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# Open Banking for Wealth Management in the U.S.

## The Work is Progressing

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 data aggregators enable clients to safely provide their advisors with secure access to data about accounts that aren't under the advisor's management—giving advisors a complete view of the client's financial situation.

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 each bank's client-facing website. Screen scraping is prone to blocked, 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.<sup>1</sup>

Today's open banking direct data connections can provide reliable and secure access to the critical data necessary to maximize positive client outcomes and provide enhanced back-office efficiencies. U.S. regulators are making progress toward standardized open banking, with the first of a series of proposed rulemaking being enacted in the first half of 2024. However, until investment institutions and accounts are fully incorporated into the regulation, wealth management and advisory focused data aggregation must make use of other means to complement open banking to provide advisors and investors with the enriched data necessary to ensure personalized, reliable, and actionable investment insights.

## The Promise of Open Banking

The basic principle of open banking is simple enough: choice. Open banking empowers 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 direct connections on an ongoing basis, bypassing disruptions caused by broken connections and changed or one-time passwords.

For investors, open banking can offer a secure and transparent means of sharing their data. For advisors, the connection theoretically can provide 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, and look to be further evolved by the Proposed Rulemaking from the Consumer Financial Protection Bureau. These direct connections remove 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 has the potential to offer structured, formalized, and continuous access to investor data. These direct data feeds address both technical and the non-technical causes of broken connections. Open banking could enable advisors to incorporate insights from their 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, leading to better outcomes.

Advisors can also offer personalized advice best tailored to each client's goals and values with less effort by leveraging the broader 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 could provide 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.

## Open Banking in the United States – An Imperfect Union with Investment Data

In the U.S., consumers do not yet have an affirmative right to the data that their financial institutions holds about them. As in other areas of financial services, the U.S. has been 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.

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’.”<sup>2</sup>

The Act directs the Consumer Finance Protection Bureau (CFPB) to issue rules on how financial institutions should meet that requirement. CFPB Rulemaking for Dodd Frank Section 1033 “open banking” is expected to be released in 2024. While we applaud the CFPB for taking an important next step in this process, the current proposal does not go far enough to support the investment data ecosystem. As a result, the joining of investment data and open banking will be an imperfect union to start.

ByAllAccounts® submitted several suggestions to improve the proposed rulemaking as a part of the response to the Outline for Proposals and Alternatives. Our key recommendations for the CFPB included:

- Make the rule clear that financial advisors – both broker/dealer representatives and registered investment advisers – should be able to act as authorized agents of an investor in aggregating financial data. This is not only consistent with the definition of “consumer” in Dodd-Frank, but it will also help streamline enforcement of the rules by the Bureau, data providers, and aggregators.
- Allow screen-scraping under certain conditions based on objective considerations of the data provider (e.g., size), the volume and types of data to be consumed, and the type of consumer of that data (i.e., unregulated vs. regulated recipient).

- Consider expanding the scope of the rule by coordinating with other agencies, such as the Department of Labor and SEC, to include more account types in a coherent, harmonized regulatory structure. Furthermore, including all financial account types in a set of harmonized rules is necessary to ensure consumers have the opportunity for financial stability by making investment decisions that are right for them.

Until these issues are fully resolved, the industry will continue to work out data access requirements for non-covered accounts on its own.

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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, as in most cases the the data providers do not provide service level agreements for performance or availability.

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, comprehensive data access agreements and APIs are essential to ensure that consumer-permissioned access to data can continue uninterrupted.

## What Makes a Good Investment Data and Open Banking Partner for 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.

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

ByAllAccounts is committed to empowering advisors and their investors with high-quality financial data tailored to investment use cases. 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, registered 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 use 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.

ByAllAccounts has provided data connections integrated into advisors' wealth management platforms via data aggregation for over 20 years.

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 gives rise to greater trust. Our commitment to being an essential partner for the investment data ecosystem rests on four pillars.

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

In order for advisors to deliver actionable, personalized advice—and potentially better outcomes—to their clients, the data they use must be secure, reliable, and of the highest possible quality. ByAllAccounts is helping to ensure this by proactively moving to direct connections with providers to reduce the use of less-reliable data access methods. By the end of 2023, 70% of data will be accessed by direct connections. We're also actively collaborating with financial institutions to mitigate operational costs and risk, such as instances of blocking due to market volatility, by leveraging direct connections via structured agreements.

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. Access to this level of reconciliation-ready data eliminates inconsistencies and improves back-office processing for increased operational efficiencies.



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

ByAllAccounts is committed to the success of the advisor and the investor, managing investor information through its entire lifecycle for collaborative compliance. We help investors stay in control of their data while also managing liability across stakeholders in the investment data ecosystem.

The investor provides consent to share data for their specific use case—controlling what information their advisor can access. And because the investor's credentials are never disclosed to their advisors (or ByAllAccounts), inherent risks to both the investor and their advisor are reduced. Along with enhancing the investor/advisor relationship, this also supports advisors' SEC and FINRA requirements for due diligence and risk management of their technology providers.



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

In our 20+ years as an industry-leading organization, ByAllAccounts pioneered data aggregation for investment use cases. We use our deep understanding of investment use cases to ensure the proper data elements are made available via open banking connections.

As a respected advocate and a guiding light on behalf of investors and their advisors, we're committed to supporting the investment and open banking ecosystems. We do this through proactive government relations and by serving as active members in trade bodies.



## 04 Upholding high standards of data security and privacy.

ByAllAccounts takes security and privacy extremely seriously. We ensure alignment with leading financial industry practices by:

- Maintaining a comprehensive information security program that requires physical, technical, and procedural safeguards intended to keep your information safe.
- Using encryption when data is in transit and at rest.
- Complying with applicable laws for privacy and consumer protection.
- Never selling data as part of a secondary use case.
- We operate solely as a service provider to our clients.

Many of them are SEC- and FINRA-regulated firms and hold ByAllAccounts to the highest standards of third-party risk management.

## Conclusion

Consumers engage in multiple financial behaviors every day: spending, saving, borrowing, investing, and protecting. Access to this data by the consumer should be a basic right, as should the ability for them to securely share the data with the parties they entrust to help them achieve their financial goals. For these reasons, Morningstar wholeheartedly agrees with the CFPB's efforts to establish and enforce these rights for the consumer, especially where it can best benefit the consumer in their persona as an investor.

### Consumer Attitudes About Data Ownership, Control, and Value Exchange

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

I believe my personal financial information is something that belongs only to me, not my bank or other institutions I deal with

43%

I feel I am in complete control of my financial data

33%

I worry a lot about my financial information being stolen

32%

I am generally willing to share my financial information with financial institutions if there is something of value I get back

24%

I am the kind of person who is quite comfortable sharing my personal information (demographic details) with others

15%

I generally don't worry too much about my privacy

13%

Source: Deloitte analysis

Deloitte Insights | [deloitte.com/insights](https://deloitte.com/insights)

The open banking ecosystem continues to progress in order to achieve these goals. However, there isn't yet a "perfect union" of open banking and investment data. As we at Morningstar Wealth work to help open banking evolve, we'll continue to use our in-depth expertise and capabilities to aggregate and enrich investment data—helping to ensure more efficient and effective operations for advisors and better outcomes for the investors they serve.

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