Why Data Interoperability Is Harder Than It Looks: The Open Banking Experience
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Many people hope that data interoperability can increase competition, by making it easier for customers to switch and multi-home across different products. The UK's Open Banking is the most important example of such a remedy imposed by a competition authority, but the experience demonstrates that such remedies are unlikely to be straightforward. The experience of Open Banking suggests that such remedies should be applied with focus and patience, may require ongoing regulatory oversight to work, and may be best suited to particular kinds of market where, like retail banking, the products are relatively homogeneous. But even then, they may not deliver the outcomes that many hopes for.

Data portability and interoperability tools allow customers to easily move their data between competing services, either on a one-off or an ongoing basis. Some see these tools as offering the potential to strengthen competition in digital markets; customers who feel locked in to services that they have provided data to might be more likely to switch to competitors if they could move that data more easily. This would be particularly true, advocates hope, where network effects grant existing services value that new rivals cannot emulate or where one of the barriers to switching services is the cost of re-entering personal data.

The UK's Open Banking system is one of the most mature and important examples of this kind of policy in practice. As such, the UK's experience to date may offer useful clues as to the potential for similar policies in other markets, for which the UK's Furman Report has cited Open Banking as a model. But fans of interoperability sometimes gloss over the difficulties and limitations that Open Banking has faced, which are just as important as the potential benefits.

In this article, I argue that Open Banking provides lessons that should both give hope to optimists about data portability and interoperability, as well as temper some of the enthusiasm for applying it too broadly and readily.

I draw on my experiences as part of the team that produced the industry review "Open Banking: Preparing For Lift Off" in 2019. That report concluded that Open Banking, though promising, needed several additional reforms to succeed, a few of which I discuss in this piece. I was also the co-author of a white paper that argued for an Open Banking-like remedy in the UK's retail electricity market, which I discuss briefly below. All views expressed here are my own.

I argue that there are three main lessons to draw from Open Banking for considerations of similar remedies in other markets:

1. Implementation is difficult and iterative, and probably requires de facto regulatory oversight if it is to be implemented effectively, with all the attendant costs and risks that entails.
2. The outcomes that interoperability produces may differ from those policymakers have in mind, and may not mean more switching of core services.
3. If Open Banking does succeed, it will be thanks to features of the UK banking market that may not be present in other markets where similar interoperability is being proposed.

I conclude that Open Banking has not yet led to noticeably stronger competition in the UK banking sector. Implementation challenges suggest that taking an equivalent approach to other markets would require more time, investment and effort than many advocates of interoperability requirements usually concede and may not deliver the anticipated benefits. To the extent that Open Banking is to be a model, it would be best applied as a focused approach in markets that bear particular characteristics and where the costs are outweighed by the benefits, rather than a blanket measure that can be applied to every market where customer data matters.

Read the full white paper here.

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