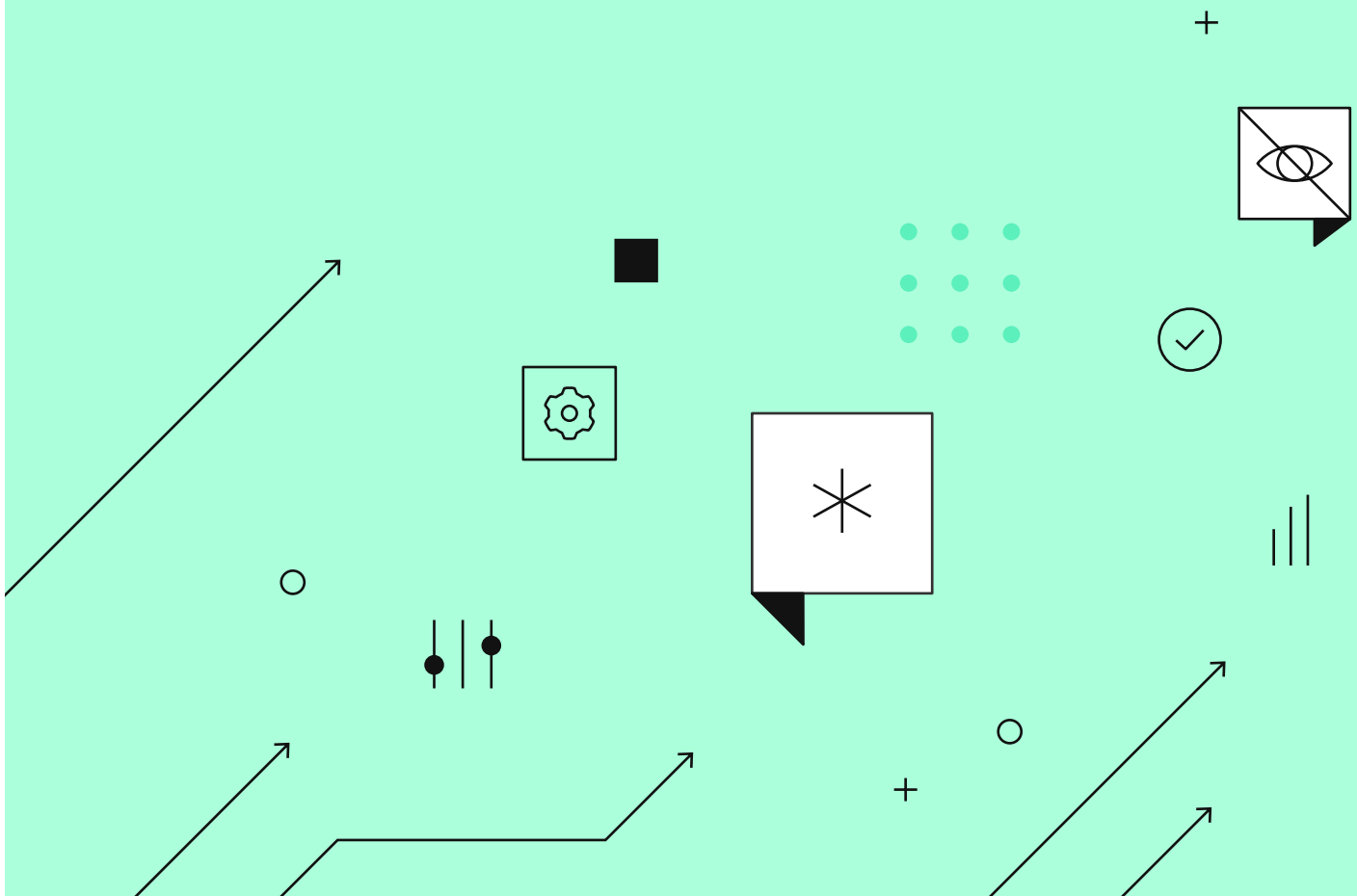


# Data controls: The next evolution in financial privacy



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## Executive summary

**At Plaid, our business is grounded in the principle that people have a right to their financial data. Building technology to make data portable is just the first step. The next step for the financial system is to develop tools that enhance financial privacy by giving people controls to manage their financial data.**

People want financial privacy, but they also want to benefit from innovations that rely on them sharing their financial data. To some, this “privacy paradox” implies the need to protect people from themselves, by putting a stop to data sharing.<sup>1</sup> We believe there is a better path forward, one that will enable people to manage their financial data while benefiting from digital tools that improve their lives: data controls.

Data controls are consumer-facing, transparent, and actionable tools that give people power over the who, what, and how of their data: who they share their data with, what data they want to share, and how they want to manage their data going forward. These controls are not meant to be a replacement for security and privacy, but instead a useful enhancement to both.

The financial ecosystem is ripe for data controls. As financial technology (“fintech”) grows in prominence, companies like Plaid will continue to build infrastructure to enable people to securely share their financial data to power the fintech applications they want to use. Since the COVID-19 pandemic, three-quarters of people say financial technology (“fintech”) is their new normal.<sup>2</sup> The more people adopt fintech, the more they will rely on data sharing to power the tools they want to use. Data controls are one example of an evolution underway that will enable people to benefit from financial innovation while maintaining the transparency and control necessary to secure their privacy.

In this white paper, we discuss our approach to the evolution of data controls taking place in digital financial services. We focus on when, where, and how data controls can enhance people’s financial privacy, and highlight the need for collaboration from all participants. From partnerships across data networks<sup>3</sup> and financial providers, to methods for incorporating data controls into user experiences, we share insights into the principles and progress that can advance financial privacy and innovation together by giving people actionable controls over their financial data.

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**Data controls are not a replacement for security and privacy, but a useful enhancement to both.**

<sup>1</sup> Susanne Barth, Menno D.T. de Jong, The privacy paradox – Investigating discrepancies between expressed privacy concerns and actual online behavior – A systematic literature review, Telematics and Informatics, Volume 34, Issue 7, 2017, Pages 1038-1058

<sup>2</sup> “The Fintech Effect: Consumer Impact and the future of financial services.” Plaid, 2020

<sup>3</sup> Data networks are companies, like Plaid, that exist to help consumers access and share their financial data.

## Privacy and control go hand in hand

Privacy and control are deeply interlinked. When asked to describe their feelings about privacy, respondents to a 2019 survey “most often mention ... their interest in controlling who is given access to their personal information.”<sup>4</sup> This dynamic between privacy and control highlights an important distinction in the digital world: between data that is within versus outside of a person’s control. On one hand, when people surf the internet or scroll through social media, those websites might be tracking their personal information without their knowledge.<sup>5</sup> On the other hand, people actively choose to control and share their data with third parties in order to access data-driven products and services.<sup>6</sup>

A 2021 paper from Princeton University highlights how as people gain control over their information, their sentiments around privacy, control, and data sharing develop together:

*“(A)s the digital economy is new and still undergoing rapid developments, many consumers are still in the process of learning about their own demands for digital services and concerns about data privacy. It is possible that during this learning process, consumers gradually develop greater demands for digital services and stronger concerns about data privacy at the same time.”<sup>7</sup>*

In other words, as digital services become more customizable, and people’s desire grows to actively share their data, companies will need to offer controls alongside those services in order to meet people’s privacy demands. This is especially the case in financial services, where thousands of innovative companies have formed in the past decade to offer digital services that require people to share their financial data.

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**As people’s desire grows to actively share their data, companies will need to offer controls to provide the privacy people demand.**

<sup>4</sup> Pew Research, “Americans and Privacy: Concerned, Confused and Feeling Lack of Control Over Their Personal Information”

<sup>5</sup> Apple, “A day in the life of your data”

<sup>6</sup> CFSI’s Consumer Data Sharing Principles: A Framework for Industry-Wide Collaboration

<sup>7</sup> The Data Privacy Paradox and Digital Demand

## Data controls can enhance privacy rights

Active data sharing has forced policymakers and thought leaders to rethink what it means to protect people's privacy. New rules and frameworks have come forward to incorporate active controls into financial privacy rights. A 2019 paper published by the Federal Reserve Bank of San Francisco argues that "combining individual data protection with active data rights ... may help achieve a broadened, more actionable form of privacy for digital interactions."<sup>8</sup> The World Economic Forum calls for solutions that "both maximize access to the data and protect each individual's right to control of privacy and data use transparency."<sup>9</sup> Under these new frameworks, the private sector has a role to play in developing and delivering data control to consumers.

Major privacy regulations already reinforce the concept of data control as an active privacy right. Europe's General Data Protection Regulation (GDPR) set the standard for active data rights by requiring that people freely consent to the use of their data.<sup>10</sup> Australia's Consumer Data Right and the United Kingdom's Open Banking granted people access to their financial data to help drive competition and innovation in financial services.<sup>11,12</sup> Canada's Information Privacy Commissioner developed "Privacy by Design," a set of principles for baking privacy into the development of technological tools.<sup>13</sup>

These principles and regulations give people broader financial privacy rights by turning passive data collection into active consumer rights. By putting even more control into people's hands, data controls in the financial services arena can build upon active rights to enhance financial privacy.

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**Data controls in financial services can build upon active rights to enhance financial privacy.**

<sup>8</sup> "The role of the individual in the data ecosystem" Kaitlin Asrow, Federal Reserve Bank of San Francisco, 2020

<sup>9</sup> Redesigning Data Privacy: Reimagining Notice & Consent for human technology interaction

<sup>10</sup> Guidelines 05/2020 on consent under Regulation 2016/679

<sup>11</sup> Consumer Data Right (CDR)

<sup>12</sup> UK Open Banking

<sup>13</sup> Privacy by Design: The 7 Foundational Principles

## Data controls uncomplicate data sharing

Data controls can be especially useful where people establish connections across their digital lives. The past decade in financial services saw exponential growth in these types of connections, with millions of people choosing to share their data with providers who help them manage their finances. As people have shifted their finances online, they've grown more familiar with the process of connecting their financial accounts to the apps and services they want to use.

The average American today uses four digital tools to manage their financial lives.<sup>14</sup> To power their chosen applications, they connect their financial accounts and share the financial data needed to power their desired use case. These digital tools can help uncomplicate the challenges of managing finances. But they introduce a new complexity as people establish and manage data connections across a variety of providers.

Data networks like Plaid exist to help solve the complexity of people connecting their financial accounts. One of data networks' first ambitions was to simplify this complexity for financial technology providers, who needed to be able to allow their customers to share their data from thousands of different financial institutions. In working to solve that problem, data networks created the opportunity—and obligation—to also solve that same complexity problem for people.

People's control over their own financial data goes beyond just connecting their accounts, because people share their data for different purposes. Some purposes, like saving for a vacation, might require a person to share their data until they've achieved their goal, at which time they might want to turn off their data sharing. Another purpose, like planning for retirement, might last for years or even decades. The diversity of use cases in digital finance is one reason why data controls will need to be persistent: from initiating a data connection, to managing that connection, to deleting that connection when the service is no longer in use.

Data controls are one way to address that complexity. As people connect more of their accounts, they will need a place to view and manage all of their connections. Data controls can give people transparency and choice over what financial information they choose to share from which source, to which specific provider, for whatever duration.

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<sup>14</sup> "The Fintech Effect: Consumer Impact and the future of financial services." Plaid, 2020

## PLAID'S PRIVACY PRINCIPLES

<b>Data control</b>	We aim to provide meaningful controls that give people power over their data.
<b>Transparency &amp; education</b>	We strive to make it easy to understand our data practices. We seek to educate people on the controls we provide and how their information is used.
<b>Making the complex accessible</b>	We aim for clarity, brevity, and ease. We approach challenges with a growth mindset.
<b>Industry leading experience</b>	We believe that providing best-in-class privacy products is a good experience. We aim to be at the vanguard of pro-privacy and pro-consumer practices.
<b>We only share data with people's permission</b>	People own their data, we don't.

## Controls must follow the consumer

Useful data controls should provide the right amount of information, with the right set of actionable tools, at the right time. A consumer advocate summed up this consideration well: “We can go beyond merely addressing point of access concerns to putting consumers in control of their financial data throughout the life of their financial relationships.”<sup>15</sup> In financial data sharing, this means that people should have controls at the places where they establish their connections—at financial services providers and with data networks—and that those controls should be available as part of the data sharing lifecycle.

The data sharing lifecycle in financial services consists of three stages: authentication, authorization, and management.

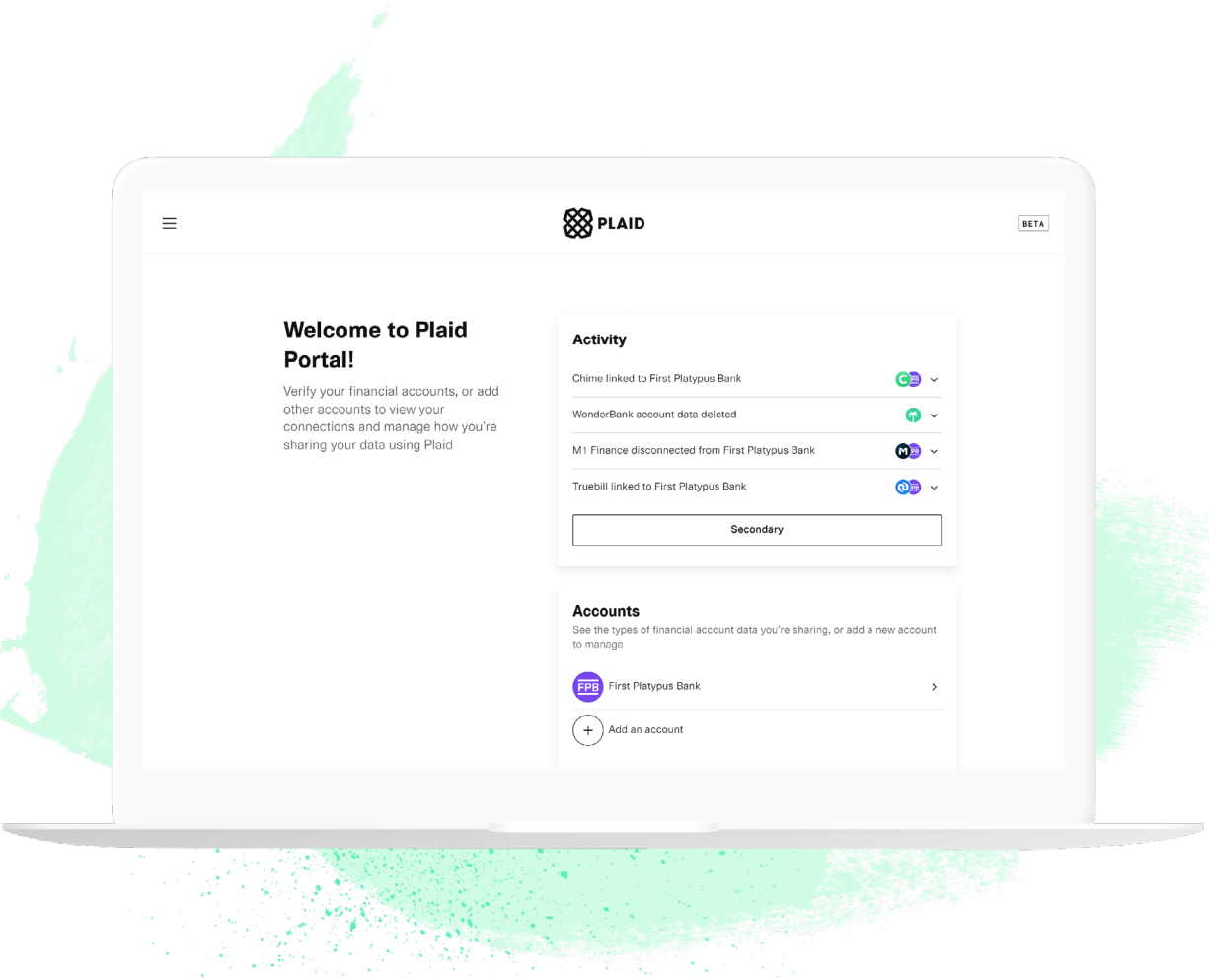
Authentication and authorization both take place when a person connects their accounts to a financial technology application. Authorization is where people confirm that they want to share their data with a specific third party. Authentication is where people validate their ownership of the accounts from which they share their data. People go through these steps in order to initiate a connection, or to add new data to an existing connection.

Management is everything that stretches beyond authorization and authentication. Once a connection is established, the user-permissioned data begins to flow to the application a person chooses. But many use cases have specific time horizons. Taking the earlier example of saving for a trip—once a person had reached their savings goal, they might want to manage their data sharing, either to turn off the sharing or to delete the connection. This is where data management dashboards come in—these are data controls that can give people active visibility into connections they’ve established and additional control over their connections and their data.

<sup>15</sup> The CFPB must act to give consumers ownership and control of their data - Protocol



Plaid is developing its own data management dashboard, which we call the **Plaid Portal**. As shown below, the Plaid Portal will provide visibility into the financial data and connections that people have established through Plaid, and gives them a set of meaningful tools to control that data.



\*Plaid Portal is currently in Beta

## Controls must be neutral

Digital finance is a competitive ecosystem, with incumbents and upstarts both developing new products at a lightning pace. Because the ecosystem is so competitive, participants might be incentivized to withhold or constrain their customers' data, in order to prevent their customers from leaving for other providers. While regulators are taking steps to establish level playing fields, in which people would have equal data rights regardless of where they have financial accounts, the data control user experience could be a mechanism for disrupting data sharing. It is therefore critical that data controls be neutral and not attempt to sway people's decisions in any direction. Neutrality requires simplicity and the absence of scary language or programmatic attempts to influence consumer actions.



# Control and transparency benefits everyone

Data controls will only be as good as the information they convey and the actions they enable. Delivering control and transparency benefits everyone in the financial ecosystem: people, financial institutions, and companies building digital financial services.

## People

Digital financial services are moving from the periphery to the heart of people's financial lives. People say they see better financial outcomes when they use digital financial tools, so they continue to adopt those tools at a growing rate.<sup>16</sup> As people use more digital financial services, and connect more of their accounts, they will expect to be able to control the financial information they've shared. Data controls can provide that functionality, and so will become a core part of people's financial lives as they manage their financial data alongside their finances.

## Financial institutions

For financial institutions that maintain consumers' accounts across checking, savings, investments, and more, customer experience is the heart of their business. Financial institutions want to know that their customers who want to use fintech are creating secure connections and engaging with trusted parties. Data networks can provide this information back to financial institutions in the form of dashboards, direct records, and receipts of secure connections and terminations. Building transparent experiences that give their customers control will help reinforce financial institutions' standing as trusted providers.

## Companies building digital financial services

Providing customers with transparency and control over their data can deepen customer engagement, making digital finance companies even more relevant in people's lives. As these companies expand to reach more people, they will incorporate a broader range of tools that address people's holistic financial needs. Customers connecting a broader range of accounts to these tools will expect control and transparency over their data, which companies should deliver to them.

<sup>16</sup> The Fintech Effect: Consumer Impact and the future of financial services." Plaid, 2020

## Conclusion

The digital evolution taking place in financial services is shifting the industry's focus from financial products and services to consumer financial outcomes.<sup>17</sup> As more data-driven tools proliferate, it will be critical for companies like Plaid to continue to develop ways to give people control over their financial information. The future of digital finance is one where consumers are always at the center, empowered by control of their information to reap the benefits of the latest innovations. To live up to this promise, our ecosystem should continue to evolve and find ways to embed transparency and data controls into the digital financial experience. Only then will we ensure that consumers' privacy is not only protected, but enhanced by control of their data.

<sup>17</sup> It's time to tie bank profits to consumer financial health: Todd Baker and Corey Stone, Harvard Business Review

*Plaid is a fintech company which builds the technical API infrastructure that connects individuals, financial institutions, and fintech developers – giving consumers power over their own financial data.*

*Launched in 2013 and headquartered in San Francisco, a quarter of US bank accounts are now linked by Plaid to a range of fintech apps that can help consumers carry out essential financial tasks such as save for retirement, make a budget or transfer money.*