

## OPEN FINANCE AND FIDA NEXT STEPS



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### Open finance: European Union's next step

Open finance is a key component of the European data strategy. It unlocks the potential of data sharing, facilitating broader objectives such as data-driven innovation, digitalisation, retail access, and enhancing competition. By providing a framework for secure and controlled data sharing, open finance can enable the development of new business models and revenue streams, benefiting both consumers and financial institutions.

While the increased availability of customer data facilitated by open finance is expected to lead to more precise and tailored risk assessments for policyholders, it also raises potential concerns. For instance, increased data use could undermine the mutualisation principle, resulting in more individualised approaches that may lead to price discrimination, affecting vulnerable customer groups. Moreover, the increased availability of customer data raises privacy and data

security concerns, highlighting the need for robust safeguards to protect sensitive customer information.

The Financial Data Access (FiDA) proposal, currently under negotiation, provides a framework for the development of open finance in the EU – overall aiming at enhancing opportunities for customers “to benefit from open, fair, and safe data-driven innovation in the financial sector”. The primary objective of the regulation is to empower customers, giving them effective control over their financial data and enabling them to make informed decisions about who and how will use it. Upon consent, operators in the insurance market (undertakings, intermediaries, the newly created Financial Information Service Providers – FISPs) could reuse customers’ historical data for a more accurate assessment of their financial and insurance needs and potential risks, fostering a more competitive and innovative ecosystem. Since the sharing schemes introduced by FiDA should require improved interfaces (versus current practices such as screen scraping), higher quality and timeliness of shared data are expected to support the development of innovative services.

#### EU's open finance initiative: Weighing benefits and risks.

A key question regarding the development of the EU open finance framework is whether it is truly needed and whether the effort to create it is justified. Some market participants argue that before proceeding, there should be clear evidence of demand and use cases, and an assessment of the potential impact on the industry, especially given the costs involved. Others believe innovation will flourish and drive demand, making justification unnecessary.

EIOPA supports policymaking rooted in evidence and impact assessment. However not all potential impacts of enabling legislation can be established ex ante. It is difficult to anticipate how FiDA will evolve and whether it will truly drive open finance growth, as expected. For instance, will FiDA create incentives to develop new business models, products, and services benefiting consumers? What impact will it have

on the industry, and will consumers ultimately be willing to share their data? The debate around FiDA highlights the complexity of developing open finance and the need for careful consideration of its potential impacts.

Ahead of the trialogue negotiations, several questions about FiDA remain. Will consumer consent function as intended, given consumers real control over their data, or will it face similar challenges to those seen with cookie consent, where consent is often given without a true understanding on what is being agreed? Why is only the financial sector addressed? Could FiDA create an imbalance by opening data to third parties, such as gatekeepers, in a way that puts the European industry at a disadvantage? How will its implementation be structured: gradually or all at once? What role will the European Supervisory Authorities (ESAs) play? And is it possible to create regulation in an efficient way, thereby avoiding a large need for clarification at Level 3?

Ultimately, open finance has the potential to significantly benefit the European financial sector. However, developing it will require careful consideration of the complex issues involved. To this end, FiDA should be designed with a willingness to adapt and evolve over time. Adopting a step-by-step approach, with FiDA applying to different products at different stages and allowing sufficient time to develop standards, can be very helpful. Such an approach, coupled with evaluations of its impact, can strike the right balance between innovation, consumer protection, market specificities and industry dynamics, enabling a regulatory framework that benefits both consumers and financial institutions.