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OPEN FINANCE

The opportunity to support small businesses

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Scope:

- The report focuses on Open Finance, a term which is widely accepted as referring to the expansion beyond Open Banking into a wider range of financial products and services.
- The report focuses on small businesses in the UK, but many of the findings are relevant internationally.
- For the purposes of this research, small businesses include sole traders, micro-businesses, and organisations with fewer than 100 employees.
- We use the phrases 'Open Banking' and "Open Finance' as overarching descriptors for these two practices, whether referring to regulated or unregulated activities.

Project Team

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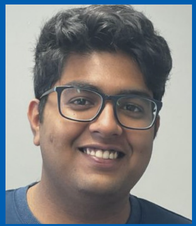

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Whitecap Consulting is a strategy consultancy focused primarily on the UK market. Whitecap typically works with boards, executives and investors of predominantly mid- sized organisations with a turnover of c£10m-£300m, helping clients analyse, develop and implement growth strategies. The firm operates across multiple markets, but is particularly active in the digital, technology and FinTech sectors.

Intuit

Intuit is the global financial technology platform that helps consumers and small businesses overcome their most important financial challenges. Serviing more than 100 million customers worldwide using TurboTax, Credit Karma, QuickBooks, and Mailchimp, Intuit helps put more money in consumers' and small businesses' pockets, saving them time by eliminating work, and ensuring they have confidence in every financial decision they make.

Published May 2023

Foreword

Jolawn Victor
Vice President & UK Country Manager
Intuit

Today's business environment is without precedent. Inflation, the cost-of-living crisis, and fierce competition to attract and retain talent are just some of the factors creating a uniquely complex ecosystem for small businesses today.

That said, Open Finance offers many reasons to be optimistic. As financial technologies and solutions develop, business data holds the key to small business prosperity and financial wellbeing. Today, small businesses have a rare opportunity to unlock growth by taking control of their own data – in turn, gaining access to alternative and often more advantageous investment, borrowing and lending opportunities.

As individuals, many of us have come to rely on wearables: electronic devices that track, analyse and transmit personal data. We are accustomed to sharing that information freely with friends, doctors, nutritionists, and even with health insurance providers, knowing that we will reap the rewards of improved fitness and health.

Operationalising commercial data yields similar benefits. Not only does it empower staff to manage work and personal lives, but it also provides businesses with near-real time, predictive data on their cashflow, making it easier to take decisions from hiring and expansion to cost-cutting and streamlining.

This report shows that operationalising data through access to Open Finance can be key to supporting small businesses. Over 72% of small business owners confess they struggle to accurately forecast their earnings for the year, while 50% say accessing finance is a challenge, with two thirds of invoices being paid overdue.

Open Finance, in turn, is expected to help SMEs bridge an estimated £22 billion funding gap through access to alternative lending models.

Making better business decisions no longer relies on gut feelings alone. Business prosperity can be the result of seemingly small things that make a big difference. We know SMEs spend 15 hours a week on financial business administration, that translates into 780+ hours each year – a third of someone's full-time job. Considering that 95% of all UK SMEs are micro businesses with 0-9 employees, this commitment is likely to take away from entrepreneurs' time with customers.

Open Banking in the UK is one of the most advanced markets in the world, with over 339 regulated firms and 7 million consumers and small businesses in the ecosystem. Open Finance is the next stage of Open Banking, capable of unlocking unprecedented SME growth. But that can only happen with access to accurate data, fully owned and managed by small businesses, and safely shared with 3rd party financial services providers.

In our mission to drive small business prosperity, we must continue the Open Finance conversation, ensuring the voices of small businesses are fully represented. QuickBooks is committed to being part of that conversation as we work collectively to ensure small businesses benefit from the opportunity while being protected from potential risks.

Foreword

Ezechi Britton MBE
Chief Executive Officer
Centre for Finance, Innovation & Technology (CFIT)

I am delighted to provide a foreword for this new report which highlights the significant opportunity the development of Open Finance can offer to small businesses. Open Finance is a topic that is of great interest to us here at CFIT.

Positioned at the intersection of government, regulators and industry, CFIT is the central convening force, leveraging expertise from across all sectors to set strategic priorities, drive solutions and advance financial innovation across the UK.

The creation of CFIT was a key recommendation from the Kalifa Review of FinTech and at its heart is its coalition-led model. Its purpose is to unblock barriers to growth for financial technology by bringing together the best minds from across the UK in order to drive better outcomes for SMEs and consumers.

As announced by Andrew Griffith MP, Economic Secretary to the Treasury, during UK FinTech Week, the first CFIT coalition will deliver on opportunities within Open Finance. Open Finance has been specifically selected as it has the power to create new products, services and solutions, and build on the UK's existing expertise in financial technology.

By building on the transformational experiences of Open Banking and leveraging the recent Joint Regulatory Oversight Committee (JROC) 'Recommendations for the next phase of Open Banking' there are now significant opportunities to realise the future potential of Open Banking and Open Finance.

The move to Open Finance is not without challenges, but it will extensively expand the horizons for financial access, competition and efficiency for all. Where technology has previously been an enabler for financial system change, Open Finance has the scope to move beyond the current confined application of technology and create a new paradigm. A financial system driven by data and smart contracts that enables instant reconciliation and real time economic activity freeing consumers and businesses to focus on the outcomes that matter to them instead of the intricacies of the financial system.

The UK already holds an enviable reputation for its high-growth FinTech clusters throughout the country. The Fintech National Network excels in providing positive regional economic and social outcomes by encouraging financial innovation, collaboration and inclusion. The CFIT multidisciplinary coalitions connect hub learning, incorporate research from academia, and include the finance, policy and regulatory expertise that are crucial to success.

Efficient, controlled sharing of data is central to Open Finance. By creating the right conditions for financial innovation and unlocking powerful data sets, Open Finance can then truly accelerate to help build a Smart Data Economy in the UK that boosts efficiencies, and enables the personalised offerings that will benefit SMEs and consumers throughout the country.

We look forward to exploring the opportunities for small businesses arising from Open Finance as we embark on our inaugural coalition over the coming weeks and months.

EXECUTIVE SUMMARY

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Overview

Open Finance has been a hotly debated topic in the financial services sector for some time now, with considerable focus placed on the potential implications for banks, financial services providers, FinTech firms, and policy makers.

A group that has not been prominently represented in these debates is small businesses, but 99.2% of the UK's companies are small businesses with fewer than 50 employees, employing 12.9 million people. Our report places a strong focus on this group, which is responsible for 61% of the overall £2.3 trillion added to the economy each year by small and medium sized enterprises (SMEs) with fewer than 250 employees.[1]

We have set out to explore the opportunity that Open Finance presents for the small business community, and to identify how this opportunity can be unlocked. In doing this, we looked at five key issues that face small businesses:

- Managing cashflow
- Access to finance
- Managing late payments
- Winning new customers
- Supporting financial business administration

We have conducted extensive desk research to collate and reflect on the work to date of policy makers, researchers, and industry thought leaders. A programme of 35 interviews has supported this, spanning industry experts and small business owners. This report summarises this work, and highlights the opportunities, issues, and actions in relation to ensuring Open Finance delivers tangible benefits for the UK's small businesses.

Our research reflects on the impact of Open Banking to date, finding it has positively impacted small businesses in terms of their financial administration capabilities, management of cashflow and late payments, and access to finance. We also conclude that the potential for Open Banking to support small businesses has not yet been fully realised, and that there are challenges within the current ecosystem that need to be addressed in relation to adoption, trust, and data standardisation.

Developing a broader Open Finance framework represents an opportunity to provide significantly enhanced support to small businesses, as illustrated by our impact analysis, which rates the impact from low to very high:

	Managing cashflow	Access to finance	Late payments	Winning new customers	Supporting Financial Business Admin
Impact of Open Banking	MEDIUM	MEDIUM	MEDIUM	LOW	HIGH
Potential impact of Open Finance	HIGH	VERY HIGH	HIGH	HIGH	VERY HIGH

In assessing the impact to date of Open Banking and the future potential impact of Open Finance for small businesses, we considered the following:

- The number and potential value of use cases.
- The potential to drive significant industry change.
- The investment required by small businesses.
- The development of propositions to specifically help small businesses.

To unlock the opportunities offered by Open Finance, there are three key areas of consideration for policymakers:

- Support of small businesses should be an area of specific focus in the development of Open Finance.
- A number of issues will need to be addressed to unlock the opportunities that Open Finance can present.
- Developing an effective Open Finance framework could help small businesses address the key challenges they face.

Additionally, to help drive adoption of Open Finance amongst small businesses there is a requirement for the clear articulation of use cases, and the effective communication of the benefits to small businesses.

1 Department for Business, Energy and Industrial Strategy (2022).

Key takeaways for policy makers

Support of small businesses should be an area of specific focus in the development of Open Finance:

- Open Finance can improve Open Banking standards and practice in a way that encourages innovation and competition amongst small businesses and that incentivises participation and data-sharing.
- Small businesses would benefit from a clear roadmap of delivery of Open Finance and Open Data, led by a central independent body with oversight of policy development, and a mandate to identity the required data sets.
- Policymakers should launch an educational campaign to engage with small businesses and support public and private sector partnerships to highlight use cases and drive adoption of Open Finance and smart data.
- Small businesses will look to policymakers and regulators to develop specific data-sharing solutions for small businesses with the convenience that standard APIs and the support of third party providers can bring.

A number of issues will need to be addressed to unlock the opportunities that Open Finance can present:

- The potential for Open Banking to support small businesses has not yet been fully realised and should remain a key focus.
- The scope and regulatory framework for Open Finance needs to be defined, and the funding model and commercial incentives need to be designed.
- Standardised data sets and APIs must be developed, as well as the implementation process necessary for financial services organisations.
- Regulators and policymakers need to consider ownership of data (namely in relation to the small businesses that generate the data) and data portability (where the data owner can freely transfer data to other providers) in the design and implementation of an Open Finance framework.
- An Open Finance framework would need a commercial model that incentivises all players in the ecosystem.

Developing an effective Open Finance framework could help small businesses address the key challenges they face:

- **Managing cashflow:** Small businesses find it difficult to forecast their cashflow, and cashflow based financing is on the rise. Open Finance can make cashflow based invoicing and forecasting more accurate and personalised.
- **Access to finance:** There is currently a significant funding gap for small businesses. Open Finance will benefit these businesses, who will be more likely to get a loan they can afford, and will benefit from a more efficient application process. It will also help lenders, helping them create personalised products and make quicker decisions with improved credit checking processes.
- **Managing late payments:** Variable Recurring Payments (VRPs) for non-sweeping use cases were identified as a means of cutting transactional costs and reducing waiting times for payment (both key considerations for small businesses). Whether it is via Open Finance or an enhanced Open Banking framework, the Account information service (AIS) and Payment initiation service (PIS) journeys should be linked to enable payments through accounting platforms.
- **Winning new customers:** Low consumer confidence is making it harder for small businesses to acquire new customers. Open Finance should help those in the remit of financial services through better credit assessment. There is potential to help small businesses through integration of CRM data with other software and being able to offer alternative payment methods.
- **Financial business administration:** Open Finance can make it easier for small businesses to link financial services products to their accounting platform, resulting in an increased awareness of their financial position. This could also improve the accounting process through less manual data entry for tasks such as tax calculations.

Issues facing small businesses

LOW impact | MEDIUM impact | HIGH impact | VERY HIGH impact

	Managing cashflow	Access to finance	Late payments	Winning new customers	Supporting Financial Business Administration
Issues	• External economic factors are hurting businesses cashflows. • Cashflow based lending is increasing. • Small businesses struggle forecasting their cashflow.	• 50% of small businesses report accessing finance is a challenge.[2] • SMEs are turning to alternative lending models. • £22 billion funding gap for SMEs.[3]	• Almost two thirds of invoices are overdue when paid.[4] • High correlation to late payments and insolvency. • Micro businesses have the highest proportion of their invoice value overdue. • Relatively more of an issue for B2B sectors	• Additional regulation around consumer privacy is expected to make it even more challenging. • Reduced public trust in advertising, due to changing consumer behaviour.	• Small businesses spend 15 hours a week on financial business administration.[5] • Tax administration costs £4100 a year.[6] • Proportionally, the burden is higher for smaller firms. • There is a lack of awareness on tax reliefs.
Impact of Open Banking	• Better management and visibility of cashflow. • Ability to forecast cashflow. • Lenders have a better view of a company's cashflow positions, improving the process of cashflow based financing.	• Lenders get access to real time up to date transactional information. • Reduction in manual data entry in the application process. • Streamlines the onboarding process.	• Improved invoice management. • Open Banking payments leads to quicker, cheaper and less manual data entry.	• Open Banking can create an enhanced view of a customer's creditworthiness. • CRM systems help build customer relationships and improve customer service.	• Connecting bank accounts to cloud accounting software. • Small businesses link their cloud accounting platform to their accountants which improves tax calculations.
Potential impact of Open Finance	• Real-time view of current financial position. • More accurate and personalised cashflow based lending. • Further improved cashflow forecasting tools.	• Increased financial visibility of a company to a lender. • More accurate credit assessment. • Further streamline the onboarding process. • Enhancing personalised lending products.	• Variable Recurring Payments for non sweeping use cases cuts transactional costs and improves payment times. • Link the AIS and PIS journey to initiate payments through their accounting platform.	• Increases brand stickiness and loyalty of clients. • Alternative payment methods are beneficial for small business to adapt to changing consumer needs.	• Having all financial data in one place will improve tax calculations. • Better management of payroll.

2 British Business Bank (2021)
3 Bank of England (2019)
4 Intuit (2022)
5 Starling Bank (2021)
6 FSB (2021)

Open Finance datasets to support small businesses

To enable the effective implementation of Open Finance related services, a wide range of datasets will need to be made available to appropriately authorised entities. These datasets already exist today, so the primary issue is how to enable organisations to access them. The accessibility of data, in a standardised format, is a critical enabler of the effectiveness of Open Finance.

Small business problem	Managing cashflow	Access to finance	Late payments	Winning new customers	Supporting Financial Business Administration	
Product datasets	Banking E-Commerce Lending Payroll Savings Tax	Banking E-Commerce Lending Payroll Savings Tax	Banking Lending	Communications E-Commerce	Banking Communications E-Commerce FX Insurance Investments	Lending Payroll Pensions Savings Tax Utilities
Other relevant datasets	Company Profile Data					
	Director Profile Data					
	Customer Profile Data					
	Trading Data					
	Payments Data					

These datasets are covered in more detail later in the report, where we illustrate which specific data might be required to be made available within these datasets for Open Banking, Open Finance and Open Data related services to be provided.

Opportunities & Actions for Key Stakeholders

Policymakers

Including regulators, legal advisors, membership groups, and lobbying organisations

Opportunities

- Improve innovation and competition.
- Engage with small businesses to understand how best to raise awareness of use cases.
- Increase trust in open-API ecosystems.

Actions

- Expand API data sets.
- Set up a central body for Open Finance.
- Consider creating trust marks for Open Banking and Open Finance.
- Effectively implement VRPs across non-sweeping use cases.

Financial Services Providers

Including banks, lenders, insurers, investment providers, and other financial services providers

Opportunities

- Offer personalised financial products.
- Increased collaboration and problem-solving capabilities from working with FinTechs and other third parties.
- Enhance compliance (eg via streamlined ID & Verification processes).

Actions

- Establish and/or improve connectivity with third party providers and small businesses.
- Engage in promotion of use cases to help educate small businesses.
- Increased transparency around data storage, privacy, and security.

Small Businesses

Including sole traders, microbusinesses, small businesses with under 100 employees

Opportunities

- Increased competitiveness.
- Improved access to finance.
- Enhanced access to real-time financial data.
- Lower financial administration costs.

Actions

- Review current software capabilities vs requirements and open-API enabled services available in market.
- Understand use cases.
- Engage with trade bodies, industry experts, and other small businesses.

Third Party Providers

Including FinTechs, tech firms, cloud accounting providers, advisors, and support providers

Opportunities

- Create a wider and deeper set of products and services that help small businesses.
- Increased efficiency and access to small businesses, which can help enhance adoption of Open Finance services.
- Streamline processes such as credit assessments.

Actions

- Establish and/or improve connectivity with financial services providers and small businesses.
- Engage with financial services providers to build solutions.
- Increased transparency on the use of data.


PRIME
+12.0
+83.0
COMPETITIVE ANALYSIS
80%
75%
POLL TITLE
INFOGRAPHIC
INFOGRAPHIC

OPEN FINANCE FOR SMALL BUSINESSES

2

Open Banking and small business

- Overview of impact on small businesses
- Timeline of key developments

Open Finance and Open Data

- Overview of potential impact on small businesses
- Timeline of key developments

Open Finance datasets

- Small business datasets required for Open Finance
- Product level datasets

Open Banking and small business

The majority of readers of this report will be familiar with the development of Open Banking, but for those who are not we have provided a brief overview.

Open Banking was introduced into the UK banking market to help improve competition and make banks fight harder to retain their customers. It provides authorised third parties with open access to banking transaction data, and other financial data from banks and non-bank financial institutions through the use of application programming interfaces (APIs).

Under Open Banking, banks allow access and control of customers' personal and financial data to these Third-Party Providers (TPPs), with their consent, which allows the TPPs to use shared customer data through APIs. It was set up by the Competitions and Market Authority (CMA) and involved the creation of CMA9, a group of the nine largest banking providers in the UK and the Open Banking Implementation Entity (OBIE).

Open Banking regulation started back in 2007 with the EU Payment Services Directive 1 (PSD1), which was later updated in 2015 and implemented in 2018. It provided a regulatory framework for new types of regulated TPPs to operate and opened a path to integration with CMA9 banks' APIs.

OBIE was established in 2017, which is responsible for leading the development of technical standard to enable Open Banking in practice. The Financial Conduct Authority (FCA) currently regulates Open Banking in the UK. In 2021, the CMA consulted on the future of Open Banking in the UK and published recommendations, emphasising the need for independent leadership and a clear purpose along with a more sustainable funding model that considers the interests of consumers and SMEs.

Open Banking has resulted in the introduction of two new types of entities as part of the EU's PSD2 regulation: Account Information Service Providers (AISPs) and Payment Initiation Service Providers (PISPs). AISPs have enabled account-data solutions such as budgeting and personal finance management tools that aggregate consumers' balances and transactions and provide a clear view of spending across categories. PISPs are enabling practical use cases for sweeping, such as moving funds from one account to another owned by the same person or business, presenting a viable alternative to cards for online commerce.

According to analysis included in the Open Banking Impact Report earlier this year, the majority of providers (48%) target both consumers and small businesses, while 30% focus solely on consumers and 22% focus solely on small businesses. However, consumers account for 55% of end users, while small businesses account for 39%.[7] The composition has not changed significantly in the last year.

The Open Banking Report also stated that over 16% of small businesses are estimated to be active Open Banking users, owing to the increasing adoption of cloud accounting and its migration to Open Banking. In comparison, only about 10% of consumers use Open Banking. Small businesses are heavily skewed towards AIS usage (79% of users, with an additional 7% using both AIS and PIS), whereas consumers are 52% AIS users (with an additional 8% using both services) and 40% PIS users.

Open Banking in the UK is one of the most advanced markets in the world, with over 249 regulated firms in the ecosystem in May 2022. Of these regulated firms, 159 are TPPs and 90 are ASPSPs, representing over 95% of active current accounts in the market.[8] The total valuation of the Open Banking sector in the UK was valued at just over £4 billion in 2022.[9]

The Treasury is currently working with the FCA and the PSR to develop a new regulatory framework for Open Banking and Open Finance, over which they will share responsibility for regulatory oversight. Until this new framework is formed, a Joint Regulatory Oversight Committee (JROC) has been established to oversee the transition to the new entity.

JROC has recently released its report on the future of Open Banking which includes a roadmap and a proposal to extend VRPs to non-sweeping use cases. It also states that the value of Open Banking to small business is £6 billion per year, however this statistic was dated 2019 so the number today is likely to be considerably higher.[10]

7 OBIE, 2021.
8 OBIE, 2023.
9 Coadec, 2023.
10 JROC, 2023.

Development of Open Banking in the UK

2007 2015 2020 2023 2024 2025

2007

PSD1 was implemented by the European Commission. PSD1 set the rules for Open Banking, setting the standard for regulation.

2015

Based on PSD1, UK government enforced a legislation to open up their databases and share them with TPPs, regulated by the FCA.

2017

CMA9 added more regulation when they required the 9 largest banks to comply with PSRs, which led to the creation of OBIE in 2017, which is responsible for leading development of technical standard to enable Open Banking.

2018

PSD2 was implemented, making it mandatory for banks to share their databases with TPPs via APIs.

2021

The CMA consulted on the future of Open Banking in the UK and published recommendations, which included plans to establish a new entity that replaces the OBIE.

2022

Joint Regulatory Oversight Committee (JROC) was established to oversee the further development of Open Banking and Open Finance.

2023 Q2

ASPSPs will assess the conformance with the FCA's existing guidance in relation to payment limits.

The OBIE will develop pricing framework for on-Order functionality.

2023 Q3

A VRP working group will draft a delivery plan and framework o enable a phased roll out of non-sweeping VRPs.

The OBIE will conduct data collection and analyse data for API availability and performance.

2023 Q4

OBIE will perform a gap analysis of dispute processes.

Expected start of the transition from the OBIE to the future entity.

The OBIE and Pay.UK will implement the use of Open Banking based data sharing in Faster Payments to reduce fraud.

The FCA and PSR will conduct consumer research to identify critical and future use cases and risks for (vulnerable) customers.

2024 Q1

The OBIE and future entity will implement financial crime prevention tools for TPPs and ASPSPs.

2025 Q4

A multilateral agreement or rulebook or premium APIS will be implemented.

Open Banking - industry stakeholder quotes

"In Open Banking, the original guide in the CMA remedy had a narrow set of products really focused in and around the transactional banking relationship."

Head of FinTech, global professional services firm

"Open Banking is regulated around two simple things - data and how you can aggregate or release data to certain parties, and payment in terms of how organisations can help make payments in an easier way in some cases."

Nathan Flowers, Business Propositions Lead, NatWest

"Open Banking's big limitation is that it's limited to payment accounts or at least the account information services and payment initiation services."

Thomas Morrison, Principal Associate, Financial Services, Shoosmiths

"Open Banking and Open Finance are terms that are used interchangeably and there is a lot of mixed messaging. It would be better to have a single term in order to avoid confusion."

Glenn Collins, Head of Technical and Strategic Engagement, ACCA

"Open Banking is a CMA order and relates to the data sets / product set defined per the CMA order and the slightly broader PSD2 parameter."

Payments expert, global financial services brand

"In terms of datasets, even basic general reference data can give insights in key characteristics of the consumer or the business. For example, the age of the person is not included in the current Open Banking mandate (it's only part of the ECA standard), but you can build a lot of use cases for age related products e.g., consumption of alcohol and purchasing certain products and services online."

Professor Markos Zachariadis, Chair in Financial Technology & Information Systems, Alliance Manchester Business School, University of Manchester

"Open Banking from a regulation standpoint has two meanings – 1) a set of principles around the sharing of data that allows a customer to grant access to their accounts to a third party provider – often associated with the access to accounts aspects of PSD2 (but also similar regulations in other jurisdictions) and 2) the standards set out in the UK market as instructed by the CMA in order to foster innovation and competition whilst meeting PSD2 objectives."

James Guy, Group Lead for Open Banking, Lloyds Banking Group

"The core of Open Banking in the EU and UK is payment accounts. Even though it should be uniform across different jurisdictions, it's not."

Nilixa Devulkia, Chair, Open Finance Association

Open Finance and Open Data

Open Finance is an extension of Open Banking that goes beyond the scope of data and allows trusted TPPs to access greater financial data to provide better tailored propositions across a wider range of financial services products and other services.

Open Finance is currently a more loosely defined term than Open Banking with no clear outline of a regulatory framework, meaning there is a lack of clarity on what is in scope for Open Finance.

While Open Banking applies only to transactional data, Open Finance will apply to all, or most financial services accounts, such as savings, insurance, mortgages, and investments. This is part of the Government's broader Smart Data initiative to enable secure and consent-driven cross-sector data sharing with TPPs, starting with finance, energy, and communications.

The industry experts we engaged with considered Open Finance to represent the evolution of Open Banking, but views on the scope and data sets to be included in an Open Finance ecosystem were varied.

The specific areas / data sets that were highlighted included:

- Data that small businesses need to report on, such as **accounting and tax** related data (which could also relate to product data).
- **Digital Identity** / ID&V (which was highlighted as a critical omission from the Open Banking framework).
- **Financial products** that small businesses use, such as insurance, loans, mortgages, credit cards, pensions, and investments.
- **Non-financial products** using smart data, such as energy and other utilities.
- **Customer related data**, trading performance, sales transactions and payment data.
- **Invoice data** (e.g. amounts, payee, date issued, date paid).
- Company and director **profile data**.
- **Smart data** such as geolocation (to enable linking location to products and services).

We also investigated attitudes and expectations across the categories of raw data and proprietary data in the context of the future of Open Finance:

- It's expected that raw data sets will be within the scope of the Open Finance framework, and will need to be made available (e.g. transactional data)
- Proprietary / curated datasets that are created using multiple datasets and insights within an organisation are not expected to be made freely available, unless this is on a commercial basis (e.g. integrated data reporting)

Open Finance is expected to be regulated by the EU Commission, which has announced that an Open Finance regulatory framework will be presented in 2023, which in turn will pave the way for a phased Open Finance implementation in late 2023 or 2024. This framework may mandate Open Finance by law in the same way PSD2 did for Open Banking. Any regulatory framework is expected to address the potential risks posed by Open Finance, such as security and fraud, financial exclusion, poor consumer outcomes, and operational resilience.

UK authorities acknowledge they need to ensure coherence between Open Finance rules and other Financial Services and cross-sector rules, such as consumer and data protection, or the digital ID trust framework. Stakeholders interviewed for this report also expressed the need for authorities to clarify the next steps and timings concerning the other key building blocks necessary for Open Finance to become a reality, which includes an Open Finance implementation entity, common APIs, user experience standards, and a fair liability model between different ecosystem participants.[11]

Our research identified stakeholder concerns in how the shift will be facilitated in terms of the financial services providers in the product areas of expansion. These organisations may be required to undertake a similar project as the CMA9, in terms of needing to build technology that enables integrated APIs for TPPs.

In the meantime, Open Finance is set to remain a high profile topic across Financial Services and FinTech and will feature prominently in upcoming innovation-focused activity. For example, Open Finance was one of four strategic themes identified in FinTech Scotland's 10 year Research & Innovation Roadmap last year, and in partnership with the Smart Data Foundry it will soon be running an innovation challenge focused on Open Finance for SMEs. Open Finance has also recently been announced as the focus of the first coalition of the new Centre for Finance, Innovation & Technology (CFIT).

11 Department for Digital, Culture, Media and Sport (2023)

Open Data / Smart Data

The Department for Science, Innovation and Technology and Department for Digital, Culture, Media & Sport published the National Data Strategy back in July 2019, which was a pro-growth strategy, aimed at building the UK into a world-leading data economy, while ensuring public trust in data use. In September 2020, the Department for Business, Energy, and Industrial Strategy (BEIS) unveiled plans to introduce primary legislation aimed at expanding the government's authority to require participation in Smart Data initiatives.

The aim of the National Data Strategy is to drive the collective vision that will support the UK to build a world-leading data economy. It will help ensure that people, businesses, and organisations trust the data ecosystem, are sufficiently skilled to operate effectively within it, and can get access to data when they need it. The NDS will also provide coherence and impetus to the wide range of data-led work across government, while creating a shared understanding across the economy of how data is used.

In April 2023, during UK FinTech Week, a new Smart Data Council was announced by the Department of Business & Trade, to help lower bills for consumers and small firms by making it easier to switch utility providers.

Speaking about the launch, Business and Trade Minister Kevin Hollinrake said:

"Our new Smart Data Council will build on the success of Open Banking and spearhead measures in sectors like SME finance, energy and telecoms, increasing competition and putting more money in the pockets of consumers and small firms."

Development of Open Finance in the UK

2019

June 2019

Stage one call for evidence opens.

2020

Sept 2020

National Data Strategy Published

Stage 2 consultation opens.

2020

European Commission published the Digital Finance Strategy which brought Open Finance to light.

2021

2021

Smart Data Working Group was launched by BEIS in reposes to the Smart Data Review and committed to introduce primary legislation to mandate participation in smart data.

June 2021

National Data Strategy Forum is created.

Sept 2021

Data: a new direction consultation opens.

National Data Strategy monitoring and evaluation framework published.

Nov 2021

November 2021: National Data Strategy Mission 1 Policy Framework published.

2022

2022

FCA published its feedback statement on Open Finance and confirmed its commitment to continue pursuing Open Finance

2022

Joint Regulatory Oversight Committee (JROC) was established to oversee the further development of Open Banking and Open Finance.

2023

2023

OBIE announced that CMA Open Banking roadmap has been completed, and that OBIE will look to the newly formed JROC for decision making in the future.

2023/24

2023/2024 – Proposed implementation of Open Finance

Development of Open Data Policy in the UK

2024

Open Finance - industry stakeholder quotes

"Open Banking is focused on banking and payments, Open Finance breaks that wide open and is the pathway towards an open data society"

Andy Thornley, Head of Financial Services, Tech UK

"Open Finance relates to non-bank financial institutions. It's about providing services like AIS and PIS to non-banks - it's basically a broader expansion of Open Banking."

Paul Stoddart, President, GoCardless

"Open Finance is looking at a wider range of account types and use cases. Exactly how wide is unclear yet because it could include a diverse range of products such as insurance, savings, loans, mortgages and other business-related products."

Open Banking Expert, CMA9 Bank

"Open Finance is the movement on from Open Banking. It's about working out what the banks will provide via the API channel across products including mortgages and other areas of financial services. What I'm not clear about is whether it goes as far as things like pensions or not."

Brian Palmer, Managing Director, Tax Policy Advice

"Open Finance is a lot broader than Open Banking. It can include pensions, investments, savings, and provides a vision of SMEs seeing their entire 'life' in summary."

Kevin Telford, Future FS Strategy Consultant, Monstarlab

"Open Finance is currently open ended in terms of how to define it. A great many datasets could potentially be relevant to helping a product provider to make a financial decision which is not to do with a bank account. It could be credit bureau data, accounting data, VAT data… any number of things."

Mike Carter, Head of Platform Lending and Investment, Innovate Finance

"Open Finance is how you're going to apply an approach similar to Open Banking and PSD2 legislation to other parts of the financial sector. More importantly, to open up the benefits to more organisations not in financial services in terms of businesses and consumers, particularly small businesses."

Ian Fraser, Client Partnership Executive, AND Digital

"OOpen Finance has a somewhat flexible definition at the moment. The way I think about it, it is the expansion beyond the payment accounts to wherever you have your money, for example, enabling the likes of wealth management accounts to allow third party providers to access the full range of financial data you might have."

Craig Tillotson, CEO, Ordo

"The data sets that need to speak to each other to deliver the value, already exist in Open Banking. The banking datasets and the invoice datasets can already interact but what Open Finance can bring in is the product related data set and then we go back to the question of who's going to go through the data aggregators world."

Payments expert, global financial services brand

"The upgrade from Open Banking to Open Finance relates to anything that's finance related, not just pensions and payments, but also how things like invoice data can be made available. It will then evolve into open data, which opens it up to all sectors, but the lines will blur between them."

Peter Cornforth, Commercial Director, Answer Pay

"The more data you open up, the more functionality you can develop across different financial products. You can be moving from opening up payments, through to products like insurance, wealth management, and other areas. Open Finance is the bigger picture in terms of data sharing in financial services."

Professor Markos Zachariadis, Chair in Financial Technology & Information Systems, Alliance Manchester Business School, University of Manchester

"The demand side and supply side have diametrically opposed incentives. The only way we're going to overcome that is to have a regulatory mandate together with the right balance of incentives to make Open Finance happen."

Nilixa Devulkia, Chair, Open Finance Association

"Open Banking is mainly focused on forcing banks to stop having full ownership of customer data, and opening this up to increase competition. Open Finance is brooding this out to include a wider product set such as loans and mortgages, and the next phase after this will be what I've often heard referred to as 'open life', which will include wider datasets such as heath."

Professor Karen Elliott, Chair of Practice in Finance & FinTech, University of Birmingham

Open Finance datasets

Small business datasets for Open Finance

As part of our analysis, we mapped out the datasets that will potentially be required for Open Finance. We have included this work in this report not because we consider it to be definitive, but so that others can review, evolve, and adapt it to meet their own requirements. During our research we found a lack of published information in respect to datasets, despite reports on Open Finance frequently highlighting that clarity and detail on datasets will be required.

Small business problem	Managing cashflow	Access to finance	Late payments	Winning new customers	Supporting Financial Business Administration
Product datasets	Banking E-Commerce Lending Payroll Savings Tax	Banking E-Commerce Lending Payroll Savings Tax	Banking Lending	Communications E-Commerce	Banking Communications E-Commerce FX Insurance Investments Lending Payroll Pensions Savings Tax Utilities
Company Profile Data					
Size (Assets)	X	X		X	X
Number of Employees		X			X
Wages	X	X			X
Location		X			X
Sector	X			X	X
Age of Organisation					X

Open Finance datasets contd.

Small business problem	Managing cashflow	Access to finance	Late payments	Winning new customers	Supporting Financial Business Administration
Director Profile Data					
Name	X	X	X	X	X
Age					X
Credit Profile	X	X	X		
Inventory	X			X	X
Customer Profile Data					
Number of Customers			X	X	
Profile of Customers			X	X	
Debtors	X		X		
Trading Data					
Revenue	X	X	X	X	X
Current balance	X	X	X		
Growth / performance	X	X		X	X
Interest receivables and deductibles	X	X			
Supply chain / cost of goods			X	X	
Payments Data					
Payments in / out	X	X	X	X	X
Categories of payments	X		X	X	X
Pending transactions	X		X	X	
Means of payment	X		X	X	X
Payment method			X	X	

Product level datasets required for Open Finance

Small business datasets for Open Finance

Having identified the overall datasets that are required, our exploration of datasets led us to seek to map a more detailed view of the specific data fields that might need to be accessed to enable the successful implementation of Open Finance services.

We considered this across Open Banking, Open Finance, and aspects of Open Data, and over the next three pages we have shared our initial findings.

Open Banking Datasets

Bank Accounts
Account holder details
Name
Office location
Transaction history
Date
Time
Amount
Description of transaction
Account information
Deposits
Securities
Account type
Withdrawals
Fees
Interest earned
Balance
Pending transactions
Standing orders
Direct debits
Other
Transaction codes
Merchant category codes or activity codes
Company code
Financial liability informaiton

Product level datasets required for Open Finance

Open Finance Datasets

Foreign Exchange (FX)

Currency balances
- Current balance

Transaction history
- Date
- Time
- Amount
- Exchange rate of the transaction

Exchange rates
- Real time exchange rate

Insurance

Account details
- Name
- Address
- Contact information

Transaction information
- Amount due
- Due date
- Payment history

Claim information
- Type of claim
- Date of claim
- Status of claim

Account information
- Coverage limits
- Deductibles
- Type of coverage
- Policy number
- Policy term

Insurance provider information
- Name
- Address
- Contact information

Policy renewal inforamtion
- Renewal date
- Premium amount
- Changes to policy

Investment Accounts

Account information
- Account type
- Account name
- Account number
- Current balance

Investment transactions
- Date
- Time
- Value
- Type of transaction (buy or sell)
- Pending transactions

Performance
- Current value of portfolio
- Rate of return
- Fees / charges associated with portfolio
- Asset allocation

Tax information
- Capital gains
- Dividends
- Tax allowance / deductions

Other
- Investment risk profile

Loans

Loan details
- Loan amount
- Interest rate
- Repayment terms
- Payment schedule

Loan balance
- Payments made
- Outstanding payments

Loan repayment history
- Date
- Amount
- On time or late payment

Payment schedules
- Due dates
- Amount of each payment

Credit reports
- Credit score
- Outstanding debts
- Missed payments or defaults

Payroll

Employee information
- Name
- Address
- Date of birth
- National insurance number

Payroll transactions
- Date
- Amount of each payment
- Deductions or taxes withheld
- Employer contributions

Tax information
- Paye
- National insurance

Pension contributions
- Amount of contributions
- Name of pension scheme

Employee leave information
- Annual leave
- Sick leave
- Parental leave

- Employee contracts
- Job title
- Salary
- Benefits

Pensions

Pension scheme details
- Name
- Provider
- Scheme number

Pension contibutions
- Amount
- Frequency
- Payment date

Pension fund performance
- Current value of fund
- Rate of return
- Fees or charges

Pension scheme members
- Name
- Age
- Contribution amounts

Other
- Pension scheme statements

Savings Accounts

Account information
- Account number
- Account type
- Account balance

Transaction history
- Date
- Time
- Amount
- Description of transaction
- Pending transactions

Interest rates
- Current rate
- Type of rate (fixed or variable)
- Interest rate history

Fees and charges
- Monthly maintenance fees
- Transaction fees

Terms and conditions
- Minimum deposit requirements
- Withdrawal restrictions
- Penalties

- Other
- Overdrafts
- Limits

Tax

Revenue and sales
- Gross revenue
- Net revenue
- Sales by product
- Sales by region
- Sales by customer
- Sales by channel
- Sales by time period

Expenses
- Salaries
- Rent
- Utilities
- Other operating expenses

Tax fillings
- Income tax returns
- Payroll tax returns
- Sales tax returns

Balance sheet data
- Assets
- Liabilities
- Equity

Employee data
- Salaries
- Benefits
- Tax information

Open Data Datasets

E-commerce

Order history
Date
Time
Value of order
Name of product purchased
Customer name
Customer address

Transaction information
Payment method
Amount paid
Date
Time

Customer information
Names
Address
Email address
Phone number

Sales performance
Total revenue generated
Number of orders received
Average order value

Product information
Name
Description
Price
Inventory levels

Website traffic
Number of visitors
Pageviews
Bounce rate
Key word algorythms on marketplaces

Communications

Email data
Email addresses
Email messages
Attachments
Date sent
Time sent
Subject time
Recipient

Chat data
Chat messages
Chat transcripts
Date sent
Time sent
Recipient
Sender

Social media data
Posts
Comments
Likes
Shares
Date posted
Time posted
Post content
Activity history
Message content
Tagged posts

Voice data
Call logs
Call recordings
Date of call
Time of call
Caller id

Sms data
Message content
Attachments
Date sent
Time sent
Sender
Recipient

Utilities

Account details
Account number
Billing period
Payment due date
Name of business
Registered address
Contact information

Payment history
Amount
Date
Outstanding balances
Late payment fees
Credit balances
Payment method

Consumption data
Electricity
Gas
Water

Tarriff information
Unit rates
Standing charges
Discounts / incentives

Meter information
Meter type
Location
Serial number

SMALL BUSINESS RESEARCH OVERVIEW

Small business attitudes to data sharing

The adoption of Open Finance by small businesses

Analysis of small business issues:

1. Cashflow
2. Access to finance
3. Late payments
4. Winning new customers
5. Supporting Financial Business Administration

Small business attitudes to data sharing

"I'm very financially open, and I think that in general, as society, we should be more open with finances and a lot less secretive. We're way too quiet about things."

Micro Business, Education and Training

"For me it's about streamlining, the smoother our process can be, the more information we can access at a faster pace, then I'd be happy to go FinTech. I don't want to spend hours on bulky systems trying to find the data I require. My concern is where would it get stored and what are the protections on that data. Who can access the information and how."

Small Business, Construction and Housing

"I'm relatively comfortable with sharing my data, it's becoming more and more prevalent. I'm aware of the value of data for certain companies and the thing that keeps me happy is that ability to customise. There are some accounts I will never want to share for example my family finances account."

Sole Trader, Financial and Legal Consultant

"A small business is far more vulnerable. Considering how much fraud and theft of personal information even from large companies. I wouldn't want to be giving organisations access to data they might not necessarily need or there needs to be big security measures where there's a guarantee of complete eradication of your data that isn't essential from their system."

Sole Trader, Retail

"Something like a kitemark would go some ways to alleviating my concerns. I don't have a problem doing it between NatWest and Xero because they're both pretty big names, but once you start talking about companies that aren't big or relatively unknown, something like a kitemark would be pretty useful."

Micro Business, Hospitality

"Whatever can make a business's life easier. If the data is protected and secure and you don't wake up one day and your bank account has been drained it's all good. I don't want our information to be sold or I don't want the competitors to see our financial position."

Small Busisness, Hospitality and Events

"The use cases need to be communicated more; I don't have a clue on Open Banking, and I like to think I'm switched on. Change is always going to be a problem, adopting to new ways of working and dealing with finances. Communicating the benefits would clear up the scepticism."

Small Business, Videography and Web Development

"If there are recognisable marks that you look for that gives you a little bit of reassurance. But it comes back to the fact that you're being told all the time to protect your data because someone's going to steal it. There is a feeling of opening yourself up to greater risk of your data being used for not such good purposes."

Micro Business, Retail and Manufacturing

"The one thing I would be concerned with it, if I had a load of companies connected into my dashboard. I can't trust how stable it is, secondly if someone gets your accounts details for that one dashboard it would be a huge security risk. Also, if there's too much data, you're going to lose that creativity; you have to have that bit of human creativity and the more data you get the less risks you're going to take."

Small Business, Leisure and Hospitality

"I don't like connecting third parties to my bank account. It's a security issue for me. It's the connection built between the bank and the software is where the attack can happen and that's my problem. If the bank said we recommend this software, and we guarantee that if everything goes wrong, we'll take care of it then I wouldn't be bothered but banks don't give that guarantee. If they could advertise what they did for safety, then I would consider it."

Sole Trader, Consulting and E-commerce

"Naturally I've always got concerns. However, it's a necessary evil and I need the software. When it comes to money you need a company you can trust to be able to sleep easy with my money sitting with them. I checked a lot of reviews."

Micro Business, Digital Marketing and Consulting

Industry views on adoption of Open Finance for small businesses

What issues does Open Finance need to address in order to realise benefits for small businesses?

"There is a concern that Open Finance will create a nebulous world where data simply flows freely, but with the right rules, the user is in control. Importantly, APIs will need to be built, and the incentives to build them will need to be there for the financial sector, while businesses and consumers will also need to see benefits in order to adopt them. Regulation is one such driver, but first-mover data holders have a lot to gain from proactively leading the way before regulation arrives."

Charlie Mercer, Head of Economic Policy, Coadec

"We need to make it easier for TPPs to understand legal framework and regulations they need to operate within especially with overlapping regulations for example in Money Laundering Regulation (MLR)."

Nathan Flowers, Business Propositions Lead, NatWest

"One of the challenges we have today, which is playing out as we speak, is the transition of the OBIE a future entity and that's because the CMA 9 fund it, it's not a sustainable ecosystem for the future."

Nilixa Devulkia, Chair, Open Finance Association

"Standardisation in terms of access to data. It's not about the set of data, but how you collect it and how its available. More efficient APIs in terms of time to respond. Along with more clarity in terms of some of the data that's available."

Rafael Kiessling, Director of SME B2B for Central Europe, Mastercard

"Use of an identification system which all services can tap into and rely upon would be hugely valuable. Identity and verification are closely coupled and key enablers of Open Finance and Smart Data ecosystems going forward."

Vaughan Jenkins, Director of Business Development, Moneyhub

"The extension into Open Finance in relation to lending should be an easier revolution because you're talking to the same audience. Once you start bringing in the investment companies, it will get a lot more challenging, because this is something they haven't built their systems for."

Thomas Morrison, Principal Associate, Financial Services, Shoosmiths

"For small businesses, I think it's an issue of trust. Do they trust third parties with their data? I think if they can see a clear use case then they are much more comfortable. I don't see why small businesses can't benefit from Open Banking or Open Finance but I don't think they need to understand these developments in order to get value from them."

Professor Karen Elliott, Chair of Practice in Finance & FinTech, University of Birmingham

"We need to think about the standardisation of data security protocols. Open Banking regulation has proved that you can have a comprehensive infrastructure and I think when compared to other countries the UK has done a great job tackling these issues through the OBIE."

Professor Markos Zachariadis, Chair in Financial Technology & Information Systems, Alliance Manchester Business School, University of Manchester

What advice would you give to the regulators to help deliver positive impacts for small businesses via services enabled by Open Finance?

"Open Banking is mainly focused on forcing banks to stop having full ownership of customer data, and opening this up to increase competition. Open Finance is brooding this out to include a wider product set such as loans and mortgages, and the next phase after this will be what I've often heard referred to as 'open life', which will include wider datasets such as heath."

Professor Karen Elliott, Chair of Practice in Finance & FinTech, University of Birmingham

"I think the main advice to regulators is to have everyone involved because this is a cross industry thing. Whatever the way forward, it has to be mandated. We're fearful for VRP, because we don't see enough banks engaging and it will fall down if no one does it."

Peter Cornforth, Commercial Director, Answer Pay

"I think the regulators need to engage with the relevant small industry bodies to understand what the small businesses want to ensure we have a robust sustainable Open Finance ecosystem."

Nilixa Devulkia, Chair, Open Finance Association

"In terms of datasets that should be within scope of Open Finance, I think insurance is potentially a big one. During the pandemic, one of the big credit reference agencies found a use case relating to occupation. I think we need to find where the synergies are between data that sits in siloes, and work out how to link them. There are many different sectors, and different data standards in each."

Andy Thornley, Head of Financial Services, Tech UK

"It's quite feasible that everything under covered by Article 21 of GDPR should be available via open APIs as part of the Smart Data regime."

Charlie Mercer, Head of Economic Policy, Coadec

Industry perspectives: Adoption of Open Finance for small business

How can we best communicate the benefits to small business of products and services which Open Finance facilitate?

"We need to differentiate between 'Open Finance' as a concept, which exists today through credential sharing but is not regulated and has existed for two decades, and 'Open Finance' as a defined and regulated regime. I think it's important to be very clear that Open Finance exists today, so if businesses really want it, they can use it right now, but mass adoption comes with standards and regulation, as does the growth of the sector. Our data shows 92% of funding for UK Open Banking firms occured after the introduction of regulation in 2018."

Charlie Mercer, Head of Economic Policy, Coadec

"I don't think we need a big education campaign. Every business is different and there are serious players in the market who want to provide services to small businesses. The challenge is simplifying the message and making it less complicated."

Alan Ainsworth, Strategy & Policy Director, Open Banking

"We should not be using the term Open Finance with clients. The propositions need to meet a perceived business need or improve an existing business operation – the end benefits can be communicated and understood that way."

James Guy, Group Lead for Open Banking, Lloyds Banking Group

"Innovation and progress are not just about the technology, it's about how you package a commercial solution that is attractive to consumers and consumers can see the benefit. At the end of the day, it's the product and the service that matters so if you're happy with it you don't always need to understand all the technology details behind it."

Professor Markos Zachariadis, Chair in Financial Technology & Information Systems, Alliance Manchester Business School, University of Manchester

"Generic marketing channels will be less effective, so we need to communicate to small businesses via the places they find relevant, for example via events, forums, and other initiatives like the FSB and COC. Organisations that interact with cloud accounting providers and firms like GoCardless can play an important role, as can trade bodies and government, both of which are key channels."

Paul Stoddart, President, GoCardless

"Working with trusted intermediaries, such as qualified accountants, will be key to the successful roll out of Open Finance. Software suppliers also have the potential to play a critical role."

Glenn Collins, Head of Technical and Strategic Engagement, ACCA

Managing cashflow

- **Many small businesses are struggling to maintain positive cashflow due to external economic pressures.**
- **Cashflow based lending increased 4% in 2022.**
- **Small businesses struggle to accurately forecast their finances.**

The Issue

Small businesses are facing several challenges in managing their cash flow, with a range of factors contributing to their difficulties. The cost-of-living crisis, high inflation, supply chain issues, and low consumer confidence, combined with high interest rates, are making it increasingly difficult for small businesses to maintain positive cash flow.

According to the Federation of Small Businesses (FSB), almost 43% of small businesses reported failing revenues over the three months leading to October 2022, compared to 32% the three months before that. This indicates a significant decline in business performance in recent months.[12] Moreover, the net confidence score of small business owners was (-35.9) in Q3 2022, down 11.2 points from the previous quarter, indicating a high level of pessimism among small businesses.

The rising number of small businesses applying for finance is also a concern, with 13% of small businesses applying for finance in Q3 2022, compared to 9% in Q1. Of those, nearly half (46%) have turned to finance to help manage cash flow, up from 35% in Q2.[13]

However, the cost of borrowing is increasing, which could further damage small businesses' cash flow. The FSB small business index for Q4 2022 found that in Q4 2022,15% of those who were successful in applying for credit were offered a rate over 11%, and over half were offered a rate of 4% or higher. [14]Additionally, more than 50% of small businesses rated credit availability and affordability as poor or very poor.

In the Q4 2022 SBI index, all major sectors recorded a negative reading in their outlook for the next three months. The Wholesale and Retail Trade sector recorded the worst outlook with low consumer confidence.[15] The sector is sensitive to seasonal demand which creates cashflow issues.

The reason for these cashflow woes is primarily due to low consumer confidence and rising operational costs. The net balance of small businesses reporting a quarterly increase in costs from Q3 2022 to Q4 went up to the highest level since the SBI records began (86.1%).[16] The net balance of small businesses reporting a quarterly increase in costs from Q3 2022 to Q4 went up to the highest level since the SBI records began (86.1%). The most frequent reason given by small business was utilities at 61.3%, followed by fuel at 53.8% and then inputs at 48.0%. With the Energy Relief Bill being changed with the cap being removed, it is likely that the utilities cost will increase.

The estimation and organisation of finances can pose a significant challenge. While many small businesses possess a degree of awareness regarding their outstanding debts and corresponding payment deadlines, this awareness is not universal, with approximately 20% of small businesses encountering difficulties in this regard.[17] The same study found, a substantial percentage of small businesses (72%) struggle to generate reliable forecasts of their annual earnings. The implication of this challenge is that small businesses face significant hurdles in predicting their cash flow positions, which can have significant impacts on their ability to manage their finances effectively over time.

12 FSB, 2022.
13 FSB, 2022.
14 FSB, 2023.
15 FSB, 2023.
16 FSB, 2023.
17 FSB, 2021.

Managing cashflow:
Impact of Open Banking to date

- **Open Banking has enabled third party providers to gain access to real time transactional data.**
- **Cashflow insights and cashflow forecasting have been effective use cases of cashflow management tools.**
- **Cashflow-based lending has been improved with Open Banking.**

Industry experts praised the integration of Open Banking with cloud accounting platforms, enabling small businesses to access real-time data on their financial position. This increased visibility has been beneficial, with 77% of small businesses surveyed in the Open Banking Impact Report reporting a better understanding of their financial position with cloud accounting.[18] Additionally, 58% of respondents stated that the ability to view real-time financial transactions has been valuable in managing their cashflow.

In addition to improved visibility, Open Banking has enhanced the accuracy of cashflow forecasting. Third-Party Providers (TPPs) can now access and analyse transactional data, providing small businesses with cashflow forecasts and insights. This has been welcomed by small businesses, with 61% of respondents in the Open Banking Impact Report stating that cashflow insights are important.[19]

Another positive impact of Open Banking has been on cashflow-based lending. Lenders can now access small businesses' bank accounts, allowing them to view their financial position, monthly incomings, and outgoings. This has allowed lenders to provide credit by extending overdrafts based on past months' income. This is particularly beneficial for businesses in sectors that experience high seasonal demand, such as retail and hospitality.

One issue that currently hinders the capabilities of cashflow management tools is the 90 day reauthentication requirement. According to the Open Banking Report 36% of SMEs stating this created a cloud accounting issue highlighting that the removal of this reauthentication requirement would be beneficial to smoothing the Open Banking customer journey.[20]

Finally, Variable Recurring Payments (VRPs) have proven to be an effective tool in optimising cashflow by automating the movement of surplus funds into another account (this is referred to as sweeping). For example, Open Banking providers can transfer surplus funds from a bank account to credit accounts to pay off overdrafts.[21] This use case is valuable to small businesses in helping them avoid overdraft charges or unnecessary interest which hinders their cashflow.

"The hardest bit about managing cashflow is getting the cash into the bank, and Open Banking has enabled small businesses to do this pretty effortlessly. It's definitely had a positive impact." **Simon Lyons, Chief Strategy Officer, OB Connect**

"There are many Open Banking powered tools out there that can be used to manage cashflow, but they've been held back by the 90-day re authentication rule. When that's removed, I think we'll see Open Banking's impact on cashflow be even more positive." **Peter Cornforth, Commercial Director, Answer Pay**

"We've seen small businesses use Open Banking for payment certainty and that can help with cashflow for businesses. We've seen prepayment models where a credit card provider will allow their merchant to spend money they don't yet have, based on income they are certain to receive because the payment has been authorised and is visible through Open Banking. Barring a major issue, that money clears the next day, so it is deemed an acceptable risk to give the merchant the benefit of the funds today. That can be really helpful for trader cashflow"
Thomas Morrison, Principal Associate, Financial Services, Shoosmiths

"Accountancy package providers can now seamlessly (and without direct customer involvement) ingest transaction data across a range of banks. Removal of the 90-day reauthentication rule will significantly improve these propositions."
James Guy, Group Lead for Open Banking, Lloyds Banking Group

"I don't think we're as far along the timeline as we could be. I don't think small firms or banks have fully harnessed the potential in this area, nor the accounting software firms. The AIS categorisation engine outputs we've seen so far can be greatly improved." **Vaughan Jenkins, Director of Business Development, Moneyhub**

18 OBIE, 2022.
19 OBIE, 2022.
20 OBIE, 2022.
21 TrueLayer, 2023

HIGH impact

Managing cashflow:
Opportunities with Open Finance

- **Open Finance provides small businesses with a unified view of their financial data in one dashboard.**
- **Improved cashflow insights and predictive cashflow.**
- **More accurate cashflow or invoice-based financing,**
- **Improvements of Open Banking could have a greater impact.**

The consensus among industry experts is that Open Finance is likely to have a positive impact on managing cashflow. The most frequently cited benefit of Open Finance is the ability for small businesses to view their financial data in one dashboard. This unified view enables small businesses to better manage their current cashflow by having a real-time visual of all their loans, payroll, insurance, and investment data, on top of the benefits already provided by Open Banking.

Open Finance also has the potential to improve predictive cashflow. Cashflow insights are already valued by many small businesses through Open Banking, but the richer data set provided by Open Finance could enable more accurate forecasting. This computer-generated outlook of a business's finances would allow small businesses to make better business decisions for the current or future periods.

In addition, the ability to access greater real-time and future financial data would also allow lenders to offer more accurate cashflow or invoice-based financing. Many firms are already using cashflow-based financing, which has been enabled by Open Banking, but this would be further enhanced by Open Finance. This streamlined lending process benefits both lenders and small businesses, as the business would have all their accounts in one place that they can send to a lender, while the lender would have a better outlook on the business's current and future financial position.

While the majority of experts believe that Open Finance will have a significant impact on cashflow-based lending and predictive cashflow, a few experts argue that the current improvements of Open Banking could have a greater impact on this space than Open Finance. However, the implementation of Open Finance standards is still expected to have a significant impact on cashflow-based lending and predictive cashflow. VRPs are currently limited to sweeping (account to account) use cases. The introduction of Open Finance could implement commercial VRPs. This in turn would enable Open Banking providers to send money to third party accounts could improve the way businesses pay their bills. For example, energy providers could use VRPs to detect when a business with irregular income has been paid and then initiate a payment for energy.[22] This could those business in sectors with seasonal demand to manage their cashflow more effectively.

EXAMPLE USE CASE:

Open Finance data could enable a more granular and accurate view of future cashflow allowing a business to make more confident decisions. For sectors such as hospitality, this might mean that seasonal variations in trade can be dynamically forecast, and financing arrangements automatically put in place where they are expected to be required.

"The more we can collate external sources, the better our data will be, so remittance advices that can be aggregated are highly valuable for managing cashflow."

Simon Lyons, Chief Strategy Officer, OB Connect

"The analytics side could be significantly positive for firms that adopt Open Finance. Organisations will look to their main bank to provide some of that, but it could also come from alternative solutions and the marketplaces they bring."

Vaughan Jenkins, Director of Business Development, Moneyhub

"Quality of data is important, but only impacts the lower end of the market, where use cases like cashflow projections could be automated with benefits from the additional data/insights. However, I fear most customers will continue to rely on an accountant."

Nathan Flowers, Business Propositions Lead, NatWest

"One of the clients we worked with was developing a mobile app for affordable debt management for consumers. We used things like the Swift UI framework and developed API integration across a different number of endpoints and if this was applied to SMEs I think it would be very beneficial. So, there's opportunity but it needs work."

Ian Fraser, Client Partnership Executive, AND Digital

"I think they've got the capabilities because of Open Banking."

Payments expert, global financial services brand

22 TrueLayer (2023)

Managing cashflow - small business perspectives

"I'm a visual person, so things like computer generated forecasts help. I want to see things currently and where it's going to go. You can lose sight in the long term but it's quite motivating to see outstanding invoices and where you are because it's a reminder of how well you're doing. Forecasting and our position in the market would be beneficial information."

Small Business, Videography and Web Development

"That 90-day picture is beneficial to cashflow forecasting so I don't have to do my own excel spreadsheet. If there was just a clear place where I knew what was coming in, what was going out, and all the nuances, for me, that would be very helpful."

Micro Business, Education and Training

"If I could see some benefits in the long term or help predict forecasting if it meant sharing more financial data, then I'd definitely consider it. What I want to see is a month-to-month chart, against last year, a forecast which I've imputed, and a computer-generated forecast."

Small Business, Leisure and Hospitality

"I've developed an excel cashflow that gives us anything to sight developments to projections, to 5-year plan. So, I can have an offline version whilst my team prints out what's on a cloud accounting platform and I can compare the two together. We haven't got a plug in, but I would think that would improve the process."

Small Business, Construction and Housing

"It would be beneficial to be able to see what money we are making, what are we predicted to be making and which invoices are due."

Micro Business, Digital Marketing

"We are a seasonal business, so we accumulate cash throughout the year for the quiet months. I trust the cashflow forecasts because I see it in all different platforms, for what we see in the accounting software and then the forecasting and cashflow software it's the same information. I'm close to the bank account as well so I know I can trust that data, and real time is important."

Micro Business, Hospitality

"When I get charged that direct debit, I have to go into the online system and put my details in and download the invoice to then upload the invoice into my accounting platform to then reconcile the bank statement. I tend to only do that once a quarter because it's just too time consuming. That's why don't really use it to track a cash flow because it's just an overhead that probably isn't worth it."

Micro Business, Hospitality

"From a business perspective, the cashflow is the most important thing. Its more about me seeing what work is productive and what work isn't. With the intertwined nature of the finances, my ultimate solution is a dashboard that tells me I have this in savings and owe this on a personal level and I've got this amount of income coming in. Due to the way my business is structured, its tough as it's very much intertwined with my personal accounts."

Sole Trader, Legal and Financial Consultant

"My bank is connected to a cloud accounting platform. I can usually set the code for what an outgoing or incoming was for in my banking app sometimes says it won't share it, which is inconvenient because I don't have time to sort it out."

Sole Trader, Retail

"I've used cloud accounting for years, and they normally sell you that add on in terms of cashflow projected but in terms of a simple business-like consultancy, you've got a pretty well-known overhead and your income is on invoices. For a smaller consultancy, if you're not able to understand your cashflow situation, you've got some serious problems as a business owner."

Micro Business, Waste Management Consulting

"We do plug our bank account into a cloud accountancy provider, but it didn't work in the way that you would expect it to. I wanted something that would track our budget, pull in the information that we're putting in there, and give us a view of our cashflow. It seemed to be more of a kind of modelling tool than an actual functioning tool. Being able to see very clearly where you are against what you'd forecast would be beneficial. That kind of actionable bit that's real that seemed to be lacking."

Micro Business, Retail and Manufacturing

"I didn't feel like the forecasting was accurate given the circumstances with Covid, Ukraine and the cost of living. They do help but it doesn't paint a real picture of what's going on in the outside world. I found it was a struggle managing that side of it. If I could see some benefits in the long term or help predict forecasting if it meant sharing more financial data, then I'd consider it."

Small Business, Leisure and Hospitality

Access to finance

- **50% of small businesses report accessing finance is a challenge.**
- **SMEs are turning to alternative lending models.**
- **There's an estimated £22 billion funding gap for SMEs.**

The issue

Access to finance is a crucial issue for small businesses in the UK, which often struggle to secure sufficient funding to grow and expand their operations. According to a survey by the British Business Bank, around 30% of small businesses in the UK saw their funding applications declined from 2019 – 2021, and over 50% of small businesses reported that access to finance is a significant challenge.[23]

Small and medium-sized enterprises (SMEs) are a vital part of the UK economy. Despite their significance, many SMEs still face hurdles when trying to access finance. The traditional route of bank finance remains the primary source of funding, with 14% of SMEs using an overdraft and 26% accessing a bank loan.[24] However, fewer firms opted to use credit cards, bank overdrafts and asset finance in 2021, with percentage of SMEs using credit card finance decreasing by 6%, and 8% decrease in bank overdrafts.

Lenders often require borrowers to provide evidence of a financial track record and/or collateral as security for the finance. This means the financial institution's decision to lend is based on available data, rather than the economic viability of the business. Small businesses often have no choice but to go through this process, although it is notable that support from the government has increased over recent years, with 59% of SMEs currently using some form of external financial support from the government or local authority grant funding.[25]

Small businesses are heavily reliant on self-funding, often based on internally generated revenues or internal sources of funding. Around 33% of all SMEs of EU28 countries reported not using any external financing at all, relying instead on internally generated revenue.[26] In the run-up to the pandemic, SME lending was on a sluggish growth path, as SMEs turned to internal finance or alternative lending for any financing needs.

An FSB study found that, in Q1 2022, around 9% of small firms applied for finance, an all-time low since the FSB started recording financing data.[27] The share of businesses which had their applications approved was 43%, also an all-time low. The proportion of respondents describing the availability of credit as "good" dropped to 19%, its lowest since 2016. Only 44% of loan applications were successful, and they were offered a borrowing rate of up to 4% in Q1, down 32% for the same period in 2021.

Of the firms that secured finance, 42% planned on using credit to manage cash flow, considerably more than the numbers planning to use funds for equipment updates (21%), expansion (19%) or recruitment (4%).[28] Of those that applied for finance, 61% sought traditional overdraft and/or loan products. 25% applied for asset-based finance, such as invoice finance, with smaller numbers seeking funds through peer-to-peer platforms (7%) and crowdfunding (5%).15

Despite the record low annual growth rate of lending to SMEs, 51% of gross bank lending was provided by challenger and specialist banks, a record high proportion.[29] However, there is an estimated £22 billion funding gap for small and medium businesses in the UK.[30] According to a survey commissioned by PayPal, 32% of the 1,000 SMB owner respondents who considered applying for a small-business loan between 2020 and 2021 did not apply due to assumed barriers. Other respondents cited decision barriers, as well as time or documentation barriers.[31] Additionally, 24% of SMB owners who responded expressed concern about getting rejected by future loan providers if they were declined for abusiness loan.[32]

23 British Business Bank (2021)
24 British Business Bank (2023)
25 British Business Bank (2022)
26 OECD (2019)
27 FSB (2022)
28 FSB (2022)
29 British Business Bank (2023)
30 Bank of England (2019)
31 PayPal (2021)
32 Forbes (2022)

Access to finance: **Impact of Open Banking to date**

- **Lenders get access to real time up to date transactional information.**
- **Reduction in manual data entry in the application process.**
- **Streamlines the onboarding process.**

Open Banking has made it easier for small businesses to share information with potential lenders and access funding, by sharing real-time financial data. This allows lenders to make more accurate lending decisions, using Open Banking to capture data relating to areas such as cash flow and invoice payments. Consequently, the speed and efficiency of lending decisions has improved, enabling small businesses to access finance more quickly.

Another key benefit of Open Banking is the development of new creditworthiness tools, which has helped to reduce the risk of lending to small businesses and other borrowers who may have been previously underserved by traditional credit scoring models. FinTechs are using Open Banking to develop new creditworthiness tools to address this issue, and this has been particularly prominent in areas of lending where immediate decisions are required, such as Buy Now Pay Later (BNPL).

In addition, the FCA's proposed scrapping of customer reauthentication every 90 days is expected to stimulate more applications for loans. The Bank of England has also proposed an open, digital platform for SME finance that extends Open Banking to all forms of SME finance, which could help to improve the availability of funding for small businesses.

One example is YouLend, a finance provider whose service can be embedded into the customer journey to enbale enterprises offer instant and flexible funding solutions to merchants and SME businesses. By evaluating non-conventional data points, such as a business' monthly card payment data, immediate cash flow, repeat buyer behaviour, and digital footprint, YouLend's software platform can extend credit to SMEs that may not qualify for credit using traditional creditworthiness measures.

Despite the benefits of Open Banking for small businesses, many are still not aware of the funding options available to them. As such, there is a need for greater education and awareness-raising among small business owners about the potential benefits of Open Banking and other forms of alternative finance.

MEDIUM
impact

"In terms of enabling access to finance, I think there has been an impact from Open Banking, but there's a lot more potential. Banking data can make onboarding with a new provider less complicated than can be the case today, and making more than just payment account data available would be the icing on the cake."

Alan Ainsworth, Strategy & Policy Director, Open Banking

"Open Banking is making it easier because instead of customers needing to find and share a series of bank statements, they're just giving access to their accounts through Open Banking."

Open Banking Expert, CMA9 Bank

"More firms are starting to conduct affordability checks via Open Banking which enables them to see banking history / history of payments and not need to go through traditional credit reference processes."

Thomas Morrison, Principal Associate, Financial Services, Shoosmiths

"We've worked with a FinTech-enabled lenders, whereby we provided an open API platform to enable small businesses to get access to finance. On another project, landlords were able to get access to funding for home improvements through Open Banking."

Ian Fraser, Client Partnership Executive, AND Digital

"Based upon discussions with our members and also underwriters who've used Open Banking to assess financing, I'd say the sentiment is positive, but cautiously positive because there exist issues and gaps within the current Open Banking data set. There's still a way to go."

Mike Carter, Head of Platform Lending and Investment, Innovate Finance

"There's some good examples of what Open Banking can do for enabling access to finance but the issue is that so far there has not been mass adoption by SMEs of Open Banking powered services."

Craig Tillotson, CEO, Ordo

"A number of propositions specifically for SME lending have emerged in the market, for example more personalised business lending based on a clearer view of actual cashflow through account data sharing."

James Guy, Group Lead for Open Banking, Lloyds Banking Group

Access to finance: **Opportunities for Open Finance**

- **Increased financial visibility of a company to a lender.**
- **More accurate credit assessment.**
- **Further streamline the onboarding process.**
- **Enhancing personalised lending products.**

Open Finance has the potential to revolutionise access to finance for small businesses, who will have better access to financing products and the ability to see their cash flows across multiple accounts.

One of the key benefits identified was increased visibility. With Open Banking, small businesses can see the cash flows across all their accounts, which can help them better manage their finances. Open Finance could allow small businesses to see the loans they have and the loans they've had in the past, which would help small businesses better manage their debt management. This can be done through internal processes but also could be done by third party providers who create debt management tools for small businesses.

Industry experts all agreed that Open Finance could positively impact the affordability assessment process. With a richer data set at a lender's disposal, it will be possible to get a more insightful financial picture of a company which will mean a business's credit profile is more accurate in relation to areas such as VAT records. This data can be fed into underwriters and processes as part of a view of quarterly data on sales and cash flow. Lenders will then potentially be able to offer more innovative and personalised finance products to a certain business need and accommodate more for their business model.

Open Finance will also help streamline the application process of obtaining finance. The ability to grant access to multiple financial accounts to a lender removes the need for businesses to manually input data. This will be further improved if all financial data can be immediately categorised and shared instantly, which will speed up the process of getting a decision on finance. Open Finance could also make it easier for small businesses to navigate the complex range of financial products available, by making the process of matching products to their needs more effectively.

EXAMPLE USE CASE:

Through Open Finance, lenders can access a businesses' detailed financial data through secure APIs, allowing for streamlined application processes and enhanced credit assessments, reducing the time it takes to process loan applications and resulting in better loan decisions for small businesses.

VERY HIGH impact

"You can see Open Finance really opening up access to finance because if all the product reference data is available, product navigation becomes a lot easier."

Head of FinTech, global professional services firm

"There is a huge opportunity for Open Finance to enable access to finance, but it would need to provide additional value in exchange for the data."

Nathan Flowers, Business Propositions Lead, NatWest

"There is huge scope for enhancing access to finance because some of the things that go hand in hand to deliver Open Finance include digital ID and holding and owning your data. These are things that lot of financial systems are predicated upon so you have the opportunity to include previously unbanked people."

Andy Thornley, Head of Financial Services, Tech UK

"The impact of Open Finance could be significantly positive if personal credit score is linked to business credit scores. The data made available needs to be real-time."

Kevin Telford, Future FS Strategy Consultant, Monstarlab

"Based on some of the propositions I have seen, it can be easier for businesses to obtain trade finance and loans if a lender can see live data and not have to rely on them getting invoices settled on time or only seeing a credit file built up over time. This could be a benefit to the SMEs / end users especially those with "thin" credit files."

Luke Stubbs, Partner, Shoosmiths

"The more data you can bring forward, the better Open Finance powered services can enable access to finance for small businesses."

Simon Lyons, Chief Strategy Officer, OB Connect

Access to finance - small business perspectives

"The signing up process once you've got the system and application process done is swift, but once we know our grant application is successful, it still won't come into our account for another 5-6 weeks. It affects projects."

Micro Business, Digital Marketing

"We've accessed grants in the past. We did have to share some financial data, which was the past twelve months' worth of records. To be honest, I would be fine sharing all my financial data if it meant me getting a loan quicker and more easily."

Micro Business, Education and Training

"I'm fine sharing my data for funding purposes. There's still so much old-fashioned bureaucracy where you have all this modern red tape. We've had to evidence bank statements and things where you have to print them and sign them. If lenders could access that and view that without you needing to, it would save so much time. There are elements I can certainly see with data sharing that would be useful, but funding would need to be dragged up, their processes as well, to not need pen and ink signing and old fashioned kind of paper evidence."

Micro Business, Retail and Manufacturing

"In the future, yes absolutely I'd be willing for people to have my data. I had good reasons to be in a short-term financing problem, if someone understood the situation I was in, it was a really short-term win for a financial company to provide a bridging loan, it was either extra ordinally expensive or it was just quite hard to access, or long term – neither of which I wanted, all I wanted was a bridging loan."

Micro Business, Waste Management Consulting

"The process has been poor, we were doing banking with an Irish bank and with Brexit they took their operations out of the UK, so we were in a situation where we had to find a new bank and that process took us about a year and half and conversations with so many, big traditional and challenger banks, but it was very painful. One of the banks we spoke to, communication, onboarding, terms, the process was so badly managed that we've been reverted back to a different bank and had to change banks again, so it's been a very painful process."

Micro Business, Hospitality

"We got the government 50k Covid loan. That process was straightforward, it had a 24–48-hour turnaround with Barclays. I took split the amount into two halves. The first halve took 24-48 hours but by the time I took the second half there were more checks, so it took 7-10 days. It was a longer process in terms of time, but the effort was the same. I did find the process for the second loan was unnecessary, because they gave me the money the first time. I've also been an account holder with Barclays so if they looked at KYC, they'd know who I am so I'd of expected a quicker turnaround because I had didn't have any problems for the first halve."

Small Business, Hospitality and Leisure

"Sharing your financial data is a small part of a bigger process anyway. Giving anyone access to your bank account doesn't let you see how profitable someone is, you can see how cashflow goes but for a loan they need to see how secure the investment is, so we would need to go through the hoops again. From an investor's perspective, financing any business, I would like to know more than what is in their bank account."

Micro Business, Hospitality

"When you're getting financing it should be the other way round. You should go out and provide them with what you're looking for and potential cost analysis and stop it at that point. If they then agree that they're happy to lend, then you should proceed. We spend hours and all of a sudden, we've got a 13th hour rejection, but we spend weeks of putting the data that they require with the staffing cost and we're wasting money in the end. If we could share all our financial data with our bank, it would be very good, the only disadvantage would be if we went to private lenders. It needs to be cost effective for a broker to access it."

Small Business, Construction and Housing

"From a lender perspective, I understand how it's great and I can manage the risk by looking at that, I get it, but also if I want to borrow money, from a business perspective why would I share that information regularly – am I going to get a better rate? Probably not. If I had to, I'd share some financial data like 3 months financial data but running an e-commerce business that different. What I would do, I would give them data to my Shopify, my sales, not where the money is going because it is just numbers it's not actually connection to the money."

Sole Trader, Consulting and E-commerce


STOP
OFF
ON

Late payments

- Late payments damage small business' cashflow, credit score, and resources.
- The impact is significantly in B2B sectors, with manufacturing being the most affected.
- There is a correlation between high risk of insolvency and a high proportion of overdue invoices.

The issue

Late payments continue to be a pervasive issue for small businesses, causing significant harm to their cash flow, credit score, and resources. In 2022, nearly two-thirds (64%) of small firms reported that their invoice value was overdue in October of that year.[33] Alarming as this already is, the situation has only worsened, as three in ten small businesses (30%) report that their payment situation has deteriorated from October 2022 to January 2023.[34]

Several external factors have further compounded the problem of late payments. These include the ongoing Covid pandemic, high inflation, the cost of living, and the war in Ukraine. According to research conducted by Barclays, the cost-of-living crisis has contributed to an increase in late payments, with over a quarter (26%) of UK small or medium-sized enterprises (SMEs) experiencing a rise in late payments since the cost of living has gone up.[35]

It should be noted that the issue of late payments varies depending on the size of the SME. Micro-businesses, for example, which have an estimated average revenue of less than £20k, had the highest proportion of their invoiced value overdue in October 2022 (65%).[36] In 2021, of those firms that offered credit to customers, 11% of micro businesses reported that late payments were a significant problem compared to 9% of small businesses and regulated sole traders.[37]

Additionally, regulated sole traders (19%) had the highest percentage of unsatisfactory payment disputes with larger businesses, followed by micro (18%) and small businesses (13%). Although this number has been on the decline since 2019.

The proportion of businesses offering credit to customers varies considerably by sector aswell, ranging from 78% of businesses in Manufacturing (which has been consistently the highest sector since 2019), 63% in Information and Communications, 59% in Transport and Storage, 57% in Construction compared to just 18% in Health and 19% in Accommodation and Food.[38] Business-to-business (B2B) firms were the biggest victims of late payments in Q3 2022, with the worst affected being in the manufacturing (67%) sector, 4% up from Q1 in 2022.[39] Along with the Professional, Scientific, and Technical Activities (65%); and Construction (64%) sectors. The cost-of-living crisis has also impacted SMEs' ability to pay suppliers, with 16% of SMEs reporting this and it rising to 33% in the Manufacturing and Construction sectors.[40]

The correlation between those at high risk of insolvency and those with a high proportion of overdue invoices is well-established. According to the FSB, 50,000 small business deaths could have been avoided along with 350,000 jobs if payments were made on time.[41] Furthermore, small businesses could potentially unlock £60bn of additional revenue if large customers paid on receipt of invoices. Government figures estimate that more than £23.4bn is currently owed in outstanding invoices to UK businesses, with small businesses spending an average of 3.6 hours a week chasing payment.[42]

33 Intuit, 2022
34 FSB, 2023.
35 Barclays, 2022.
36 Intuit, 2022.
37 Department for Business, Energy & Industry Strategy (2021)
38 Department for Business, Energy & Industry Strategy (2021)
39 FSB, 2022.
40 Barclays, 2022.
41 FSB, 2016.
42 Good Business Pays, 2023.

MEDIUM impact

Late payments:
Impact of Open Banking to date

- **Improved management and visibility through cloud accounting.**
- **Open Banking payments haven't been as impactful with slow adoption.**
- **Payment limits and fraud prevention are hindering Open Banking payments.**

Due to Open Banking, firms can now connect their bank account to their cloud accounting platforms via AIS, making it easier to manage late payments against their cashflow. A recent Open Banking impact report found that 70% of small businesses have experienced benefits from cloud accounting in the management of late payments.[43]

Key advantages of Open Banking (account-to-account) payments include lower transaction costs and instant settlement speeds via payment solutions such as Request to Pay and Pay by Bank. However, despite the potential advantages of Open Banking, uptake by small businesses to date has not been as high as initially anticipated. In particular, the use of the payment initiation service (PIS) side of Open Banking by small businesses is significantly less compared to consumers, with only 14% of small businesses that use Open Banking, utilising this service.[44]

Industry experts and the recent SWG report identified several reasons for the lack of adoption of Open Banking (PISP) payments, including low conversion rates, excessive authentication protocols, unclear consumer protection, payment conversion, refunds, and reliability. Payment limits set by banks on high-value transactions, ranging from £2,000 to £10,000, pose a significant challenge for small businesses that are not be able to accept payments above this range.[45] The recently published JROC report stated that there will be an assessment of the FCA guidance on payment limits this year, along with analysis into fraud, API availability and performance.[46]

Banks have reported that Open Banking payments are more susceptible to scams than traditional payment methods. Industry experts noted during interviews that Open Banking payments are 10 times more likely to be involved in scams, and the recent SWG report cited a 15 times higher risk compared to traditional payment methods.[47] While this issue requires resolution, payment limits are a significant concern for small businesses.

43 OBIE, 2022.
44 OBIE, 2022.
45 SWG, 2023
46 JROC, 2023
47 SWG, 2023

"Open Banking helps manage late payments because of how it helps with cashflow. Being on top of your finances, knowing who's paid and hasn't paid, can make a big difference."

Alan Ainsworth, Strategy & Policy Director, Open Banking

"The impact of Open Banking on late payments has been positive for those that have adopted it, but it would be wrong to say it has had a significantly positive impact because most firms have not yet embraced it."

Brian Palmer, Managing Director, Tax Policy Advice

"Open Banking functionality definitely assists with managing late payments because it's looking at the data from the payment account. But it's about how well it connects to other things so does connect to your invoicing system and show there's a late payment. You need to know there's a payment due to manage it and I'm not sure the Open Banking connectivity for this is fully there today."

Nilixa Devulkia, Chair, Open Finance Association

"We've worked with startups and scaleups that have been able to provide APIs into SME accounting software. So, when you've got a transaction that can be ported straight into that I suspect the SME at the other end has found it much easier to manage and report on late payments and payment requests."

Ian Fraser, Client Partnership Executive, AND Digital

"In my opinion, there's a low level of traction in the payment space relating to Open Banking, albeit it's growing. I'm not sure Open Finance will be able to do much about this, but I'm certain there needs to be commercial incentives in place to ensure the successful development and delivery of new products and services."

Paul Stoddart, President, GoCardless

"There's a lot of problems yet to address when it comes to managing late payments. Solutions such as Request to Pay not only don't have enough traction, but they also give an option that lets you decline to make the payment. Why give people the option to say no?"

Simon Lyons, Chief Strategy Officer, OB Connect

HIGH impact

Late payments:
Opportunities for Open Finance

- **Varied opinions on whether Open Finance can go beyond the impact already seen in Open Banking's AIS function.**
- **VRPs offer an alternative to direct debits and help small businesses collect recurring payments in near-real-time.**
- **External factors could limit the impact of Open Finance on late payments.**

The opinions of industry experts on the potential impact of Open Finance in managing and reducing late payments were quite diverse. While Open Banking has already shown a positive impact on the Account Information Service (AIS) side, many consider that connecting AIS and Payment Initiation Service (PIS) through Open Finance can provide even greater benefits in terms of settling invoices via Open Banking payments. Additionally, some experts consider that the transactional data enabled by Open Banking has already provided small businesses with several use cases, and expanding further data sets would not provide them with anything additional.

There is potential with the introduction of further data sets being available to third parties that there would be more transparency of a company's payment performance. One small business said a credit rating or average length of payment type of metric on a companies would be extremely useful in managing late payments and identifying new customers.

Additionally, experts suggested that Variable Recurring Payments (VRPs) could be used beyond their current "sweeping" use cases to resolve current issues with Open Banking. For example, reducing international payment defaults, and offering an alternative to direct debits. VRPs can enable businesses to collect recurring customer payments in near real-time, which would be particularly useful for small businesses to get paid quicker.

Additionally, multiple stakeholders highlighted that late payments are not caused by a lack of payment options or awareness of overdue invoices, rather there is a conscious decision not to pay on time. Larger firms often pay slowly, and cash flow issues caused by the current economic climate have resulted in delayed payments across firms of all sizes. Hence, external regulation may be required to resolve this issue on a larger scale.

EXAMPLE USE CASE:

Open Finance could allow for third party providers or regulators to create a better measure of companies payment performance. For example, an average time of payment through linking invoice and payment data. Giving small businesses a better view of their customers payment performance for example in manufacturing.

"Open Banking / Finance is removing the barrier of paying. We have been involved in use cases for collections teams and contact centres where a secure token is delivered to a customer from which an open banking payment can be immediately authorised, which has really helped improve the flow of payments."
Craig Tillotson, CEO, Ordo

"I believe variable recurring payments, which sit across Open Banking and Open Finance, including Request to Pay, will have a huge, positive impact on managing late payments. The value is in seamlessly being able to switch between these things, which you can't do currently."
Peter Cornforth, Commercial Director, Answer Pay

"I don't think we've seen the potential of managing late payments through Open Banking to date. If you twin AIS and PIS together, there's a lot of opportunity that can be realised in managing and reducing late payments through Open Finance. Indeed, payments in general is ripe for disruption by Open Banking, with billions paid in card transaction fees annually in the UK."
Charlie Mercer, Head of Economic Policy, Coadec

"Late payments is an area where existing Open Banking can work well with newer Open Finance-based standards. Creating a seamless route from invoice to payment."
James Guy, Group Lead for Open Banking, Lloyds Banking Group

"There are other factors which are headwinds against Open Finance reducing late payments. There needs to be more compulsion for larger firms to pay faster and reduce late payments to small businesses."
Vaughan Jenkins, Director of Business Development, Moneyhub

"Open Finance could have a very positive impact if large companies offer an invoice finance facility, which they don't currently. They see suppliers as businesses, not people, and this really needs to change."
Kevin Telford, Future FS Strategy Consultant, Monstarlab

Late payments - small business perspectives

"We used to do invoice management ourselves, manually, and we were losing money because we weren't keeping track of it efficiently. Cloud accounting systems have definitely helped us manage and track them easier."

Micro Business, Digital Marketing

"Late payments happen from time to time; you have to chase them and its frustrating, but it does happen. My consulting clients are quite good, they have regular schedules, but they do miss it sometimes. On the product side, its subscription based so it just bills automatically."

Sole Trader, Consulting and E-commerce

"A credit rating type score that was based on real experiences would be really useful. We have some customers who you know when you take their order, it's going to be three, four months before they pay. We sometimes decide to not take their order because of the time that we spend chasing. Being able to share that information with other businesses and to make those decisions when a new customer comes, I could see that being very useful."

Micro Business, Retail and Manufacturing

"Our previous card supplier's card machine would pay at the end of the week plus three days. This new card reader that we've got, it settles every night. So even things like that can make a big difference to cash flow and late payments. You're getting that money straight away; not 10 days from now."

Micro Business, Hospitality

"A consolidated view of my accounts could be helpful for tracking invoice payments since I'm paid in multiple currencies. Dealing with currency conversions can be a nightmare since it comes in through different sources. Sometimes it's coming in direct to bank, but other times it might be Revolut or PayPal. The ability to link up invoices to receipts would be useful."

Sole Trader, Legal and Financial Services

"When we first started in the wedding sector, since there's no project management on each wedding, when it did get done, we'd be waiting for rounds of changes and all of a sudden, you've realised you've waited a year to get paid."

Small Business, Videography and Web Development

"If we had more financial data on if they were going to pay us late it would be great. We can move our accommodation to different councils. it doesn't matter who it's going to but as long as we get paid at the end of the day."

Small Business, Construction and Housing

"I haven't considered using Open Banking payments, I just use the standard thing on the banking platform. VRP's are not for my use case, but if I needed to use it, I would."

Sole Trader, Consulting and E-commerce

"The sector I'm in, we deal with local authorities and larger organisations. Being able to link invoice payments in with financial portfolios would be good but the kind of customers I deal with are too big to fall."

Sole Trader, Legal and Financial Consultant

"We work with the university sector, who are very slow moving, including a slow payment process. There's a lot for chasing that needs to be done sometimes to get paid when we expect to get paid per the contract dates. For us, getting more financial data on clients wouldn't make a difference because they're such large entities."

Micro Business, Education and Training

"I don't send constant emails because that type of chasing would sour a relationship which is currently working, and everybody stays happy. I wouldn't want to annoy them and potentially lose business, but it might just be a personal thing and they wouldn't take it like that."

Micro Business, Waste Management Consultant

"Occasionally, we chase invoices but not often because in hospitality people pay on time, from an accommodation perspective, few groups will invoice after the event, but we don't really have the need to chase people for invoices but the instances we do, we have a process and management that goes through that process and if it escalates, it becomes a small claims court issue."

Small Business, Hospitality and Events

Winning new customers

- **Cost of acquiring new customers has increased 60% since 2015.**
- **Additional regulation around consumer privacy is expected to make it even more challenging.**
- **Public trust in advertising has gone down, with changing consumer behaviour.**

The issue

Acquiring and winning new customers is one of the top priorities for small businesses, but it has become increasingly challenging due to a variety of factors. The number of small businesses in the UK has decreased by 6.6% from 2020 to 2021, largely due to Brexit, Covid-19, and a worsening socio-political situation that has led to high inflation and a cost-of-living crisis.[48] Today, many small businesses do not have the same spending power as established organisations, and costs like acquisition costs are proportionally high.

Research has shown that 39% of SMB owners say that acquiring new customers is the biggest pain point, and 49% of SMB owners say it is their main day-to-day concern.[49]

The General Data Protection Regulation (GDPR) has made it harder for businesses to use a consumer's personal data, resulting in depleted customer databases. GDPR includes rules on how businesses can utilize personal data to communicate with customers, which has made it challenging for small businesses to build and maintain customer relationships. Moreover, businesses may find it harder to market themselves in the future as Google is expected to tighten their guidelines around posting content on their platform, as it aims to promote more "helpful" content to its userbase.

Additionally, regulation around consumer privacy is being observed, with iOS updates around data privacy, along with the EU's ruling on Google Analytics, which made it illegal for European companies in France, Austria, and Italy to use Google Analytics.[50] All of these factors make it harder for small businesses to acquire new customers through digital channels.

The pandemic was a major catalyst for digital adoption and blurring the lines between online and in-store shopping, opening more avenues of omnichannel commerce. Research has shown that the average UK consumer is connected to over 9 devices and 5 social platforms, making it essential for small businesses to engage customers across all platforms.[51] However, public trust in advertising has halved since the 1990s, from 50% to 25% in 2018, which has acted as a catalyst for increased use of ad blockers and ad avoidance.[52]

Sustainability is also set to play an increasingly prominent role as consumers today are well-informed and want to make environmentally conscious decisions. Research from Deloitte found that 1 in 3 UK consumers plan to purchase from brands with strong sustainable and ethical credentials in the future. Small businesses must adapt to these changing consumer preferences to attract new customers and retain existing ones.[53]

Rising business costs are another factor making it harder for small businesses to acquire customers. A survey of over 600 small business owners found that over 81% of small business owners are concerned about the cost-of-living crisis affecting their business. 63% of respondents saw rising costs as their biggest challenge heading into 2023. The survey also found that 43% of small business owners were concerned about the number of sales and customers available in 2023, as well as 31% expressing concern over inflation and interest rates.[54]

48 Centre for Economic Performance (2021)
49 Mastercard (2022)
50 Tutanota (2022)
51 Statista (2022)
52 Credos (2021)
53 Deloitte (2021)
54 SimplyBusiness (2023)

Winning new customers: **Impact of Open Banking to date**

- **Open Banking can create an enhanced view of a customer's creditworthiness.**
- **CRM systems help build customer relationships and improve customer service.**

Open Banking has the potential to help small businesses win new customers, albeit this has not been a prominent use case to date.

Open Banking is designed to simplify banking processes for users, allowing them to seamlessly share their bank and credit card transaction data with third-party service providers to fulfil applications and services far easier and quicker. As such, it makes the financial sector more accessible. According to the FCA,
12.9m people in the UK have low financial resilience and Open Banking.[55]

Open Banking data helps create an enhanced view of a target customer's creditworthiness by combining traditional and non-traditional data sources. Therefore, a new market of consumers who were previously considered financially vulnerable by traditional credit scoring metrics are now more likely
to get a financial based product.

The use of Open Banking data also smooths to process of new customer on-boarding. Customers want the process to be streamlined and Open Banking reduces the number of processes and channels needed for an application. For example, in the lending market the use of Open Banking integrations in the application process streamlines the data required from the applicant, which can help increase conversion of loan applications into consumer and business borrowers.

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CRM systems have the potential to play a role, as they provide a centralised platform to keep track of customer data, which in turn can lead to an enhanced understanding of consumers. CRM and Open Banking have combined to provide an opportunity for small businesses to win new customers by simplifying banking processes, increasing accessibility, and providing an enhanced view of customer creditworthiness. Increased adoption of Open Banking will provide more opportunities for small businesses to leverage the power of data to grow their customer base and streamline their operations.

"There's a few use cases and industries where it's very positive and similarly industries where it won't have any impact."
Open Banking Expert, CMA9 Bank

"Open Banking has helped smaller retailers because it has given alternative ways of processing transactions cost effectively instead of using alternative card payments. That direct access to transactions through Open Banking created an opportunity to open up markets they couldn't previously get access to."
Ian Fraser, Client Partnership Executive, AND Digital

"For certain markets, Open Banking enables quicker and more seamless onboarding – e.g., mortgage applications, tenancy arrangements and auto financing."
James Guy, Group Lead for Open Banking, Lloyds Banking Group

"You can wrap a KYC and AML process into a payment process, and in the background the company would get all the personalised data, but this currently only exists in B2C and not B2B, so this is something Open Finance can improve upon."
Peter Cornforth, Commercial Director, Answer Pay

"I think Open Banking can help small businesses win new customers as it offers more ways to receive payments. I think the degree to which is can help depends what level of skill a business has. Some small businesses are more tech-savvy than others, and some will serve customers that are more tech savvy than others."
Professor Karen Elliott, Chair of Practice in Finance & FinTech, University of Birmingham

55 FCA (2022)

HIGH impact

Winning new customers: **Opportunities for Open Finance**

- **Increases brand stickiness and loyalty of clients.**
- **Alternative payment methods are beneficial for small business to adapt to changing consumer needs.**

EXAMPLE USE CASE:

Open Finance can help with streamlined ID&V processes which makes onboarding quicker, and can improve the conversion of new business opportunities due to the reduced friction in the process.

Open Finance has the potential to significantly impact small businesses in terms of customer acquisition, retention, and access to more data sets.

One major benefit of Open Finance is its potential to increase the stickiness / retention of customers. By giving customers access to a wider range of financial products and services, Open Finance may help increase the loyalty of these customers to the small businesses they buy from. This is important for small businesses, which often rely on repeat business to maintain cash flow.

Open Finance may also lead to the creation of new business models that support on-demand services and subscription-type services where the amount and frequency of use varies. For example, VRPs could be used as a direct debit alternative, and there may be new business models that support on-demand services and subscription-type services where the amount and frequency of use varies. This could be particularly beneficial for small businesses that need to be able to adapt quickly to changing customer needs.

Another area where Open Finance could have a significant impact is on improving cashflow. By integrating CRM with financial systems, small businesses could potentially pay their suppliers faster, giving them a competitive advantage in the market. However, this type of integration is not yet common practice among banks. However, businesses may be reluctant to share negative information about themselves, which could limit the usefulness of Open Finance data.

There are some regulatory factors that may restrict the breadth of the rollout of Open Finance, limiting the target audience for small businesses. In addition, while FinTech companies may be able to create new capabilities, it is not clear whether these capabilities will help less digitally savvy sectors such as the building trade to get new customers.

"In theory, Open Finance will have a positive impact on winning new customers. You can entice customers with shorter decision times and better credit referencing." **Mike Carter, Head of Platform Lending and Investment, Innovate Finance**

"Open Finance is really where the potential is. Access to much more streamlined consumer credit, mortgages, pensions, insurance products, life insurance is huge." **Ian Fraser, Client Partnership Executive, AND Digital**

"VRP could be used to win new customers as a direct debit alternative and there could be new business models that can support for example on demand services and subscription type services where the amount and frequency of use varies." **Payments expert, global financial services brand**

"Integrated datasets will provide a smoother experience and improve client retention rates." **Glenn Collins, Head of Technical and Strategic Engagement, ACCA**

"In terms of helping small business find and win new customers, potentially FinTechs might be able to create new capabilities using Open Finance data." **Open Banking Expert, CMA9 Bank**

"I don't think Open Finance has any credibility in helping small business win new customers because what business will give you negative information about themselves?" **Simon Lyons, Chief Strategy Officer, OB Connect**

"I think the API's made available to small businesses will be limited to regulated companies which will limit who you can target in terms of winning new customers." **Peter Cornforth, Commercial Director, Answer Pay**

"In terms of which sectors are most likely to benefit from Open Finance, I think retail is an obvious one. If you compare retail to more industrial sectors such as agriculture, there are much more obvious use cases." **Rafael Kiessling, Director of SME B2B for Central Europe, Mastercard**

Winning new customers - small business perspectives

"It would be really beneficial to see our consumers' financial position because it gives us security behind the individual we're buying into and who we're borrowing from."

Small Business, Construction and Housing

"Access to other people's financial data would 100% improve my marketing capabilities because if I look at my customer base, and knew it was a two parent household or a single parent household then I'd be able to tailor my marketing of the products that are on show. Location is also key so I can market to people within a certain milage. In America there's more data on people to say what their annual salary is."

Small Business, Leisure and Hospitality

"As I was joining the business, my business partner spent a lot of money on marketing and now we have a big marketing project that is yet to launch. We haven't thought about financing but potentially it is a route to take. We can only take on a certain number of projects. Having financing would fix and aid that."

Small Business, Videography and Web Development

"We use lead generation programmes currently which helps us. The more data we have the better. You don't want to chase bad business so being able to see someone's financial data, we could better estimate whether they are a business we're wanting to do business with or not."

Micro Business, Digital Marketing

"If we had more data on our customers, it always helps. For example, we've got one client who we've done multiple projects with before, but the point of contact is very difficult to work with. We ask for a budget, and we never get it, I know they do well as a company, and they've got spend but it's difficult to see how much. We quoted for this job and got told we had X amount budgeted for this, which would be good to know beforehand."

Small Business, Professional Services

"I'm not sure that changing the way we accept payments would have an impact on converting customers, but might potentially make it easier for them to pay. We have had customers in the past who wanted to pay us using an alternative method that we just did not have the capability for. If there was an easier mode of payment, that would certainly makes things better."

Micro Business, Retail and Manufacturing

"I wouldn't be the right kind of business to have access to other's financial information. I would have to find a relatively well-off community and target them through galleries. Instead of having data on financial, I would need to go to outlets that already attract my customer base."

Sole Trader, Retail

"I don't think financial information is relevant at all for my business development plans. I wouldn't need to factor them in."

Micro Business, Education and Training

"No, I wouldn't factor financial information into my BD planning."

Sole Trader, Consulting and E-commerce

"We are regularly looking on the e-commerce sites, return on ad spent, where customers come from which platforms they've come from, which marketing channels, I use shopify analytics to show that. That's really valuable for me, because you can see marketing spend."

Micro Business, E-commerce

"A few new payment methods got suggested during Covid times as people weren't allowed to come up to the bar and had to maintain social distancing, but we did not bother with any of them. We found that using our existing card readers were sufficient enough for us. In some bigger pubs, they have QR codes on the table which you could scan and pay for on your table, but we did not do that."

Micro Business, Hospitality

Supporting Financial Business Administration

- **Micro Businesses spend 15 house a week on financial business administration, particularly in bookkeeping and tax administration.**
- **Digitalisation has improved the bookkeeping process, but many small businesses still rely on manual processes.**
- **There is a lack of knowledge on tax reliefs.**
- **72% of small businesses still using manual methods for payroll administration leading to inefficiencies and errors.**

The issue

For small businesses the task of financial administration can consume a considerable amount of time and resources. Specifically, financial administration is particularly burdensome for micro-businesses, defined as those with 10 or fewer employees, with the average micro-business spending 15 hours per week on this task.[56] This burden increases for sole traders, who spend almost 31% of their time each week on financial administration.

An FSB study found that while digitalisation has made some inroads in bookkeeping processes, with 98% of small businesses using some form of software to record their transactions, 60% still rely on manual processes, such as paper invoices, receipts, and bank statements.[57] It was also found that this trend is most evident among micro-businesses, with 76% using record-keeping software, compared to 87% of small businesses and 90% of medium-sized businesses.

One of the biggest challenges within financial administration for small businesses is tax administration. On average, small businesses spend 52 hours per year on tax compliance, at a cost of £4,100, which adds up to a staggering £25 billion overall.[58] The survey also found that small businesses also struggle with awareness of tax reliefs available to them, with the average small business only aware of 5 out of 12 listed reliefs. Furthermore, many small businesses (82%) rely on their accountants for information on tax reliefs, and those who claim tax through a third party end up paying up to 25% of the savings in service fee.

The Making Tax Digital initiative has made it a legal requirement for businesses over the VAT threshold to record their transactions digitally and submit returns to HMRC. The April 2022 deadline forced the majority of small businesses to use software which is Making Tax Digital compatible. According to an FSB survey in 2021, 80% of businesses that have made the switch use paid for accountancy software compared to 40% of those that haven't.[59]

Of those small businesses that had switched to Making Tax Digital, 33% agreed that it saves time, 23% agreed that it makes it easier to organise and plan cashflows, and 27% agreed that it reduces complexity in the tax system. Along with this, 73% of small businesses that use cloud accounting see VAT and tax calculations as an important feature and 79% saw the software as good value for money.[60]

Payroll administration is another area of financial administration that poses significant challenges for small businesses. Small businesses account for three fifths of employment within the private sector.[61] The average small business spending 30 hours per year on this task and this is an administrative process that has yet to be fully digitalised by small businesses, with 72% still using manual methods to calculate payroll.[62] This reliance on manual processes leads to issues such as time-consuming processes, increased mistakes due to manual error, and too many repetitive tasks.

One root cause of this issue is the fact that the vast majority small businesses (80%) are not able to access BACs payroll facilities which means they pay using the Faster Payments Service (FPS). Overall, 45% of salaries paid in the UK are via the Faster FPS and 'none of the leading cloud accountancy firms have payroll solutions designed for FPS'.[63] Therefore, the process is very manual, which is time consuming and doesn't provide accurate records for tax purposes and costs approximately £1.1billion a year to accountants and SMEs in time resolving these issues.

56 Starling Bank, 2021
57 FSB, 2021.
58 FSB, 2021.
59 FSB, 2021.
60 OBIE, 2022.
61 FSB, 2021
62 MHR, 2022
63 Pay.UK, 2023

Supporting Financial Business Administration: **Impact of Open Banking to date**

- **Big impact through ability to connect bank accounts to accountancy platforms.**
- **Improved data management and sharing of data.**
- **Potential to link financial accounts to tax returns and treasury management.**

Open Banking has positively impacted the way businesses manage their finances by enabling the connection of bank accounts to cloud accounting platforms. This integration has significantly impacted business administration by streamlining areas such as tax, payroll, and accounting processes. While cloud accounting existed before Open Banking, the rapid adoption by small businesses in recent years (driven by developments such as Making Tax Digital) highlights the impact of this technology.

For 72% of small businesses, the ability to connect a bank account was viewed as an important feature along with 58% the real time availability of transactions as important.[64] The report also stated that Open Banking has also improved small business' ability to capture data and then share that to an external party, with 73% said they were able to share data more easily with external advisors and 79% stating it improved their data management due to their data being more effectively and reliably stored.

Adopting cloud accounting has also brought significant administrative cost reductions, with 59% of businesses experiencing internal improvements and 64% seeing external benefits.[65] This is partly down to the time saving nature of having all transactional accounts in one place. Small business owners also don't need to invest time opening separate accounts in separate applications. These benefits were even more pronounced for larger small businesses.

The benefits and use cases to small businesses help explain the high uptake to date, but industry experts feel there is more that Open Banking can still achieve in this space. For example, in bulk salary payments, a business owner can review and authorise all employee salary payments in a single automated step with no manual re-keying, which can be done through using a standard extension to the base Open Banking standard.[66]

The payments would also be connected to HMRC compliance data therefore reducing fraud and errors along with reducing the time spent on payroll administration.

"The biggest use cases for Open Banking are in supporting business administration. Where the cloud accounting platforms have been fantastic, enabling small businesses to concentrate on running their business."

Simon Lyons, Chief Strategy Officer, OB Connect

"Open Banking is really beneficial towards supporting business administration through cloud accounting. Most businesses aren't aware of how much Open Banking powers their tech behind the scenes."

Payments expert, global financial services brand

"I think the use of AISP in the accounting and payroll services has been widely adopted, and this has made a significant customer experience improvement."

Nathan Flowers, Business Propositions Lead, NatWest

"Managing a business is a lot easier through cloud accounting platforms and their various add-ons, but there is a limitation on data available. At the moment, Open Banking is limited to the data provided by a bank to its customers online, imagine how much better it would be if you could click and access more details about the transaction, similar to a receipt."

Alan Ainsworth, Strategy & Policy Director, Open Banking

"Being able to aggregate and reconcile different sources of banking data has had a significant impact on supporting business administration."

Paul Stoddart, President, GoCardless

"Open Banking can make things like payroll, payments, and following up on invoices a lot simpler and easier so there's huge potential for Open Banking to support business administration within SMEs."

Craig Tillotson, CEO, Ordo

"It could also be valuable for cloud accounting providers to run on Open Banking rails when it comes to things like treasury management and allowing businesses to balance the books -where they have multiple financial products / accounts and wish to view them via a central portal."

Luke Stubbs, Partner, Shoosmiths

64 OBIE, 2022.
65 OBIE, 2022.
66 Pay.Uk, 2023.

VERY HIGH impact

Supporting Financial Business Administration: **Opportunities for Open Finance**

- **Better data management and reduction in the time spent on manual inputting of data.**
- **Improved business administration tools such as tax calculation and relief awareness.**
- **More effective management of payroll services and better employee engagement.**

It is widely believed that Open Finance will have a significant impact on business administration. With the expansion of data through Open Finance, accounting platforms will be able to connect multiple financial accounts into that software. Therefore, it will increase efficiency of data collection and administrative tacks for small businesses.

One area where Open Finance could have a significant impact is in accountancy and record keeping. With the expansion of data sets, accounting platforms could perform better functions such as enhanced tax calculation which could lead to automated tax filings. 73% of small businesses that use cloud accounting see VAT and tax calculations as a key feature, therefore this being further improved will be extremely valuable.[67] This will hopefully allow small businesses to have a better real time view of their finances in which they can better budget for known future costs such as tax bills. Along with this, the time spent on manually inputting data will be reduced if different accounts are connected to one software, which may offer efficiencies on areas such as remittance notification.

Open Finance could also help small businesses become more aware of tax reliefs. The expansion of data sets will help accountancy platforms have a better outlook of a small business' finances. Therefore, accountancy platforms could prompt businesses that are close to a certain tax relief threshold. As stated previously awareness of tax reliefs is a big problem for small businesses and this could potentially save small businesses thousands.

Another area where Open Finance could have a positive impact is in payroll. Payroll data is within the scope of Open Finance, and this could lead to more effective management and budgeting of payroll services. Real-time access to payroll data could also enhance employee engagement as employees would be able to view their payment situation, including bonuses and salaries, in real-time.

EXAMPLE USE CASE:

Third party providers could send prompts to businesses that are close to or qualify for a certain tax relief. This could benefit manufacturers who put a lot of money into research and development.

"With Open Finance, there is a real opportunity to utilise data to make things easier and more efficient. The adoption of Open Banking payments by HMRC is a great example, with millions of pounds of fees saved, but there are many broader opportunities.
Charlie Mercer, Head of Economic Policy, Coadec

"Supporting business administration gets a lot easier if all your financial products including your business loans are suddenly supported, and Open Finance can enable that."
Head of FinTech, global professional services firm

"Looking at links to administrative processes and systems, open APIs offer huge potential to streamline many elements of business administration.."
Ian Fraser, Client Partnership Executive, AND Digital

"We need to bring more credit data into play for Open Finance to have a significant positive impact on supporting business administration, because then you can have more insight into which firms are dealing with trade credit insurance and credit worthiness of potential customers."
Vaughan Jenkins, Director of Business Development, Moneyhub

"From an accountant perspective, enabling small businesses to share their financial data with accounting software would dramatically streamline business administration and would give the small business a better insight into their true real-time financial position."
Brian Palmer, Managing Director, Tax Policy Advice

"I can't see Open Finance having a massive impact on supporting business administration. Maybe the slight caveat is KYC and AML, which is everyone's pain point, but otherwise I don't think there's much positive impact."
Peter Cornforth, Commercial Director, Answer Pay

"I think sole traders and mid sized businesses are more likely to benefit the most from Open Finance enabled services. Sole traders have simple structures to their business and are often first adopters. Mid sized businesses can have more professional systems and processes than small businesses, and are more open to using platforms and data solutions."
Rafael Kiessling, Director of SME B2B for Central Europe, Mastercard

67 OBIE, 2022.

Supporting financial business administration
- small business perspectives

"The number of times I've sat with multiple screens in front of me and I've got three or four bank accounts open at the same time and seeing what's where and where is it moving is countless. The ability to do that without logging into different accounts all the time would be a huge time saver."

Sole Trader, Legal and Financial Consultant

"I sometimes have to pull away from my normal job to get all the administrative side done on time. Our payroll fluctuates on overtime hours so having a more robust control over it would be lovely."

Small Business, Construction and Housing

"I don't have any problems because I use cloud accounting for the financial side of things. On the admin side, we work with an HR company, and they handle everything, but I think the monthly fee is very high and I don't use them enough to justify that. I've had to lock into a 2-year contract with them, so I'm locked in because in my head I thought I'd be using them a lot more."

Small Business, Leisure and Hospitality

"I don't have any problems because I use cloud accounting for financial. On admin side we use citation, and they handle the paperwork's for health and safety, employee contract, etc but I think the monthly fee is very high and I don't use them enough to justify that. I've had to lock into a 2-year contract with them, so I'm locked in because in my head I thought I'd be using them a lot more."

Small Business, Leisure and Hospitality

"All the new software integrates with each other and so on the hospitality side of things we have no problems. We are always looking for things that make us more efficient. I think the value of seeing the marketing in a platform like that is less for me, it would be things like payroll, accounting, cashflow reporting, anything like that."

Micro Business, Hospitality and Events

"The more data and systems that we have in one place makes it's easier to manage the administrative side of things. It would save me time going from one platform to another when I have to evaluate things."

Micro Business, Digital Marketing

"If it wasn't for cloud accounting, my administration costs would be significantly higher. At the moment, there's complete transparency with what we're using, being able to see what's coming, when it should be coming in, how much money we've made and the clients we have. We do integrate that with project management tools and CRM systems, which is annoying because we're using so many different pieces of software and all charge highly with no integration."

Small Business, Videography and Web Development

"I always make a furious amounts of notes and hope that I'll understand them and put them into excel. I'm not in a position where I want to be paying a monthly subscription when I don't know how much I'm getting in monthly. I would rather pay a fixed fee and then update it on my own choice."

Sole Trader, Retail

"The biggest issue, and where I see Open Banking fitting in is looking at the different income streams which come in in a separate way. How those streams are kept separate from personal finances, what's coming in, where and when. I run relatively complicated personal finances so dovetailing which account has which item can be interesting. I don't have a dedicated business bank account so it's a question of extracting business expenses from general cashflow."

Sole Trader, Legal and Financial Consultant

"Having an all-in-one platform sounds pretty smart but it seems almost like a hopeless task to try and make that achievable because how many different types of company are there out there and how many different companies' online systems you have to integrate with? I could already predict that it was one of those where it works for like 80% of the things you have."

Micro Business, Hospitality

"Our accountants do our payroll, and that's on a different software to our cloud accounting. I think an overview of all of it, consolidated and in one place would be useful."

Micro Business, Education and Training

FURTHER INFORMATION

Terminology

Dataset definitions

Terminology

Terminology used in report	Description
Account Information Services Providers (AISPs)	Offer account information services (AIS) by gathering read-only financial information. They can compile data from multiple bank accounts, but they can't initiate activity from those accounts.
Account Servicing Payment Service Providers (ASPSPs)	The entities (typically banks) responsible for providing payment accounts for companies and consumers that use payment services. They facilitate the sharing of account data with third party service providers that can, in turn, initiate payments on the user's behalf.
Application Programming Interface (API)	Code that enables two software programs to communicate. An API defines how a developer should request services from an operating system (OS) or other application and expose data within different contexts and across multiple channels.
CMA9	The nine largest banks in the UK, as determined by the Competition and Markets Authority (CMA) as part of the Open Banking initiative: Allied Irish Bank, Bank of Ireland, Barclays, Danske Bank, HSBC UK Bank plc, Lloyds Banking Group, Nationwide Building Society, NatWest Group and Santander.
Joint Regulatory Oversight Committee (JROC)	The committee was announced on the 25th of March 2022 and their role is to oversee the planning and preparation for the future Open Banking entity along with overseeing the process for the further development of Open Banking.
Open Banking / open banking	Some industry commentators differentiate between Open Banking (referring to the regulatory framework) and Open Banking (referring more broadly to the practice of API-enabled banking capability). In this report we use 'Open Banking' as an overall descriptor to cover for all practices.
Open Banking Implementation Entity (OBIE)	Created by the CMA to deliver the Application Programming Interfaces (APIs), data structures and security architectures so users could share their financial information safely and securely during the first implementation of Open Banking.
Open Finance / open finance	As with the Open Banking / Open Banking description above, we use the term 'Open Finance' as an overarching descriptor for all practices relating to Open Finance.
Payment Initiation Service Providers (PISPs)	Provide payment initiation services (PIS). This means they can not only access and present financial information, but also move money from a user's bank account. Customers must consent to these payments.
Payment Services Directive Two (PSD2)	A piece of European legislation designed to force providers of payment services to improve customer authentication processes and to also bring in new regulation around third-party involvement.
Open Data / open data	The next step beyond Open Banking and Open Finance is Open Data. This reaches beyond financial services, and relates to the connection of account data from other sectors such as energy / utility and telecommunications. In some countries, it also extends to personal health and government records.
Third Party Providers (TPPs)	Third party providers are organisations or natural persons that use APIs developed to Standards to access a customer's accounts, to provide account information services and/or to initiate payments.

Dataset definitions

Datasets - product definitions	Description
Bank Accounts	A contractual arrangement between a customer and a bank or other financial institution, whereby the customer deposits funds into the account and the bank or institution agrees to hold and manage those funds on behalf of the customer.
Communications	An account which a person has with an organisation that is used for the purpose of sending or receiving electronic communications, including email accounts, social media accounts, and instant messaging accounts.
E-commerce	Accounts that are used by businesses to sell goods or services online. These accounts are typically associated with online marketplaces, such as Amazon or eBay, or with e-commerce platforms that enable businesses to create their own online stores.
Foreign Exchange	A type of account that is used to hold funds in a foreign currency. These accounts are typically offered by banks and other financial institutions and allow customers to buy and sell foreign currencies to manage their currency exposure or to facilitate international trade.
Insurance	A financial account that is used to manage the payment and collection of insurance premiums and claims
Investment	A type of financial account that is used for the purpose of investing in securities, such as stocks, bonds, and mutual funds. Investment accounts are typically managed by a financial institution, such as a bank or investment firm.
Loan	A financial arrangement where a lender provides funds to a borrower for a specific purpose, with the borrower agreeing to repay the funds plus interest over a predetermined period. These include business loans, mortgages, invoice financing, asset-based loans, bridging loans, factoring and overdrafts.
Payroll	The bank account that a company uses to manage its payroll process, including depositing employee salaries and wages and paying taxes and other deductions.
Pensions	An account that is used to hold funds that are set aside by an employer for the purpose of providing retirement benefits to their employees. This account is usually administered by a pension scheme provider.
Savings	An instant access or notice account that allows businesses to deposit and withdraw funds while earning interest on their savings.
Tax	This would include Income Tax, Value Added Tax (VAT), National Insurance, Corporation Tax and Capital Gains Tax along with other more business specific taxes.
Utilities	An account that is used to manage and pay for various utility services, such as electricity, gas, water, and telecommunications.

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Open Finance opportunities and use cases for small businesses

Managing cashflow	• Better data management and reduction in the time spent on manual inputting of data. • Improved business administration tools such as tax calculation and relief awareness. • More effective management of payroll services and better employee engagement.	**EXAMPLE USE CASE:** *Open Finance data could enable a more granular and accurate view of future cashflow allowing a business to make more confident decisions. For sectors such as hospitality, this might mean that seasonal variations in trade can be dynamically forecast, and financing arrangements automatically put in place where they are expected to be required.*
Access to finance	• Increases brand stickiness and loyalty of clients. • Alternative payment methods are beneficial for small business to adapt to changing consumer needs.	**EXAMPLE USE CASE:** *Through Open Finance, lenders can access a businesses' detailed financial data through secure APIs, allowing for streamlined application processes and enhanced credit assessments, reducing the time it takes to process loan applications and resulting in better loan decisions for small businesses.*
Late payments	• Varied opinions on whether Open Finance can go beyond the impact already seen in Open Banking's AIS function. • VRPs offer an alternative to direct debits and help small businesses collect recurring payments in near-real-time. • External factors could limit the impact of Open Finance on late payments.	**EXAMPLE USE CASE:** *Open Finance could allow for third party providers or regulators to create a better measure of companies payment performance. For example, an average time of payment through linking invoice and payment data. Giving small businesses a better view of their customers payment performance for example in manufacturing.*
Winning new customers	• Increased financial visibility of a company to a lender. • More accurate credit assessment. • Further streamline the onboarding process. • Enhancing personalised lending products.	**EXAMPLE USE CASE:** *Open Finance can help with streamlined ID&V processes which makes onboarding quicker, and can improve the conversion of new business opportunities due to the reduced friction in the process.*
Supporting Financial Business Administration	• Open Finance provides small businesses with a unified view of their financial data in one dashboard. • Improved cashflow insights and predictive cashflow. • More accurate cashflow or invoice-based financing, • Improvements of Open Banking could have a greater impact.	**EXAMPLE USE CASE:** *Third party providers could send prompts to businesses that are close to or qualify for a certain tax relief. This could benefit manufacturers who put a lot of money into research and development.*