The future of finance

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Richard McCall considers how Open Banking platforms are revolutionising the ways in which businesses access, manage and control finances, and what this means for taxation

Key Points

What is the issue?

Approximately 2.5 million businesses and consumers in the UK actively use Open Banking services, which are sharply growing by around one million every six months.

What does it mean for me?

Open Banking enables businesses to access and share financial information across various bank accounts, over specific periods of time, assisting businesses to manage and monitor cashflow to make the best financial decisions.

What can I take away?

As the UK's financial services industry evolves further, the opportunities for business and consumers will continue to expand, helping them to improve their financial planning with faster and more accurate access to their financial data.

In a world where time is precious, fast and secure, digital financial solutions are being welcomed with open arms. It is therefore unsurprising that Open Banking has quickly become an indispensable asset, shaping how consumers and businesses manage their finances.

Approximately 2.5 million businesses and consumers in the UK actively use Open Banking services, which is sharply growing by around one million every six months (see bit.ly/2U7EX4G). With more than 300 fintech companies assembling to form the Open Banking ecosystem, the programme has been commended for its encouragement of competition among financial corporations. With its expansion, the initiative has been endorsed by the banking industry and received support from government entities, such as HMRC.

The birth of Open Banking

Open Banking was initiated in 2013 when the European Commission proposed that banks should allow third parties to access bank account information of customers.

It came into force in the UK in 2018 and has helped to positively transform the world of banking.

The prime objective of Open Banking was to allow consumers to have greater access and flexibility to financial planning, so people could have a better understanding of their financial situations and make healthier money choices. This was achieved through authorising apps and services to access specific banking data so they can have a better insight into financial behaviours, like spending and cash flow. For example, an app powered by Open Banking could request access to a consumer's spending habits and, once authorised, would be able to better advise on which bank

account would most suit the consumer’s needs.

As the Open Banking ecosystem has expanded and evolved, so has its application. Now Open Banking is just as – if not more – important for businesses. This is especially the case when companies need specific data to prove ownership of accounts or verify funds, or to access financial and business support.

Open Banking as a business tool Open Banking enables businesses to access and share financial information across various bank accounts, over specific periods of time. This is essential for managing and monitoring cashflow to make the best financial decisions – which is the lifeblood of a successful business. The benefits of Open Banking are its speed, accuracy and security; a business’s finances will always be ready to look at and analyse.

For small businesses in particular, time saving solutions are invaluable; time saved usually means money saved, and more time and money to spend on growing the business. For SME company directors (who are unlikely to be equipped with the skills of managing funds and tracking cash flow), services which allow for fast and simple monitoring and management of money could be the difference between a business thriving or failing. After all, business decisions should be made on the basis of financial wellbeing.

However, there are some 5.7 million SMEs in the UK with less than 10 employees (see bit.ly/2VPumMu). Many will be relying on the support of third-party accountants to help them make informed business decisions based on the company’s financial state. Fast access to accurate bank statements will ensure that accountants can give advice and support sooner and more effectively.

This can be taken a step further when considering taxation. Paying the right amount of tax is a legal requirement for businesses; however, getting tax right first time is an arduous task for owners and relies on fast access to accurate financial information. If a company director struggles to compile financial data, which is a laborious task in itself, how are they able to ensure they are paying the right amount of taxes?

Open Banking ensures that accountants and tax advisors can more quickly and simply access relevant financial information – enabling company directors to ensure they are paying the right levels of taxation and therefore complying with their legal requirements.

How can something be both ‘open’ and secure?

Contrary to its name, Open Banking offers complete privacy and security. This does not mean it has always been widely accepted as a haven for funds – as with any new system operating with sensitive information, questions were raised surrounding the level of Open Banking’s security. If open is considered the reverse of private, and privacy is almost synonymous with security, then how can Open Banking be secure?

However, Open Banking has been built with security at its core using rigorously tested encrypted systems to protect data and ensure that no third-party entity can access login credentials, codes or passwords.

Only apps and websites that are FCA regulated (or equivalent) can enrol in Open Banking. This means that the data owner must give permission for the data to be accessed and they can limit how much data is shared, such as limiting the timespan of the data or authorising access for a single use only. For re-access of information, requests must be reauthorised.

Consumers and businesses who authorise their data to be accessed via Open Banking are covered by data protection laws and the Financial Ombudsman Service. Open Banking provides a much safer alternative to conventional methods of data sharing, which posed risks with both client data protection and fraudulent activity.

A prime example of this is data collection for accountants. When business owners share bank statement information with their accountants, this is usually in the form of photocopies, scans or csv files. Digitising the information – i.e. inputting the data into Microsoft Excel or another software – is open to manipulation, so it can be very difficult to trust that the data is both genuine and accurate.

Furthermore, the sharing of private financial information via email can also expose security issues.

The more secure option of the conventional methods would be paper bank statements. This is more verifiable (though it is still hard to confirm if the statements are originals or not) but is much less practical and a lot more time consuming.

Despite its complicated and sophisticated structure, supported by rigorous levels of security, Open Banking could not be simpler to use. In fact, it is so simple to use, and has been so widely adopted, that the government will soon be applying Open

Banking software to taxation.

The rise of Making Tax Digital

The decision to introduce Open Banking technology into the sphere of taxation was made based on the sheer number of errors made with self-assessment among business owners, the self-employed and landlords. According to HMRC, avoidable issues with self-taxation have cost the Exchequer more than £8.5 billion in the last three years (see bit.ly/3lZ7VPX).

With the help of Open Banking, the government is adopting a digital solution – Making Tax Digital – designed to simplify and speed up how businesses manage their taxes. Under the programme, VAT-registered businesses turning over more than £85,000 are required to keep digital records of business transactions underlying their VAT returns. HMRC states that: 'The improved accuracy that digital records provide, along with the help built into many software products and the fact that information is sent directly to HMRC from the digital records, avoiding transposition errors, will reduce the amount of tax lost to these avoidable errors.' MTD is planned to move to income tax, starting in April 2023.

The journey to Open Finance

With momentum building in Open Banking and the ecosystem of fintechs expanding, we are shifting towards the next stage of the UK's digital financial journey: Open Finance. The goal of Open Finance is to further encourage competition and innovation in the market. We could see, for example, users compiling the entirety of their financial information into a single digital dashboard so they can view all their balances, savings and investments in one go. This would be especially helpful for business directors who will be able to see an overview of their entire financial position, across personal and business incomings and outgoings.

The FCA has announced that its plans to dive into Open Finance were supported by financial professionals and corporations who outlined some further benefits relating to competition, financial advice and greater access to products and services.

Just as Open Banking had to overcome challenges and speculation, Open Finance will be faced with the same: how will the new initiative protect data and ensure security with increased open access?

The FCA is planning to adopt Open Finance alongside an appropriate regulatory framework with common standards. Whether this is implemented quickly, or the initiation takes longer than expected, it is crucial to ensure that the security and ease of use associated with Open Banking is applied to that of Open Finance. The speed and simplicity of Open Banking is arguably what has made the programme so successful.

Embracing a more open financial world

As the UK’s financial services industry evolves, the opportunities for business and consumers will continue to expand. Whether the aim is to save money and time or simply to gain a better understanding of your personal or corporation’s finances, we are certainly becoming more comfortable with implementing digital solutions and giving access to financial data.

Looking ahead, Open Banking and Open Finance will eventually be referred to as banking and finance, and the open approaches to financial issues will be grounded as the new norm for how we manage and experience money – as funds, debt, tax and more. Not only will this give businesses and innovation a greater chance of thriving in the competitive market, but it will also help them to improve their financial planning with faster and more accurate access to their financial data.