WHITE PAPER

Open Banking for Wealth Management in the U.S.

For advisors, a complete picture of each client's financial holdings, obligations, behaviors, and goals is essential to delivering truly personalized, effective, and compliant advice over the life of the relationship. Financial account aggregators are the best way to access consumer-permissioned information about accounts that are not under management.

Consumer-permissioned financial data sharing, or data aggregation, pioneered over two decades ago using screen scraping as the primary method for data access. Screen scraping required the investor to entrust their online banking credentials to their advisor, or their advisor's technology provider, so the advisor could access the data via the bank's client-facing website. Screen scraping is prone to broken and interrupted connections, which can at times make using the data challenging. One industry group estimates that some 40% of connections fail when small businesses and consumers attempt to connect their financial institution accounts to a data aggregator.[1]

Today's open banking direct data connections provide reliable and secure access to the critical data necessary to maximize positive client outcomes and provide enhanced back-office efficiencies. Open banking is a key component for providing the critical data necessary to maximize positive client outcomes and operational efficiencies.

What is Open Banking?

The basic principle is simple enough: choice. Open banking enables consumers to engage with their choice of financial service providers, exercise greater control, and have more transparency over the use of their financial data. Open banking enables consumers to share their financial account data with their third-party advisors, regardless of the financial institution that holds it.

Upon approval, account holder data is retrieved via API connections on an ongoing basis, bypassing disruptions caused by broken connections, changed or one-time passwords. **For investors**, open banking offers a secure and transparent means of sharing their data. **For advisors**, the connection provides uninterrupted access to critical information they need to provide advice and perform back-office processes like performance reporting.

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With the rise of open banking in the U.S. data aggregation services are shifting to rely on direct data connections via APIs and bilateral agreements with financial institutions. This removes the need for advisors to obtain client login credentials, which remain with the issuing financial institutions. The account holder is redirected to their financial institution where they can instruct their financial institution to share their financial data with their advisor.

Open banking offers structured, formalized, and continuous access to investor data. These direct data feeds address both the technical and the non-technical causes for broken connections. Open banking enables advisors to extend their advice to the client's full portfolio. They can make recommendations based on all the assets and obligations of their clients, empowering them with more knowledge based on a wider range of data.

Advisors can also offer personalized advice best tailored to each client's goals and values with less effort with the greater data access open banking provides. The ability to see more detailed transaction data on both income and expenses enables a view of a client's financial health and preferences that goes far beyond the traditional demographic-based financial profiles. At the same time, open banking provides a means for advisors to view the effect their recommendations and allocations have on client portfolios and goals—and whether they need to suggest strategy adjustments.

How is Open Banking Developing in the United States?

In the U.S., consumers do not have an affirmative right to the data that their financial institutions maintain about them. As in other areas of financial services, the U.S. is taking a more market-based approach. Consumer-permissioned data sharing and access has been largely unregulated even as wealth management firms and banks are highly regulated.

1. FDATA at https://files.consumerfinance.gov/f/documents/cfpb_boms-statement_symposium-consumer-access-financial-records.pdf

The U.S. legal basis for open banking since 2010 stems from Section 1033 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. That section "requires that banks make available to their customers, upon request, data concerning 'the consumer financial product or service that the consumer obtained … in an electronic format usable by consumers'."[2]

The Act directs the Consumer Finance Protection Bureau (CFPB) to issue rules on how financial institutions should meet that requirement. The CFPB is expected to complete more than a decade worth of study and coordination with other regulatory bodies and issue rules in the near future. In the meantime, the industry has been working out data access requirements on its own with decidedly conflicting agendas.

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Financial regulators worked to resolve technical problems and acceptance concerns with open banking in other parts of the world. The regions in which open banking is most developed--the U.K., Europe, and Australia--have regulatory mandates for consumer-permissioned data sharing. They also published detailed standards governing access permissions, risk management, and data-sharing formats. As a result, financial institutions had to comply with open banking regulations and standards.

While partnership around the technology that supports open banking has been increasing among U.S. technology developers, the governance over its use is still left to each financial institution entering into data sharing agreements with each data aggregation platform. These agreements are a general improvement, but they also introduce third- and fourth-party risk management requirements on data recipients. Access is not guaranteed.

The lack of regulatory guidance on data access through APIs raises additional concerns. The APIs created by the leading financial institutions may not provide all of the data elements required to meet wealth management use cases for advisors to exercise their fiduciary responsibility to their clients. As the need to move toward more secure and scalable ways of aggregating account data becomes more acute, data access agreements and APIs are essential to ensure that consumer-permissioned access to data can continue uninterrupted.

What Makes a Good Open Banking Partner in Wealth Management?

Simply accessing data does not serve advisors' professional use cases for aggregated data. In order to conduct performance reporting for example, the data needs to not only be available, but reconciliation-ready. Target systems need the data to be enriched and transformed. Financial advisors need an open banking partner with expertise in professional investment use cases to provide them with the data required to empower their full spectrum of fiduciary and statutory requirements.

Connections to wealth and investment providers is just one component. The other is the quality of the data that the aggregator obtains for investor and advisor use cases. Open banking vendors who understand wealth and investment management requirements ensure that advisors and the platforms that support them have the depth of data required for the sophisticated analyses many advisory clients require to meet their goals.

> "Streamlining the delivery of the data to target systems is a three-step process of acquiring the data, enriching it, and delivering it to target systems."

Wealth and investment management have complex data flows and data elements from different types of financial providers that require deep understanding of the outcomes and insights that advisors and investors seek from investment data. In addition to gathering and normalizing data, they also have the means to transform the data, and make it fit for purpose for target systems. An investment-oriented data partner can ensure that data from across the spectrum of financial institutions is interoperable through processing that normalizes and then enriches the data elements across providers, which is critical for more complex back-office reporting systems.

2. Bloomberg Law at https://news.bloomberglaw.com/banking-law/open-banking-can-become-a-reality-in-2022

> "During the acquisition process, it's critical to capture all the necessary data elements for the professional use case."

Streamlining the delivery of the data to target systems is a three-step process of acquiring the data, enriching it, and delivering it to target systems. Investment use cases require special considerations at each step of the way. When signing bilateral agreements, the aggregator should ideally understand the investor-advisor relationship and ensure that the advisor can receive the required data without undue burdens.

Unlike many retail open banking relationships, investment advisors are regulated and hold their data aggregation firms to the highest standards of third-party risk management. Advisors' clients, in turn, have placed a high degree of trust in the advisor to act in their best financial interest. Data aggregators with wealth experience understand the trusted nature of these relationships and can negotiate bilateral agreements accordingly.

During the acquisition process, it's critical to capture all the necessary data elements for the professional use case. Many financial institutions set up their APIs with only the investor portal use case in mind. As a result, the aggregator must vet data elements and advocate for the use case.

Enriching and normalizing the data is critical to ensure that missing or ambiguous elements are enriched and normalized. At this stage, the data is ready normalized and clean and available in the structured format, but it is useful for performance reporting and other professional use cases.

Lastly, data must be tailored and transformed for its intended target system. Without this last step, consuming aggregated data becomes cost prohibitive. Only a data aggregator with deep investment knowledge and industry exposure can ensure the quality and availability of data for these complex uses cases.

Data aggregators oriented to the wealth business have developed the experience of managing the complexities of wealth management through their history of working with all types of counterparties in capital markets. They have maintained direct custodial feeds for years and built working relationship with banks, trading organizations, and wealth advisors. Open banking agreements are the logical extension of those existing connections.

Morningstar ByAllAccounts

Morningstar® ByAllAccounts® is committed to empowering advisors and their investors with high-quality financial data tailored to investment use cases. For more than 20 years, ByAllAccounts has provided data connections integrated into advisors' wealth management platforms via data aggregation.

ByAllAccounts solutions serve advisors and investors alike. Advisors receive their investors' holistic financial data in a reliable, safe, and compliant way. Investors maintain consent with granular control of how their financial data is used, which engenders greater trust. **Our commitment to being an essential partner for open banking rests on four pillars.**

01 Providing reliable data access to the highest quality data for investment use cases.

Advisors need a 360-degree view of their client's finances. This allows the advisor to provide more actionable, compliant, and trustworthy financial advice to their investors. More direct data connections offer greater reliability and mitigates risk. ByAllAccounts is adding more API connections via structured-data access agreements; 70% of the data sourced will be accessed via data feeds by the end of 2022. As part of the Morningstar family, ByAllAccounts is uniquely situated among aggregators to perform best-in-class security mapping to deliver the highest quality investment data. Our exclusive access to the Morningstar Security Master allows us to map millions of positions and transactions to their accurate names, symbols, and share class with market-leading precision, eliminating inconsistencies and saving your staff from the burden of manual interventions.

02 Promoting increased data transparency and reduced risk to advisors and investors.

In an environment of fragmented regulation and standards, open banking reduces risk through developing standards, stakeholder collaboration, and a shared ecosystem of liability. Advisors will no longer need to store client credentials themselves or with their aggregator, further reducing risk. Investors also have greater transparency and more granular control over the use of their data.

03 An essential partner and advocating on behalf of the wealth management industry.

ByAllAccounts has worked in wealth and investment management for more than 20 years. We not only understand the data elements that are required for the most complex investment use cases, but we also have the long-standing industry relationships and expertise to obtain additional data that may be required for investment use cases. ByAllAccounts participates in industry organizations to help develop standards for harmonizing interoperable data transmission and for the exchange of consumer permissioned information.

04 Upholding high standards of data security and privacy.

ByAllAccounts has over two decades of experience enhancing and maintaining security and privacy protection. ByAllAccounts maintains a comprehensive information security program that requires physical, technical, and procedural safeguards designed to keep data safe, including encryption at rest and in transit.

Additionally, ByAllAccounts solutions comply with all relevant regulatory guidelines and privacy laws. It operates solely as a service provider to its clients, many of whom are SEC and FINRA regulated firms and hold ByAllAccounts to the highest standards of third-party risk management.

Consumer Attitudes About Data Ownership, Control, and Value Exchange

To what degree do you agree or disagree with the following statements?

Source: Deloitte analysis
Deloitte Insights | deloitte.com/insights

Conclusion

Wealth and investment advisors can gain greater understanding of their clients with high-quality data provides through open banking connections. When partnering with a data aggregator experienced in investment and wealth data, advisors can provide more personalized, actionable advice, and improve their back-office processes. They can also provide advice that more aligns with client values as evidenced by the whole financial picture open banking data connections can provide.

Yet open banking in the U.S. remains in the early stages, especially regarding regulatory support. Many banks remain cautious about giving up control over consumer data. However, it's clear that this attitude is a growing pain point for many consumers, who believe they should have sole authority and discretion over how their information is used.

It's time for data aggregators, banks, investment providers, asset servicers, wealth advisors, and technology providers to work together within the open banking ecosystem and play an active role in establishing and maintaining consumer-permissioned data through standardized APIs. Participating in the open banking ecosystem is a high priority for ByAllAccounts to support its ongoing partnership with the wealth management industry.

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