

# 5. Empower Consumers

“We are strongly in favour of ensuring that consumers have better access to...data and that third parties can then use it to...offer services and identify opportunities” *Mr Peter Kell, Deputy Chairman of ASIC*<sup>1</sup>

“We are supportive of a well-governed process of opening data up more. We are supportive of more competition; we think that it is healthy for customers and healthy for our industry as well” *Brian Harzter, CEO of Westpac*<sup>2</sup>

## Recommendation 4

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- 5.1 The committee recommends that Deposit Product Providers be forced to provide open access to customer and small business data by July 2018. ASIC should be required to develop a binding framework to facilitate this sharing of data, making use of Application Programming Interfaces (APIs) and ensuring that appropriate privacy safe guards are in place. Entities should also be required to publish the terms and conditions for each of their products in a standardised machine-readable format.**
- 5.2 The Government should also amend the *Corporations Act 2001* to introduce penalties for non-compliance.**
- 5.3 Enhancing access to publicly and privately held data has the potential to make a strong contribution to economic growth.

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<sup>1</sup> Mr Peter Kell, Deputy Chairman of ASIC, *Committee Hansard*, 14 October 2016, p. 4.

<sup>2</sup> Mr Brian Harzter, CEO of Westpac, *Committee Hansard*, 6 October 2016, p. 41.

- 5.4 In 2013, the McKinsey Global Institute estimated that increasing access to data in consumer finance could add between \$210 - \$280 billion a year to global GDP,<sup>3</sup> with up to 50 per cent of this total flowing through to consumers through:
- enhanced price transparency;
  - tailored product offerings; and
  - consumers' ability to actively shape the products that they consume.<sup>4</sup>
- 5.5 Increased access to financial sector data, as noted by the Productivity Commission, should also intensify competition in the financial sector.<sup>5</sup>
- 5.6 This is because markets work best when customers are informed. At present banks, not consumers, hold the data. This gives banks a significant degree of power.
- 5.7 The UK's Competition and Markets Authority (CMA) recently found that both Small and Medium Enterprises and consumers find it difficult to understand the cost and quality of bank products and to compare the products that they have with products available from other providers.<sup>6</sup>
- 5.8 The CMA also found that up to 90 per cent of consumers could be around £92 (approximately \$150AUD) better off each year by changing their current account.<sup>7</sup>
- 5.9 This is unsurprising. The cost of banking products is generally opaque, which increases switching costs for consumers and limits competition. Data sharing, however, can help to overcome these problems.

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<sup>3</sup> McKinsey Global Institute, *Open Data: Unlocking innovation and performance with liquid information*, October 2013, p. 9.

<sup>4</sup> McKinsey Global Institute, *Open Data: Unlocking innovation and performance with liquid information*, October 2013, p. 7.

<sup>5</sup> Productivity Commission, *Data Availability and Use Draft Report*, November 2016, p. 553.

<sup>6</sup> CMA, *Retail Banking Market Investigation Final Report*, 9 August 2016, p. XIV.

<sup>7</sup> CMA, *Retail Banking Market Investigation Final Report*, 9 August 2016, p. XI.

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- 5.10 For example, data sharing could increase price transparency with comparison services able to accurately assess how much a product would actually cost a consumer based on their usage and recommend the most appropriate products to them.
- 5.11 Increased price transparency will boost competition. As noted by the ACCC Chairman, Mr Rod Sims:
- ...consumers' ability to provide their data to alternative service providers will facilitate additional sources of competition in many markets. In many ways, data as an asset belonging to the consumer may well be the ultimate disrupter of concentrated markets.<sup>8</sup>
- 5.12 In addition to enhancing price transparency, the Financial System Inquiry (FSI) concluded that data sharing would 'better enable innovative business models.'<sup>9</sup> This could occur through the creation of products better tailored to individuals and by enabling, for example, rapid assessment of individuals' credit-worthiness.
- 5.13 The UK Government has recognised these benefits and has taken action.
- 5.14 The CMA will require banks to enable retail customers and small businesses to share their data securely with other banks and with authorised third parties using Application Programming Interfaces (APIs) by early 2018.
- 5.15 The committee believes that the Australian Government should amend the *Australian Securities and Investments Commission Act 2001* and, if required, the *Privacy Act 1998*, to empower ASIC to develop a data sharing framework for Australia's banking sector (with due consideration given to the need to protect individual's privacy and the confidentiality of their data).

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<sup>8</sup> Sims, R. 'Data will give consumers upper hand', *The Australian Financial Review*, 9 November 2016, p. 43.

<sup>9</sup> D. Murray et al., *Financial System Inquiry, Final Report*, 2014, p. 182.

- 5.16 In their appearance before the committee, each of the major bank's CEOs supported government action to facilitate greater data sharing in the banking sector (despite ANZ's,<sup>10</sup> CBA's,<sup>11</sup> and the ABA's<sup>12</sup> recent opposition to further government intervention). The Customer Owned Banking Association<sup>13</sup> and FinTech Australia<sup>14</sup> have also expressed support.
- 5.17 Sharing of consumers' and small businesses' data should be supplemented by the full release of standardised, machine-readable terms and conditions for each affected entity's full product suite. This is necessary to overcome the information asymmetry in the market.
- 5.18 To ensure that the banking sector meets its obligations, the committee also recommends that the Government amend the *Corporations Act 2001* to introduce penalties for non-compliance.

### **The benefits of data sharing**

- 5.19 Data sharing allows authorised entities to transfer data, with consent, between each other using secure and encrypted connections.
- 5.20 Research by the Open Data Institute (ODI) and Fingleton Associates in the United Kingdom (UK) indicates that data sharing has a potentially significant role to play in overcoming many of the sector's structural limits on competition. Some of the potential benefits of data sharing are summarised in Table 5.1.

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<sup>10</sup> ANZ, *Submission to Productivity Commission Issues Paper: Data Availability and Use*, 29 July 2016, p.12.

<sup>11</sup> CBA, *Submission to the Productivity Commission Inquiry on Data Availability and Use*, July 2016, p. 2.

<sup>12</sup> Productivity Commission, *Issues Paper: Data Availability and Use*, 29 July 2016, p. 2.

<sup>13</sup> Customer Owned Banking Association, *Productivity Commission Inquiry on Data Availability and Use*, July 2016, p. 2.

<sup>14</sup> FinTech Australia, *Productivity Commission Inquiry into Data Availability and Use: Open Financial Data*, July 2016, p. 3.

**Table 5.1 The potential benefits of data sharing and open data sets**

<b>Structural Problem</b>	<b>Example of problem</b>	<b>Role for data sharing</b>
High barriers to entry	The large data sets that major banks hold on individual customers and in aggregate allows them to better assess risk and price loans.	If other ADIs and alternative lenders were able to access all lending and credit data, firms could then better compete on their ability to assess and price risk.
Opaque pricing	Transaction accounts, credit cards and other loans are priced as a blend of charges, foregone interest/interest and penalties. This makes it hard for consumers to compare products.	If a customer's actual usage data was available, comparison websites could tell customers precisely how much they paid for their account in the previous year. If data on banks' products was also made open access, such comparison services could point users towards the cheapest product based on their historical usage.
Consumer Inertia	A lack of transparent pricing coupled with the difficulty of transferring payments can make account holders reluctant to change banks.	More transparent pricing reduces the information costs of switching. Open access data on debits may make it easier to transfer them to new providers.

*Source: ODI and Fingleton Associates, Data Sharing and Open Data for Banks, 2014, p. 12.*

- 5.21 In addition to improving competition, better data sharing should also increase economic efficiency. For example, data sharing should drastically reduce data entry costs for businesses and consumers.<sup>15</sup>

### *What data should be made available?*

- 5.22 Generally the greater volume of data shared, the greater the potential benefits. However, for technical, legal, cost and regulatory reasons it is not appropriate to make all data sets accessible.
- 5.23 The committee believes that there is a strong case for increasing access to, what the banks themselves regard as, customers' data.<sup>16</sup>This includes, for example, a customer's transaction history, account balances, credit card usage, and mortgage repayments.
- 5.24 This data is critical to overcoming the problems of consumer inertia and opaque pricing that exist in the banking sector. However, the sharing of consumers' data is not sufficient on its own.
- 5.25 To maximise the data's usefulness, the committee believes that each data-sharing participant should also release the terms and conditions for each of their banking products in a standardised and machine-readable format.
- 5.26 These two data sets are critical to the development of products tailored to individual consumers as well as better aggregators that can offer personalised advice to consumers.

### *How should data be made available?*

- 5.27 Data sharing arrangements and open data sets can take a number of forms. The Government's role is to set rules, templates, and access requirements to ensure that data can be accessed and manipulated efficiently with adequate privacy and data protection safeguards.

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<sup>15</sup> Productivity Commission, *Data Availability and Use Draft Report*, November 2016, p. 553.

<sup>16</sup> Mr Antony Cahill, Chief Operating Officer of NAB, *Committee Hansard*, 6 October 2016, p. 33; Mr Shayne Elliott, CEO of ANZ, *Committee Hansard*, 5 October 2016, p. 6.

5.28 In order to reap the potential benefits, any data sharing framework must have the following characteristics:<sup>17</sup>

- data should be available to all licensed users;
- data should be able to be processed automatically (that is, data should be machine readable); and
- data should be accessible at no or negligible cost on an ongoing basis.

5.29 There are four common ways to facilitate data sharing. Their pros and cons are detailed in Table 5.2.

**Table 5.2 Sample pros and cons of different data sharing methods**

Method	Description	Pros	Cons
APIs	APIs are standards that allow software components to interact and exchange data.	<p>Provides up to date data that is easy to read and process.</p> <p>Can be automated.</p> <p>Only read-access is provided.</p> <p>Access can be restricted to certain data sets and types.</p> <p>Access can be restricted to authorised users.</p> <p>Does not require log in credentials to be shared.</p>	<p>Of the options listed, APIs are the most expensive to establish.</p> <p>Access to API data would have to be regulated.</p>

<sup>17</sup> McKinsey Global Institute, *Open Data: Unlocking innovation and performance with liquid information*, October 2013, p. 3.

<b>Method</b>	<b>Description</b>	<b>Pros</b>	<b>Cons</b>
Comma Separated Values (CSV) files	CSV files are a standard file-type that can be read by a wide range of programmes.	Easy and cheap to produce. Easy to read and process.	Files are a 'point in time' measure which limits ongoing usability.  Can be user-manipulated.
'Screen Scraping'	Screen scraping involves consumers providing firms with their log-on credentials so that they can retrieve up-to-date data from users' service providers using algorithms.	Provides up to date data that is easy to read and process.  Can be automated.	Can be difficult to establish, limiting usability.  Scrapers breach banks' terms and conditions.  The credentials provided to screen scrapers can be used to 'read and write'.  No restrictions on use.
Manual file handling	Manual entry of printed documentation.	Simple.  Impact of hardware failure is limited.	Inefficient to process.  Files are a 'point in time' measure which limits ongoing usability.  Human errors are likely.

*Source: Data Sharing and Open Data for Banks, 2014, p. 22.*



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- 5.30 It is clear to the committee that APIs present the largest number of benefits in terms of data security, data credibility and accessibility.
- 5.31 APIs will, however, require meaningful upfront investment.
- 5.32 Despite the associated costs, the UK Government has endorsed the establishment of an open API standard in the UK's banking sector to commence in 2018.
- 5.33 The committee similarly recommends that the Government require ASIC to develop a binding framework to facilitate the sharing of customers' and small businesses' data between Deposit Product Providers and relevant third parties (as deemed appropriate by ASIC) through APIs by July 2018.
- 5.34 The committee disagrees with the Productivity Commission's view in its draft report on data availability and use that CSV files (or similar) should be used to share financial sector data at this time.
- 5.35 This is because the data reported in CSV files must be standardised to support machine readability before the scheme can commence. This severely curtails the framework's ability to support innovation and competition. The Productivity Commission note that:

The substantive argument in favour of making data more available is that opportunities to use it are largely unknown until the data sources themselves are better known, and until data users have been able to undertake discovery of data.<sup>18</sup>

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<sup>18</sup> Productivity Commission, *Data Access and Availability Draft Report*, November 2016, p. 2.

5.36 The Productivity Commission's proposal for data sharing in the financial sector fails this test. The committee is further disinclined to support the use of CSV files because:

- the need to standardise the data in CSV files means that their contents could not rapidly change in response to the market's changing data needs;
- CSV files are point-in-time and subject to manipulation;<sup>19</sup> and
- using CSV files is more complex than using APIs, increasing transaction costs for consumers and service providers.<sup>20</sup>

5.37 The committee also disagrees with the Productivity Commission's preliminary view that implementing APIs would be prohibitively expensive. This is for two reasons:

- while detailed modelling has not been completed in Australia, the ODI has estimated that establishing an API framework (from scratch) would cost around £1 million per institution in the UK;<sup>21</sup> and
- given the detailed work that has already gone into the development of a data sharing framework for the UK, Australia has the opportunity to learn from this process, rather than seek to create an entirely new domestic system from the ground up.

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<sup>19</sup> *Data Availability and Use Draft Report*, November 2016, p. 555.

<sup>20</sup> For example, using CSV files for comparison services would require users to download the relevant file from their ADI and upload it to the service provider and service providers must then verify the file. APIs remove the need for these processes.

<sup>21</sup> Converted from the £1 million per institution calculated by ODI on 2 November 2016: ODI and Fingleton Associates, *Data Sharing and Open Data for Banks*, 2014, p. 87.

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**Recommendation 5**

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- 5.38 The committee recommends that the Government, following the introduction of the New Payments Platform, consider whether additional account switching tools are required to improve competition in the banking sector.**
- 5.39 Enhanced data sharing and increased price transparency are of little value if it is difficult for consumers to change product providers. Knowing that a better deal exists is worthless if it is too hard to take advantage of.
- 5.40 If it is difficult for consumers to switch, the competitive impact of data sharing will be muted. As noted by APRA's Chairman:
- Efforts to improve the capacity of customers to be able to switch between financial institutions is important because, if there are barriers to customers switching, it obviously lessens the competitive instinct and the desire for organisations to look after their customers.<sup>22</sup>
- 5.41 It is therefore critical that efforts to enhance data sharing are accompanied by measures to reduce switching costs. Switching costs, whether they are high or just perceived to be high, can present a significant barrier to competition.
- 5.42 In 2011, the previous Government made a number of policy changes to improve competition in the banking system. This included measures to reduce switching costs.
- 5.43 Since 1 July 2012, when consumers establish a new bank account they have been able to sign a form that requires their new financial institution to transfer regular direct debits and credits from their old financial institution to their new account.
- 5.44 However, the service cannot be used to switch regular BPAY transactions, 'internet pay-anyone' transactions, or payments to and from debit and credit cards.

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<sup>22</sup> Mr Wayne Byres, Chairman of APRA, *Committee Hansard*, 14 October 2016, p. 16.

- 5.45 Further, despite its significant limitations the process can take up to two weeks to complete.<sup>23</sup> In 2016, this is unacceptable.
- 5.46 Given that transferring payments from one account to another is one of the most significant barriers to switching, it is clear that existing switching tools have failed. This is evidenced by the fact that, as outlined in section three, only 46 customers approached ANZ using the government's formal switching process to change their bank accounts in September 2016.<sup>24</sup>
- 5.47 In light of the system's severe flaws, a number of ADIs have developed their own switching services.
- 5.48 These switching services are more common among larger and more sophisticated institutions and their existence may actually limit competition by steering consumers towards the largest ADIs by default.
- 5.49 It is clear that there is a role for government in reducing switching costs for all consumers – not just those switching to Australia's largest banks – to improve competition.
- 5.50 The committee is therefore heartened by the planned introduction of the New Payments Platform (NPP) in the second half of 2017.
- 5.51 The NPP should spur competition in the sector by simplifying the process for switching payments from one account to another (Figure 5.1).<sup>25</sup>
- 5.52 This is because payments will no longer have to be routed to or from a combination of a Bank-State-Branch (BSB) and account numbers, but instead to an individual's phone number or email address that would be linked to the relevant bank account.

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<sup>23</sup> ME Bank, *The Hands-free Switch*, <<https://www.mebank.com.au/personal/bank-accounts/switch/the-handsfree-switch/>>, viewed 19 October 2016.

<sup>24</sup> ANZ Bank, *Response to Questions on Notice: Question Nine*, 23 October 2016, p. 2.

<sup>25</sup> Dr Philip Lowe, Governor of the RBA, *Committee Hansard*, 22 September 2016, pp. 25-26.

5.53 In this world, as noted by the RBA Governor, shifting a customer's regular outgoing and incoming payments will be as simple as changing the relevant link.

One of the traditional issues for customers has been not necessarily moving bank accounts but is in relation to direct debits or credits going into and out of that particular account. The new payments platform will provide all Australian consumers with an alias ID—they can use their mobile phone number or an email address—and they can associate that alias ID with their bank account. So...you would be able to go to the new payments platform and go to your alias ID and change your account number.<sup>26</sup>

5.54 The NPP is not the only way to achieve this outcome. Full bank account portability would also dramatically simplify the process of re-directing payments as part of the switching process.<sup>27</sup>

5.55 However, introducing full bank account portability would be expensive. This is because:

It [full account portability] would involve the replacement of the bank, state, branch (BSB) system of numbering, and wholesale revamping of the existing payments infrastructure and the systems of all the financial institutions which interface with it.<sup>28</sup>

5.56 While these costs have not been determined in Australia, the CMA has estimated that introducing full account portability in the UK would cost at least £2-£3 billion (around \$3-\$5 billion AUD).<sup>29</sup>

5.57 It is not clear that this expense is justified prior to the introduction and reviews of the NPP's effectiveness in 2017.

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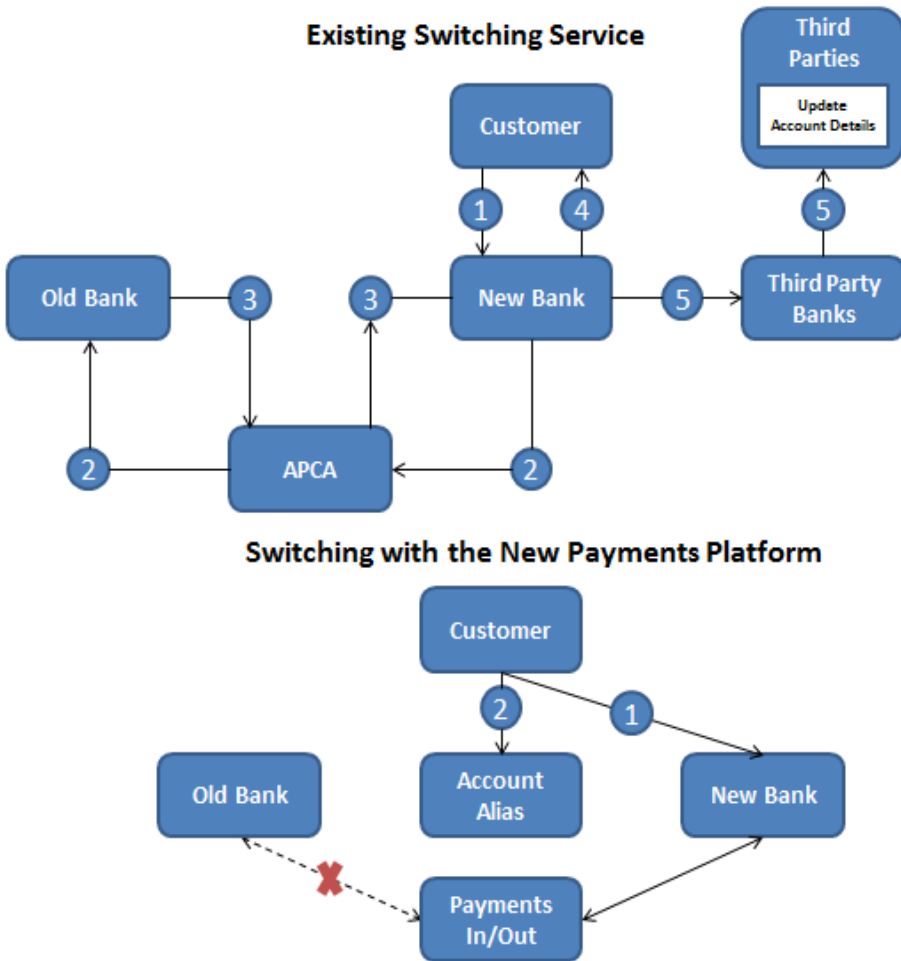
<sup>26</sup> Mr Antony Cahill, Chief Operating Officer of NAB, *Committee Hansard*, 6 October 2016, p. 7.

<sup>27</sup> CMA, *Retail banking market investigation Final report*, 9 August 2016, p. 502.

<sup>28</sup> B. Fraser, *Bank Services Switching Arrangements*, August 2011, p. 7.

<sup>29</sup> CMA, *Retail banking market investigation Final report*, 9 August 2016, p. 515.

**Figure 5.1 Redirecting payments – existing switching service compared to the New Payments Platform**



Source: *Banking Services Switching Arrangements*, August 2011, p. 14, Committee Hansard, 22 September 2016, pp. 25-26. Note: APCA is the Australian Payments Clearing Association. It is a self-regulatory body that intermediates the redirection of payments between a consumer’s old and new ADI.

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- 5.58 While the NPP will increase consumers' power, it is too early to judge whether it will be enough to increase competition on its own. For example, the NPP may be of limited use to a customer with a number of different products (such as transaction accounts and credit products) to switch.
- 5.59 The committee therefore recommends that the Government, following the introduction of the NPP, consider whether additional measures to simplify switching are required to improve competition in the banking sector.
- 5.60 The committee notes that Bacs' work to improve the UK's Current Account Switching Service (due end-2017) may have findings relevant to Australia.<sup>30</sup>

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<sup>30</sup> Bacs is responsible for clearing and settling automated payments in the UK.