**Cracking the Vault**

The grip banks have over their customers is weakening

A few dollars spent at Starbucks, a monthly mortgage payment, a Netflix fee, Starbucks again: bank-account statements are not exactly exciting stuff. But there is gold hidden in this by-product of our financial lives, or so many budding technology firms believe. A host of startups crave access to the data and are pitching services, from budgeting apps to cheaper loans, to those who open their books to them. Yet banks worry that co-operating is the first step towards losing the lucrative grip they have on their customers.

Squeezing insights out of a bank statement is hardly at the cutting edge of big data. Years of salary payments confirm stable employment; bounced cheques hint at carelessness; regular green fees suggest an interest in golf. Banks implicitly use balance and income information when making loan decisions. That has typically given them a leg up over such rivals as consumer-lending companies, which have to base offers of credit on less detailed information.

Add the fact that switching bank accounts is seen as a chore, and incumbents are in effect shielded from competition. But three things have changed in recent years. The first is the plethora of “fintech” competitors trying to take on banks. The second is internet banking, which has given nearly everyone access to reams of their own financial information in handy digital form. The third is regulation, which is swinging in favour of the upstarts by forcing banks to share the data generated by all those trips to the coffee shop.

Data are already seeping out of banks’ digital vaults and, in the process, giving a sense of why such leaks are damaging. A slew of firms, such as Mint in America, offer to aggregate the data from customers’ various bank accounts, credit-card statements and retirement-savings plans in a single place. This gives customers a comprehensive view of their finances. Because these firms have a startup’s focus on being easy and appealing to use, their apps make most banks’ mobile offerings look clunky.

Worse, banks’ efforts to sell multiple products to current-account holders are being undercut by the financial aggregators, which pitch financial products to customers using the data they have accumulated. “If we see you are paying 4% on your mortgage and there is a product in the market that would let you pay 2%, we think you will want to know about it,” says Joan Burkovic of Bankin’, a French aggregator. Your bank would rather you didn’t.

Among the keenest potential users of personal bank data are peer-to-peer lenders, platforms that match those wanting to borrow money with those wanting to lend it. The likes of Zopa in Britain and Lending Club in America boast about their algorithms’ ability to sift good credit risks from bad ones. But the computer programs are only as good as the data fed into them. Information from credit bureaus is useful but limited. “Bank-account information is probably the most valuable data source for underwriting credit that isn’t in widespread use,” says Martin Kissinger from Lendable, a peer-to-peer firm.

Not only the balance and cashflow are interesting; individual transactions can be revealing, too. How much a small business pays in taxes, say, can give insight into its profitability months before it files its accounts, says Anil Stocker of MarketInvoice, a lending platform. Payments to and from directors, or refunds to customers, can also help gauge its financial health.

Banks are understandably hesitant to send their customers’ information to potential competitors, even with the customer’s consent. In America banks have long allowed customers to download their data to compile tax returns; that capability is now being jerry-rigged to feed into other services (Mint belongs to Intuit, a purveyor of tax software). Regulators compel British banks to allow customers to download data in a standard-format spreadsheet.

If banks are not willing or obliged to share, there are services that will retrieve current-account data without the bank’s approval. These startups ask customers to share their online banking passwords, in order to log into their accounts and copy and paste page upon page of online statements. Such “scraping” happens in a legal grey area. Banks moan about their terms of service being breached. British regulators frown upon it, for security reasons, making life difficult for would-be Mints; American regulators are said to be unhappy as well. Services such as Yodlee, a Californian outfit, offer to scrape or download bank records, whichever is least inconvenient.

Platforms are wary of scraping: customers are understandably reluctant to hand over their passwords. Only people turned away for credit elsewhere (often for a reason) are likely to do so. Instead, aggregators often make do with data which are patchy or delayed. The likes of Zopa and Lending Club, for example, merely ask for smartphone snapshots of bank statements – a retrograde step, by fintech’s standards, and one that limits the insights they can gather.

Policymakers in Europe have concluded that forcing banks to share data at consumers’ request will yield big benefits for the banking public. Earlier this month the European Union adopted a directive on payment services, which will in effect force banks to impart data to third parties in a convenient format. Customers will also be able to authorise fintech firms to make payments from their bank accounts.

Banks say publicly they are open to the idea of more competition. Some are starting to release data more readily. But many fear they are fighting fintech with one hand tied behind their backs. Startups operate with the privacy mores of the technology sector; consumers opt in to their products, and so expect to be bombarded with ads. Banks are more like utilities, trusted to safeguard information rather than use it. When ING, a Dutch bank, last year mulled offering advertisers the opportunity to pitch to its customers based on their spending data, an outcry forced a quick reversal.

Having seen consumers desert their branches, banks now worry that customers will desert their apps and websites, too. Bosses glimpse a future where customers use banks merely as a utility, depositing their money there but using unregulated startups to manage it. Smoother data-sharing would make that a reality. It is a prospect that should indeed frighten bankers as much as it delights their customers.