



AUG 2026

Banking Trends: Who Benefits When Banks Must Share Your Data?

Open banking boosts fintech competition, helping many but potentially creating risks for privacy and financial stability.

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In October 2025, the Consumer Financial Protection Bureau proposed a landmark rule governing consumer financial data rights in the United States. The proposal would require banks and other financial institutions to make consumers' financial data available, in a secure and reliable manner, to authorized third parties when requested by the consumer. It would also establish obligations for third parties when accessing this data—including privacy protections and security requirements—while encouraging industry standards for data sharing and cybersecurity. Although the future of the rule remains uncertain because of ongoing legal challenges and revisions, the proposal represents a major step toward the adoption of open banking in the United States.

Open banking refers to policies that empower consumers to share their financial transaction data with other financial services providers. Many countries have already adopted versions of open banking. In the European Union, for example, the Revised Payment Services Directive allows authorized third parties to access consumers' bank account information, but only with consumer consent and subject to strict security standards.¹

Data sharing in consumer finance is not new. For decades, lenders in the United States have shared information about borrowers through consumer credit bureaus. However, open banking differs from traditional credit reporting in important ways. First, the scope of information shared under open banking is much broader, potentially including detailed transaction histories and payment flows. Second, open banking is generally based on consumer consent, whereas participation in credit bureau systems is largely done by lenders without the knowledge or consent of borrowers. Third, the firms using open banking data may include fintech lenders that are more technologically sophisticated than traditional banks.

| Open Banking and the Legacy of Credit Bureaus

The modern financial system already relies heavily on information sharing. During the late 20th century, countries around the world experienced a large expansion of consumer credit bureaus. These institutions collect and distribute information regarding borrowers' debts and repayment histories.

Research on the expansion of credit bureaus generally concludes that they improved credit markets by reducing information asymmetries between lenders and borrowers. For example, in their 2002 *Journal of Banking & Finance* article, Italian economists Tullio Jappelli and Marco Pagano argue that information sharing through credit bureaus increased lending and reduced defaults by enabling lenders to distinguish more effectively between risky and safe borrowers. Information sharing also strengthened incentives for repayment, because borrowers understood that poor repayment behavior could affect future access to credit.

Other researchers, however, have argued that there may be benefits to limiting information sharing. In our 2015 *American Economic Journal: Microeconomics* article, economist Piero Gottardi and I emphasize that retaining negative information indefinitely may punish borrowers excessively and reduce opportunities for financial recovery. We conclude that, so long as this negative information remains on their records, lenders may be reluctant to advance credit to these borrowers—and this can increase economic disparities.

Although many of these issues also apply to open banking, the newer system introduces additional concerns. Open banking generally involves the sharing of far more detailed data than traditional credit bureau systems, including banking and credit card account data that can reveal information about income, spending patterns, and even personal behavior. This raises substantially greater privacy concerns.

| The Potential Benefits of Open Banking

Policymakers' primary argument in favor of open banking is that it may spur innovation in financial services markets, foster competition, and increase financial inclusion. To test this argument, University of Maryland professor of finance Tania Babina and her coauthors constructed a database of open banking policies across 49 countries. As they document in their 2025 *Journal of Financial Economics* article, the introduction of open banking stimulates fintech investment. It seems that, by lowering barriers to accessing consumer financial information, open banking makes it easier for fintechs to develop alternative lending models, improve credit assessment, and offer consumers more personalized financial products. As a result, fintechs can better compete with established banks.

Open banking may also improve some borrowers' access to credit. Consumers or businesses with a limited traditional credit history may nevertheless be able to demonstrate creditworthiness through their transaction records or cash-flow history. In this way, open banking could promote financial inclusion.

But as Babina and her coauthors point out, consumer participation in open banking is usually voluntary. This may have consequences for consumers who do not wish to share their information.

| Competition, Technology, and the Winner's Curse

In 2023, Stanford University professor of finance Zhiguo He and his coauthors clarified the conditions under which open banking benefits consumers by modeling how traditional banks compete with fintech lenders. As they note in the *Journal of Financial Economics*, traditional banks possess superior information about borrowers because of their long-standing customer relationships, whereas fintech lenders possess superior technology and algorithms. Without access to banks' proprietary information, fintech lenders face a serious disadvantage. If a bank rejects a borrower, fintech lenders may fear that the borrower is particularly risky. Economists refer to this problem as the "winner's curse." Because fintech lenders worry about attracting disproportionately risky applicants, they may hesitate to compete aggressively with incumbent banks. This allows banks to maintain a degree of monopoly power, which can harm consumers through higher interest rates or reduced access to credit.

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Open banking changes this dynamic by allowing fintech firms to access the information traditionally held by banks. Whether consumers benefit, however, depends on how competition evolves. He and his coauthors consider three possible scenarios for how this can play out.

In the first scenario, fintech lenders become modestly more efficient with this new information. This efficiency advantage, when combined with their superior technology, allows them to make better lending decisions than banks. Open banking thus helps high-quality borrowers, who can now better distinguish themselves and receive better terms from fintechs.

In the second scenario, fintech lenders become much more efficient than traditional banks, so having access to the banking sector's information allows them to replace banks as monopolists. In this case, even the best borrowers end up paying higher interest rates, and all consumers are worse off (although the lending sector benefits from higher profits).

In the final scenario, many sophisticated fintech lenders use the newly available data to compete with each other. Big banks may also improve their technology over time to compete with these fintechs. Higher-quality consumers benefit from the more robust competition, whereas riskier consumers find themselves excluded from credit or forced to pay higher rates, as lenders are now able to identify their true risk.²

Given the high stakes, U.S. banks that can reconfigure their business model to compete with these fintech entrants will do so. Other banks will fall behind. As a result, the entire industry may end up looking quite different.

In the model created by He and his coauthors, signing up for open banking is voluntary for consumers (as is the case in most countries, according to Babina and her coauthors). They find that this may not necessarily mitigate the harm to consumers. If enough lower-quality borrowers refrain from sharing their data because they do not want to be identified by the fintech as risky, then consumers who do not sign up for open banking for some other reason (for example, because they value their privacy) may be hurt, since lenders may draw negative inferences about them as well.

A Hypothetical Example of Open Banking and Borrower Risk Assessment

To better understand the benefits and costs of open banking, consider four hypothetical borrowers applying for a small personal loan from competing lenders.

Each borrower has a limited traditional credit history. They all apply for a loan of similar size. Under a traditional underwriting system, lenders primarily observe credit bureau data, reported income, and past repayment history. Because each borrower has only a "thin file," the lender initially faces uncertainty about the borrower's true level of credit risk.

Borrower A: Traditional Credit Assessment

Borrower A works as a freelancer with irregular monthly income. In a market without open banking, they must approach a traditional bank lender for credit. The traditional lender observes only a limited credit history, one credit card account, and a fluctuating annual income.³ Because the lender lacks detailed information about monthly cash flows and spending behavior, it assigns a relatively high probability of default. Borrower A receives either a relatively high interest rate, a smaller approved loan amount, or both. Importantly, the lender's concern reflects uncertainty rather than clear evidence of irresponsible financial behavior.

Borrower B: Open Banking Participation with Strong Financial Behavior

Borrower B has a similar background but is applying for a loan from a fintech after the adoption of open banking. Borrower B agrees to share transaction-level banking data through an open banking application programming interface. The fintech lender observes the borrower's regular payments from freelance clients, consistent rent and utility payments, and stable account balances with infrequent overdrafts. This richer information allows the lender to form a more accurate assessment of this borrower's financial condition. As a result, underwriting uncertainty declines, and Borrower B receives a lower interest rate and larger loan offer from the fintech. In this case, open banking helps reveal that the borrower is safer than traditional credit measures alone would suggest.

Borrower C: Open Banking Participation with Risky Financial Behavior

Borrower C has similar traditional information and agrees to share transaction-level data. However, for this borrower the additional information reveals signs of financial instability, including repeated overdraft fees, large swings in account balances, and frequent late bill payments. Under a traditional credit assessment system, much of this information would have remained hidden, so the borrower's formal credit history appears only moderately risky. With open banking data, however, the fintech lender gains a more complete picture of the borrower's financial behavior and concludes that the probability of default is significantly higher than initially estimated. Consequently, Borrower C receives a higher interest rate, faces a tighter borrowing limit, or may be denied credit entirely. Of course, this borrower could instead go to a traditional lender that lacks the technology to efficiently use the additional information, but doing so may lead the lender to infer that this borrower is high risk.⁴

Borrower D: Borrower Who Declines Data Sharing

In terms of traditionally available information, Borrower D is similar to borrowers A, B, and C. But Borrower D declines to share their information. Fintech lenders must now make an assessment without access to all the borrower's data. If a lender believes that there are many consumers who are privacy conscious, it may conclude that this borrower is likely to be relatively safe, so it offers a loan on beneficial terms. But if the lender believes that there are many risky borrowers like C, and that these borrowers opt out of open banking because they anticipate the negative consequences of sharing their data, then the fintech

lender may conclude that any borrower who does not share their data should not be financed, or that they should receive credit on unfavorable terms. In the latter case, even privacy-conscious consumers will be hurt by open banking.

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Evidence from Germany's Fintech Lending Market

Using data from Germany's largest fintech lender, USI Lugano assistant professor of finance Rachel Nam studied how consumers choose whether to participate in open banking and how lenders interpret these decisions. Nam finds that many relatively risky borrowers voluntarily share their transaction data to demonstrate that they are safer borrowers than suggested by traditional credit measures. In many cases, this strategy succeeds. Borrowers who share their information are 40 percent more likely to receive a loan and obtain a lower interest rate than comparable borrowers who choose not to share their data. Interestingly, those with the lowest scores did not benefit as much from sharing data. Her 2023 working paper also documents important demographic differences in participation. Female and older borrowers are less likely to share their data, which is consistent with evidence that these groups place a higher value on privacy.

Nam also assessed the association between disclosure and subsequent default risk. To do so, she accounted for the interest rate the borrower receives because, as we have seen, disclosing information can lead to a lower interest rate, which itself can lower the risk of default. She finds that for borrowers rated highest by the lender, subsequent default risk is lower than even their rating or the interest rate they receive would suggest. This implies that they are disclosing their data to demonstrate that they are indeed a better risk. By contrast, for the very worst borrowers, disclosing information does not seem to be associated with better subsequent performance. Nam proposes two explanations for this behavior: Either these borrowers are less informed about their own risk, or they are disclosing because they have little to lose and thus the disclosure is less informative about the underlying risk. Regardless, this behavior helps explain Nam's earlier finding that the effects of data sharing on both loan approval and interest rates are muted for this group.

Finally, Nam examined the consequences for consumers who choose not to participate in open banking. Are they unaffected? Or do lenders infer that they must be riskier because they chose not to share their data? To find out, she divided the population into subgroups based on factors such as risk score, gender, age, and income. She then related the approval probability for nonsharers to the fraction of borrowers in that subgroup who shared their data. She finds a moderate—but not an excessively large—negative impact on the loan approval probability when a large fraction of other borrowers in the group share their data. She suggests that the impact is only moderate because the lender recognizes that there may be reasons other than borrower risk (such as a desire for privacy) for not sharing data.⁵

| Open Banking and Small Business Lending

Research also suggests that open banking may affect the financing of small businesses. For their article, Babina and her coauthors examined the United Kingdom's Commercial Credit Data Sharing initiative, which was introduced in 2017. This policy requires large UK banks to share, upon the request of an eligible firm, detailed information regarding that firm's transaction accounts, loan repayments, and credit card usage. As a result, potential lenders have access to previously unavailable information.

Importantly, there is a cutoff for eligibility: Only a borrower with no more than 25 million pounds of annual sales can compel its bank to release its data. Because there can be many confounding factors, Babina and her coauthors exploited this eligibility cutoff, as well as the timing of the introduction of this policy, to isolate the impact of open banking on small business lending.

They find that firms below the threshold were 25 percent more likely than firms above the threshold to form a lending relationship with a nonbank lender (such as a fintech) after the policy was adopted. These firms also received better terms (including lower rates) on their loans. However, the benefits were concentrated among firms that already had relatively strong access to credit, particularly firms with multiple preexisting lending relationships. Thus, although open banking increased competition, it did not necessarily improve financial inclusion for the most credit-constrained firms.

It's noteworthy that Babina and her coauthors find that small businesses can benefit from open banking, because the current version of the proposed U.S. rule does not apply to small businesses.

| Remaining Questions and Policy Concerns

Despite the growing literature on open banking, many important questions remain unresolved. One concern is that increased competition may weaken traditional banking relationships that play an important role during periods of financial stress. In their 2025 *Journal of Financial Intermediation* article, University of South Carolina professor of banking and finance Allen Berger and his coauthors show that these relationships were important in sustaining small business lending during the COVID pandemic. But banks must be compensated for this lending by charging these borrowers higher rates in good times, which might be more difficult if open banking makes it easier for firms to switch to other lenders.

Another potential negative outcome of weakening traditional banking relationships is that lenders may be less inclined to invest in collecting information about their borrowers if they anticipate that this information can be shared with others. This would have the paradoxical effect of reducing the information that could be used to distinguish between safe and risky borrowers. For their 2014 article in the *Review of Finance*, BI Norwegian Business School professors of finance Artashes Karapetyan and Bogdan Stacescu developed a model that predicts that the introduction of a credit bureau would lead lenders to shift their focus to identifying "soft" information not shared with other lenders. It is unclear whether these results would carry over to open banking, and uncertain how open banking would affect information production.

Some researchers also worry that greater competition could encourage excessive risk-taking by banks. For instance, in their 1996 *Economic Policy Review* article, economists Rebecca Demsetz and Philip Strahan and financial services advisor Marc Saidenberg argue that by reducing banks' future profitability, intense competition may encourage financial institutions to assume greater risks, as they now have less to lose.

But the most significant open question concerns privacy. Financial transaction data can reveal extremely sensitive information about consumers' lives, and ensuring that third parties protect this information adequately will be essential if open banking systems are to maintain public trust.

Conclusion

Open banking has the potential to transform how financial information is shared and used. By allowing consumers to control the sharing of their financial data, open banking could increase competition, spur innovation, and improve access to credit. But open banking also introduces important risks and tradeoffs. Lenders may make adverse inferences about consumers who choose not to share their data. Increased competition may weaken traditional banking relationships and potentially encourage greater risk-taking within the financial system. Privacy concerns are also likely to persist as more detailed financial information becomes accessible to third parties.

By allowing consumers to control the sharing of their financial data, open banking could increase competition, spur innovation, and improve access to credit.

Existing theoretical models, as well as the experiences of countries that have implemented open banking, provide valuable lessons, but many questions remain unanswered. As open banking expands to additional jurisdictions, further research will be essential if we are to understand its long-run implications for competition, financial inclusion, privacy, and financial stability. [\[4\]](#)

Notes

- 1 European Parliament, Council of the European Union (2015).
- 2 As such, lending decisions may now be more efficient.
- 3 In principle, Borrower A could give a fintech lender additional information, such as copies of bank statements. However, without standardized policies and technology in place, this is likely to be too cumbersome and insecure to make it worthwhile—neither for most borrowers nor for potential fintech lenders considering entry into this market.
- 4 This, however, depends on how many privacy-conscious borrowers there are, as discussed next.
- 5 Nam focuses on how the additional information provided through open banking affects lenders' ability to better distinguish borrower risk. But if borrowers anticipate that this additional information will be available to future lenders, it could also affect their incentives to be financially responsible today, along similar lines as discussed in the credit bureau literature above.

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