matched, the underlying data is sufficiently robust. These FCA-regulated providers will need to invest in matching capabilities to meet dashboard requirements in any case. In contrast the auto-enrollment providers already have the necessary IT systems in place to efficiently match consumers with their pensions. Open pensions should therefore impose a limited incremental cost.

As the CFI highlights, there will be insufficient incentives for the providers to open up access to customer data. The most common objections are that it's too much work, too hard to prioritise, too costly to overhaul legacy systems, and too dangerous for consumers who wouldn't understand complex pensions charging structures if they were finally given a right to see how much they are paying!

Therefore, whilst the directed 12 must be able to help set standards around **how** data is disclosed, they should not be allowed to decide **what** is disclosed. As we saw with Simpler Annual Benefits Statements and the dashboard, the incumbent providers successfully lobbied against the inclusion of costs and charges, arguing it would be too complex for consumers to understand.

[6] Aviva (inc. Friends Life, Friends Provident), Scottish Widows (inc. Zurich workplace, Clerical Medical), Legal and General, Standard Life, Royal London (inc. Scottish Life), Aegon (inc. BlackRock), Prudential, Fidelity, Phoenix Life (inc. Abbey Life), Nest (regulated by The Pension Regulator), B&CE (regulated by The Pension Regulator), NOW Pensions (regulated by The Pension Regulator)

For pensions, despite the apparent difference in functional requirements, harmonisation with Open Banking can materially fast-track implementation. The dashboard has a specific policy objective that will run in parallel to open finance. And the mandatory data fields required match existing DWP work.

Within pensions, sequencing can occur with the 12 largest going first, followed by smaller schemes. Most opposition will come from the closed book providers or those who have recently acquired books of business with legacy IT systems. However, a tight deadline for the directed 12 should still be set, as they represent 80% of all data. The work they will have to do to prepare this data is the same work they will need to do for the pensions finder service and future technological and regulatory developments.

The primary objective of any open finance initiative should be to empower consumers and small businesses to exercise their basic right to access their data and share it with their chosen authorised third parties without a contract and discrimination. We believe, therefore, that it’s reasonable and required for open finance to be a mandatory requirement for the largest incumbent pension providers by coverage.

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Hurdles to implementation

If open finance regulation becomes a reality in the UK, the total scope of data sets and the associated cross-industry implementation roadmap will indicate if there is an opportunity to build new services. To do so would mean having the right culture, digital-first attitude, and technical flexibility to manage a mandatory regulation whilst taking advantage of other opportunities.

In Europe, we've already seen banks struggle with this juggling act, shying away from launching discretionary products powered by Open Banking mandated APIs, and TSPs taking advantage and becoming unicorns in their own right. Understanding the lessons from the Open Banking rules implementation could mean the difference between facilitating digital access across the customer journey and sitting idle. If banking responses to the coronavirus pandemic tells us one thing, it's that being digital-first in both your value proposition as well as your operations is no longer a nice to have, it's a must have—and open finance might prove to be the right catalyst at the right time.

Practically, the first step is a reality check. Most pension and some insurance providers do not have digital data, let alone data that is machine-readable in a standardised format. Without the data being online, there's no way for a TPP to access or build APIs to retrieve that data.

If firms want to participate in open finance—or are mandated to do so—they will have to undergo extensive programmes to digitise paper records. How onerous this task will be depends on a few factors, not least to what extent historical records are required, and which of these historical records are still a valid input in assessing a customer's total wealth.

So...what's next?

The UK's continued position as a leading global centre for finance and innovation requires continuous efforts to anticipate the future of financial services. The UK has the opportunity to take the lead globally by going beyond Open Banking and leading the charge with open finance. That's why we believe it's essential that the UK and the FCA support the development of data-enabled products and services. Consumers increasingly expect that their interests and choices should be at the heart of their finances. Open finance is the next necessary step toward meeting this expectation.

But the road to open finance will not be easy or quick. Policymakers and regulators must work with the industry to understand the key challenges and deliverables required to make open finance a success. The FCA's CFI will close in October, so now is the time for industry to work together and support the FCA and HMT as they think about the next step in the development of open finance.

Open finance will cover a wide range of sectors, including pensions. While the pensions sector already has the Pensions Dashboard Programme, there's still more work to do, and open pensions will directly affect consumers and their ability to understand and make better decisions to ensure their financial well-being in the future.

For questions on the potential impact of open finance and open pensions, or what to do next, contact the authors:

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Plaid, PensionBee and Innovate Finance

Plaid *powers the fintech tools millions of people rely on to manage their finances. Since 2013, Plaid has been enabling open finance with secure and reliable connections to financial apps and services like Coinbase, Monzo, and TransferWise. Many of the largest retail banks use Plaid to make it easy for their customers to securely access their financial data when and how they choose.*

PensionBee *is the UK's leading online pension provider, enabling customers to interact with their savings through its unique combination of smart technology and dedicated customer service. Founded in 2014, PensionBee's proprietary technology and Open APIs allow customers to manage their pension, view their balance, make contributions and withdrawals online and with the help of smart calculators to plan their retirement. In 2018 PensionBee set up the UK's first Open Banking - pensions integration with Starling, soon followed by Yolt, Emma, Moneyhub and Money Dashboard. It now counts over 100,000 active customers aged 18-80 and over £1 billion in assets under administration.*

Innovate Finance *is the independent industry body that represents and advances the global FinTech community in the UK. Our mission is to accelerate the UK's leading role in the financial services sector by directly supporting the next generation of technology-led innovators. Innovate Finance's membership ranges from seed stage startups and global financial institutions to investors, professional services firms, and global FinTech hubs. All benefit from Innovate Finance's unique position as the single point of access to promote enabling policy and regulation, talent and skills, business opportunity and growth, and investment capital. By bringing together and connecting the most forward-thinking participants in financial services, Innovate Finance is helping create a global financial services sector that is more transparent, more sustainable and more inclusive.*

Please note PensionBee's CEO, Romi Savova, sits on the Pensions Dashboards Programme Steering Group and these are PensionBee's views, not the views of the Money and Pensions Service.

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