The carrot, the stick and the yardstick: big techs' implications for open finance[1]

Executive summary

Open finance can play a significant role in transforming financial services. It can drive efficiency, competition and innovation in the financial sector. In addition, it can empower consumers by granting them more control over their data and allowing them to benefit from more cost-efficient and personalised products. Its potential may be particularly significant in emerging market and developing economies (EMDEs), where it can help broaden access to financial services and thus support financial inclusion and, potentially, financial health. But successful initial adoption does not necessarily ensure the long-term viability of an open finance ecosystem.

The long-term viability of open finance initiatives may be affected by three interlinked conditions: incentives, liability allocation and performance measurement. Participants, including financial institutions, new entrants and consumers, need adequate and sustainable incentives to engage meaningfully in the ecosystem. To foster trust, responsibility for liability, mitigation and resolution needs to be allocated clearly. Authorities need appropriate performance measures to assess whether open finance is achieving its intended policy objectives. At the same time, the type of players that participate in an open finance ecosystem would have implications for these three conditions.

Big techs may directly or indirectly participate in open finance. Direct participation occurs when a big tech firm or its financial subsidiary is already a licensed financial services provider or becomes a licensed third-party provider (TPP) in the context of open finance. Both cases enable big techs to access customer-permissioned data and facilitate or provide financial services. Indirect participation occurs when a big tech provides the front-end customer interface or distribution platform while partnering with a regulated financial institution or TPP that provides the underlying financial service. In many jurisdictions, however, big techs are active mainly in payments markets. Experience in these markets provides a good illustration of likely scenarios in which big techs participate in consented data-sharing arrangements.

Big tech participation can influence the incentives of other open finance participants, while reshaping the market. The presence of big techs can provide a powerful incentive for incumbent financial institutions to engage more actively in open finance. Competitive pressure from large technology platforms can encourage incumbent banks to invest in the quality of application programming interfaces (APIs) and data capabilities and to move beyond minimum regulatory compliance to defend customer relationships. For fintechs and other small data users, big tech participation can incentivise niche specialisation. However, these firms could also be pushed towards unequal partnerships with big tech platforms or large incumbents. For consumers, big tech participation can lead to greater convenience and personalisation but may come at the cost of data privacy and reduced consumer agency.

Big tech participation exposes a potentially important imbalance in existing approaches to reciprocity in data-sharing. Big tech firms can derive substantial value by combining customer-permissioned financial data obtained through open finance with behavioural, commercial, locational and other non-financial data accumulated through their core businesses. This is the advantage of big techs over other open finance ecosystem participants. Extending the open finance framework to include the sharing of non-financial data could help reduce this imbalance. One option worth considering is a more

[1] Hakan Eroglu (hakan.eroglu@bisih.org), Anatoly Gusto (anatoly.gusto@bis.org), Jermy Prenio (jermy.prenio@bis.org), Bank for International Settlements; Pavle Avramovic (pavle.avramovic@fii.international), Sanya Juneja (sanya.juneja@fii.international), Teresa Lam (teresa.choryanlam@fii.international), Cambridge Centre for Alternative Finance/Financial Innovation for Impact; and Friederike Rühmann (fruehmann@worldbank.org), World Bank.

customer-centric approach under which the scope is determined by the data that customers are willing to share rather than by traditional sectoral boundaries. In practice, however, this could potentially compound legal, operational and jurisdictional challenges. Reciprocity is therefore an imperfect, though possibly necessary, mitigation measure that needs to be complemented by other competition and regulatory safeguards. Careful regulatory design is necessary to avoid unintended consequences.

Liability arrangements need to reflect participants' actual control over risks, data and customer interactions rather than their formal regulatory status alone. This is particularly important when big tech firms participate indirectly and exercise influence beyond routing transactions: regulated entities may remain legally responsible for compliance and customer redress even though a big tech partner exercises substantial influence over the customer interface, data processing and operational systems. A risk-based approach that allocates responsibility according to a participant's role, data access and operational control could better align liability with the sources of risk.

Advances in artificial intelligence (AI) make the alignment between actual control and accountability even more important. Increasingly autonomous AI agents could access customer financial information, compare products, negotiate terms and execute transactions through channels enabled by open finance. They may do so without fitting neatly into existing concepts of consent or participants' roles. Existing frameworks therefore need to anticipate how AI agents could alter the chains of consent and accountability on which current liability arrangements depend. The role of big tech firms sharpens this concern. They can simultaneously act as distribution platforms and as providers of AI models used by regulated institutions. This widens the potential gap between formal liability and actual influence over financial decisions.

Big tech participation can support financial inclusion but may diminish competition and consumer empowerment as network effects and platform dependency become established. Embedding financial services into platforms already used by underserved customers can expand access and potentially lead to meaningful usage. Competition from big tech firms can also push incumbents to improve their digital capabilities and services. Over time, however, the same scale, data advantages and network effects that generate these benefits may enable dominant platforms to consolidate customer relationships, control key interfaces and accumulate further data advantages. Gatekeeping, self-preferencing, manipulative design and high switching costs could ultimately reduce customer choice and replace concentration among traditional financial institutions with concentration around big tech platforms.

It is thus important to track measures of market concentration and indicators of consumer empowerment, and to pursue policy actions where necessary. If strengthened consumer empowerment and enhanced competition are the objectives, authorities should progressively monitor relevant indicators, such as ease of consent, redress outcomes and market shares. Issues related to consumer empowerment could be addressed by clear, explicit and granular consent mechanisms, and clearly defined dispute resolution rules. Issues related to market concentration could be addressed by restrictions on big tech entry or constraints on how they can use platform data.

The challenge is to unlock the value that big techs bring to open finance without undermining policy objectives. This requires financial authorities to consider incentives, liability and performance measurement together rather than as separate policy issues. Incentive structures influence who participates and how market power develops; liability arrangements determine whether accountability follows actual control of risks; and performance measurement allows authorities to identify whether perceived benefits are ultimately contributing to policy objectives. As open finance ecosystems mature, the three conditions provide a practical framework for periodically reassessing the adequacy of rules governing big tech participation. At the same time, effective implementation of the three conditions requires cooperation among multiple authorities within and, in the case of global big techs, across jurisdictions.