

**LLOYDS
BANKING
GROUP**



LLOYDS BANKING GROUP PLC
CMA RETAIL BANKING MARKET INVESTIGATION
APIs and midata – an explanatory summary

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1. INTRODUCTION

1.1 A year ago Lloyds Banking Group ("**LBG**") demonstrated to the CMA Panel the potential for easily comparing current accounts using a customer's recent transaction history (midata) by transferring this data electronically to a price comparison website ("**PCW**") using an Application Program Interface ("**API**"). Since that time the idea of using customer transaction data and APIs to improve PCA and BCA customer engagement has gained momentum, featuring in the CMA's provisional remedies and in subsequent Roundtable discussions.

1.2 As recorded in a transcript of a CMA Roundtable Hearing on 1 December 2015¹, there still seems to be some confusion over the nature of the technology, customer security concerns and the time required to deploy this technology. LBG believes that:

- (a) API-enabled midata can significantly enhance customer engagement;
- (b) there are limited security concerns compared with the current system; and
- (c) with the right governance, API-enabled midata can be publically launched within 12 months for both PCAs and BCAs, independently of any wider future potential rollout to other financial products.

1.3 These issues are discussed in greater detail below.

2. NATURE OF MIDATA AND API TECHNOLOGY

2.1 There appears to be some confusion about the nature of midata and APIs, and the differences between them. From LBG's perspective these are straightforward and distinct concepts:

- (a) **midata** is a brand covering many sectors and applications. midata involves giving customers access to their data in electronic form. In financial services, and specifically within the context of PCA and BCA products, midata covers data on a customer's account transaction history; and
- (b) **APIs** are data conduits i.e. protocols or tools which allow data to be transmitted and understood between different pieces of software, for example a bank's IT system and a PCW.

2.2 Putting the two concepts together, API-enabled midata means that customer data can be transmitted electronically, with a customer's permission, between a PCA/BCA provider's IT system and a third party's IT system, for example a PCW.

2.3 Just as midata can refer to any type of personal data, APIs are an enabling technology which is used in many sectors other than financial services. Wherever data needs to be transmitted between different IT systems, an API can be designed and used to facilitate the transfer.

¹ CMA Response Hearings: Transcript of roundtable hearing with Barclays, HSBC, Nationwide and Santander 1 December 2015; Published 22 January 2016

2.4 midata is valuable in making comparisons between current accounts because the costs and benefits of a particular account will not only depend on the account's price structure, but also on how a customer uses their account. Transaction volumes (in and out), the nature of those transactions (for example, utility payments for cashback) and daily balances will all affect the fees and benefits applied to a customer.

2.5 At present, the functionality exists to allow PCA customers to download a midata file and then upload it onto certain PCWs. This is a slow and cumbersome process, excludes Apple users (current midata file formats are incompatible with Apple operating systems, and so cannot be used on Apple desktops, iPhones or iPads) and has data security risks (see below). The process could be significantly enhanced by allowing the account provider's systems to transmit midata directly to a PCW via an API, with the customer's permission. LBG demonstrated this combination of midata and APIs to the CMA last year. In addition, what LBG has called "midata 2" has extended this technology to include smaller BCAs as well making it compatible with Apple desktops, iPhones and iPads.

3. **LIMITED DATA SECURITY CONCERNS**

3.1 Understandably, PCA and BCA customers have concerns about the security and confidentiality of their data. LBG, like all providers, takes data security issues very seriously. However, LBG believes that confusion has also arisen regarding the level of security associated with API-enabled midata and the extent to which midata should be redacted.

3.2 LBG believes that an API-enabled process will *increase* data security compared with the current upload-download midata system. This is because:

(a) APIs are a more secure interface than the current upload and download process, in which data resides on a customer's computer and is therefore susceptible to an increased risk of fraud and error;

(b) midata transmitted between a bank and a PCW can be encrypted to add increased security, which is not the case currently; and

(c) customer permissions and safeguards can be incorporated into the API, which might, for example, include "single use protocols". This would mean that the PCW can only interrogate the midata once, before it is destroyed.

3.3 Irrespective of the mode of transmission, API or otherwise, any entity (including comparison sites) holding or processing customer data will be covered by the Data Protection Act, which provides strong legal safeguards against the misuse or misapplication of data.

3.4 The CMA Response Hearings refer to customer surveys suggesting there are customer concerns over using midata and related processes. Customer surveys are rarely an accurate predictor of actual customer behaviour, especially when customers are asked to speculate about novel situations with potentially leading or inappropriately framed questions. In contrast to such survey results, millions of customers already send significant amounts of personal data to PCWs when purchasing motor and home insurance. LBG agrees that customer confidence and trust will be an important factor in the use of, and uptake, of these services. As with CASS, LBG believes that marketing and advertising campaigns to enhance customer awareness and confidence should accompany the deployment of any API-enabled midata remedy.

3.5 A further particular concern to some providers appears to be whether midata should be redacted. LBG considers that these concerns are misplaced and risk undermining the

effectiveness of this initiative. To properly compare accounts, all transactions should be transparent. Redacted midata may misrepresent the overall volume and value of a transaction history. In addition, redactions risk distorting the value of specific account benefits. Comparison results based on redacted information may therefore be inaccurate.

4. **RAPID DEPLOYMENT IS FEASIBLE**

- 4.1 LBG believes that APIs and linked midata services could be implemented for PCAs and smaller BCAs within 12 months if their development and implementation is prioritised. This is despite the complexity of LBG's legacy IT systems, some of which is driven by mergers and divestments over recent years. LBG believes that its rivals have not faced the same complicating factors. In particular, new providers ought to be able to implement API-enabled midata at least as quickly as LBG, as their IT systems are newer and less complex and have fewer legacy issues. Longer established providers should also be able to match LBG's timetable on the basis that the complexity of their systems is likely to be of the same order.
- 4.2 HMT and BBA led on the delivery of the upload-download version of midata. HMT's Open Bank Working Group ("**OBWG**") is now leading an initiative, with APIs at its core, to promote open banking in the UK. The scope of its proposed framework is wide and includes savings and credit cards, as well as current accounts. However, no governance body currently exists to deliver and deploy the OBWG's plan. OBWG's current road map envisages APIs for these financial services being achieved by end Q1 2019. The current wide scope, governance arrangements and timelines suggest the OBWG process may risk slow delivery of API enabled midata for PCAs and BCAs.
- 4.3 To mitigate this risk, LBG believes the CMA should mandate a 12-month deadline for delivery of current account APIs, using unredacted midata, to provide price and quality comparison to customers. The FCA should be asked to lead on governance of this work. The FCA is also considering midata remedies as part of its credit cards investigation and would be well-placed to co-ordinate these activities.
- 4.4 This approach will not work against OBWG's objectives, but rather would set priorities and provide a governance blue print. It would also help build momentum for extension into other retail products (particularly credit cards where similar thinking is already underway as part of the FCA's credit cards market study).
- 4.5 In summary, LBG believes that API enabled midata can significantly enhance customer engagement. Compared with the current midata process, APIs offer the potential for increased customer security. The risk of delayed delivery can be reduced by a clear process involving the FCA, as mandated by the CMA.