Select Committee on Financial Technology and Regulatory Technology – Second Issues Paper

Response from Finder

About Finder

Finder.com.au ("Finder", "we"), as Australia's most visited comparison website, helps Australians make better decisions about a range of complex products and services. More than 2.5 million Australians use our services, decision engines and educational material each month[1]. Finder compares over 1,800 brands across more than 100 product categories, including credit cards, home loans, transaction accounts, savings accounts, insurance products, superannuation, telecommunications, energy and shopping deals. From our "startup" roots to our current global success, Finder has remained an innovative and proudly independent Australian business. Our shareholders – Fred Schebesta, Frank Restuccia and Jeremy Cabral – have never lost sight of the transformative capacity of technology.

Overview of this submission

As an Australian financial technology business, Finder is very supportive of the Senate Select Committee on Financial Technology and Regulatory Technology as we believe it aligns well with our purpose to help the world make better financial decisions. As such we'd like to thank you for providing another opportunity to provide input.

In this follow-on submission, we provide our latest consumer research, which we believe helps set the context for the discussions of this committee, before focusing on two policy areas which, in our view, will deliver better outcomes for Australian consumers and for the Australian economy. Given our extensive experience in providing comparison and switching services, this submission focuses predominantly on the Consumer Data Right (CDR) and how this could be better leveraged to deliver better outcomes for consumers. A summary of our recommendations can be found below:

- Introduce regular "CDR Prompts" that tell consumers how their products/services are performing against the market and remind the consumer of the CDR and the benefits it can bring.
- Extend the CDR to the market for general insurance as a top priority so that consumers can compare the products available to them in these markets more efficiently.

[1] 2.5 million average unique monthly audience (Aug 2019 – Jul 2020), Nielsen Digital Panel

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Section 1: Finder research on the personal finance market in Australia

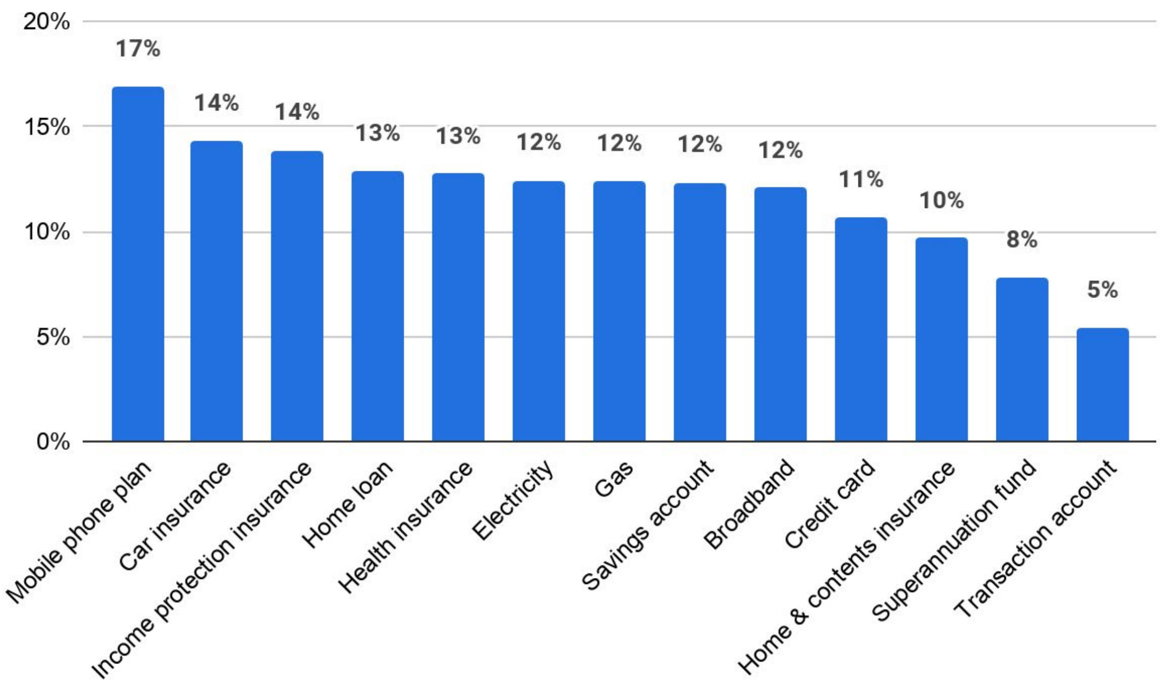
Here at Finder, we know that many Australian consumers could be getting a better deal on many of their products and services but tend to remain with the same provider for extended periods, even in the presence of more competitive offerings.

The Finder Loyalty Tax Report from March 2020 demonstrated this phenomenon clearly. Based on the analysis of four common financial services products in Australia (home loans, credit cards, health insurance and savings accounts), our research team found that 8 million Australians are being hit by the so-called “loyalty tax” and paying more for financial products than necessary by sticking with the same provider. We estimate that the average Australian could save up to $8,496 across these four products if they switched providers, but, in spite of this, the average Australian consumer has been with their chosen provider for each of these products for over seven years.

These findings are backed up further by the Finder Consumer Sentiment Tracker (CST). The CST is our live, nationally representative study of the Australian public that surveys a minimum of 1,000 consumers per month. We ask the same questions month-on-month to track consumer sentiment on key issues related to personal finance in Australia, and each month we also add one-off questions to understand consumer attitudes towards topical issues.

One of our ongoing questions in the CST asks whether in the last six months consumers have switched providers across a list of the products that we compare. We now have a significant evidence base for this question and have outlined a summary of the findings from this question in Chart 1 below. While 17% of mobile phone users in Australia have switched to a new mobile phone plan in the last six months, just 5% of Australians with a transaction account have switched their transaction account. Rates of switching are also low for home insurance, credit cards, home loans and super funds.

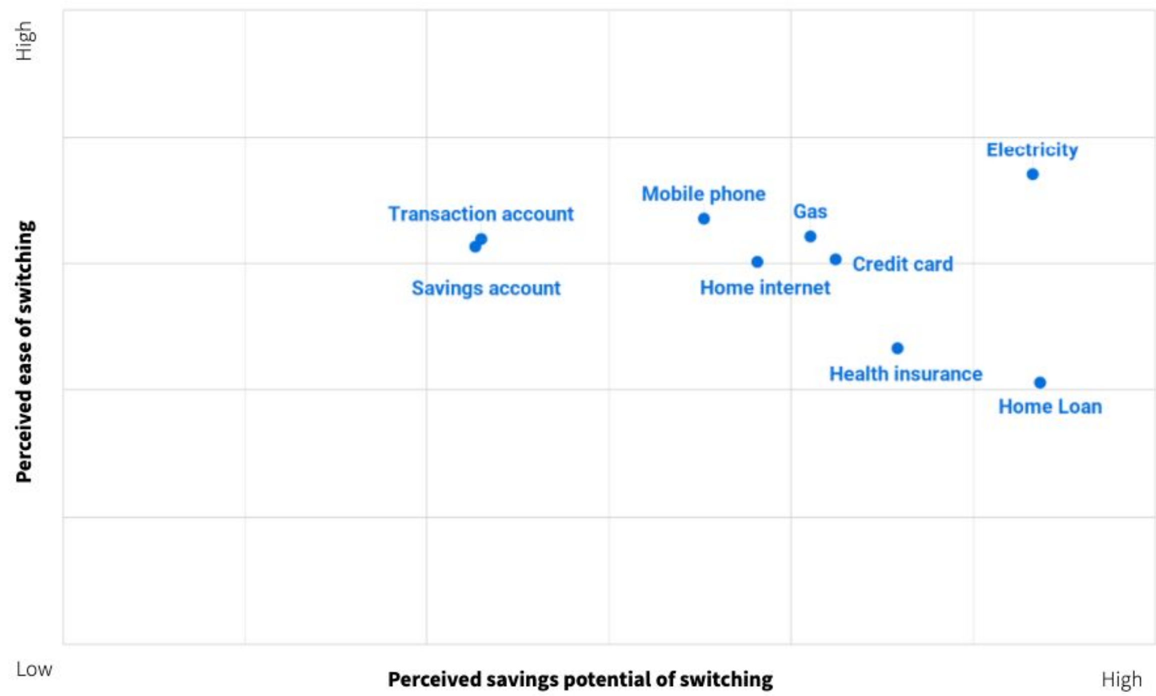
Chart 1: Proportion of consumers with each product that have switched in the last 6 months
Data from a series of nationally representative surveys from Jul 2020 to Dec 2020 (6,095 respondents)



We have also used the CST to see how Australian consumers would rank a list of products based on how easy they think each product is to switch, as well as how much they think they could save if they did switch. As can be seen in Chart 2 below, this has produced some interesting differences. For example, home loans were perceived by respondents as the most difficult product to switch but also the product with the highest savings potential. In contrast, the perceived benefit of switching savings accounts was low but the perceived difficulty of switching was also low.

It's also interesting to compare the findings from Chart 1 and Chart 2. You might expect to see the highest switching rates from Chart 1 in the products where there is a high perceived benefit of switching and a high perceived ease of switching in Chart 2. However, electricity which is the clear front runner in Chart 2 is only middle of the pack in Chart 1. Mobile phone plans also do not fully align with this theory, despite being the clear leader in the switching rates in Chart 1. Mobile phone plans are perceived by Australians as the second easiest product to switch, but they don't have a high perceived benefit of switching. One conclusion could be that ease of switching is a more important factor for driving consumer action than the perceived benefit of switching within a sector.

Chart 2: Perceived ease of switching compared to perceived savings potential from switching
Data from a nationally representative survey from Jan 2020 (1,020 respondents)



The chart above is particularly relevant in the context of the final report of the [ACCC Home Loan Price Inquiry] released in December 2020. The ACCC has also found that, despite clear evidence of high potential savings, many consumers do not switch their home loans. The report found that the significant majority of interest rates paid on older home loans are higher, and in many cases, materially higher, than the average interest rate paid on new loans. This is a trend that can be observed since 2015.

More specifically, as of September 2020, borrowers with home loans between three and five years old were, on average, paying around 58 basis points above the average interest rate for new loans. As the ACCC points out, a borrower with a home loan of around $250,000 that switches to a home loan with an interest rate 58 basis points lower than their existing loan could save over $1,400 in interest in the first year. Over the remaining term of the loan, that borrower would save over $17,000 in interest in net present value terms.

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Section 2: Introducing regular "CDR Prompts" to increase uptake in the CDR and to help consumers switch to better deals

The research above paints a clear picture. A high proportion of consumers could be getting a significantly better deal on many of their products if they engaged in the market and sought a better deal. In spite of this, many consumers stay with the same providers often for years on end.

In this recommendation, we outline a demand-side policy intervention that builds on the Consumer Data Right (CDR) to nudge consumers into taking expedited action to improve their finances. This proposed "CDR Prompt" would give consumers a regular personalised reminder as to how their products are performing compared to the market. In our view, these prompts could be the catalyst that ensures the CDR is a success and delivers on its initial stated purpose of driving competition and delivering better outcomes for consumers.

For context, Finder continues to be very supportive of the Consumer Data Right (CDR), and we commend the government for helping to build the infrastructure that will make it easier than ever for consumers to get a better deal. The CDR is an ambitious and significant intervention that resolves a wide range of the information asymmetry problems that were present in many of the markets where it is being, and will be, introduced. However, it will only realise its potential economic value to Australia when consumers start using it consistently. While we are still in the very early stages of consumer adoption, there is little evidence that the CDR will resolve the fundamental issue of consumer apathy.

Simply put, many consumers just do not think about switching to a better deal even if it could save them thousands of dollars a year. We suspect that this will still be the same even when comparing and switching is easier than ever thanks to regulatory and technological innovation such as the CDR.

Introducing a "CDR Prompt": What could this look like?

The CDR Prompt would be an additional layer to the CDR that reminds consumers to use the CDR to engage in the market for better deals. These prompts will inevitably have to differ by sector, and likely by product as well, but at a broad level, they could:

- Be mandated for all suitable sectors where the CDR has been introduced.
- Be delivered on a regular basis by the consumer's current provider through the consumer's preferred communication channel.
- Communicate the potential benefits of switching in a personalised way with a comparison between the provider's current deal and the average price paid on the market based on CDR product data for comparable options.
- Provide clear next steps on how to access the CDR powered tools that can help the user find a better deal.

We believe that these CDR Prompts could complement or encompass the regulatory trend towards consumer-facing prompts that we have seen in the last three months. In the Budget in October, we saw the Your Super, Your Future reforms, which will require super products to face a performance test from the Australian Prudential Regulation Authority (APRA). Providers with products that fail the APRA test will have to notify their members in writing about this failure and inform them about the YourSuper comparison tool being introduced by the Government to help consumers find better performing products.

Similarly in December, we saw a recommendation for a consumer prompt from the ACCC in its final report from its Home Loan inquiry. After an in-depth review of the home-loan market, the ACCC suggested the introduction of a prompt for variable rate home loan borrowers that have been with their lender for more than three years. It calls for these prompts to:

- Be provided directly to borrowers by the lender.
- Be communicated in a way that highlights the potential benefits of switching in a compelling and personalised way (including a comparison between the borrower's current interest rate and the average interest rate paid for new loans).
- Set out the next steps for borrowers to look for a better home loan offer.

Across these two recent developments, we see a theme of informing consumers that the products or services they are using could be uncompetitive compared to what is available on the market. In behavioural economics, this type of intervention is often referred to as a "nudge". Nudges have become a common tool in public policy in the last two decades since they were outlined in the "nudge theory" popularised by behavioural economist Richard Thaler and legal scholar Cass Sunstein. There is a growing evidence base that these "nudges" can have a significant impact on improving consumer outcomes.

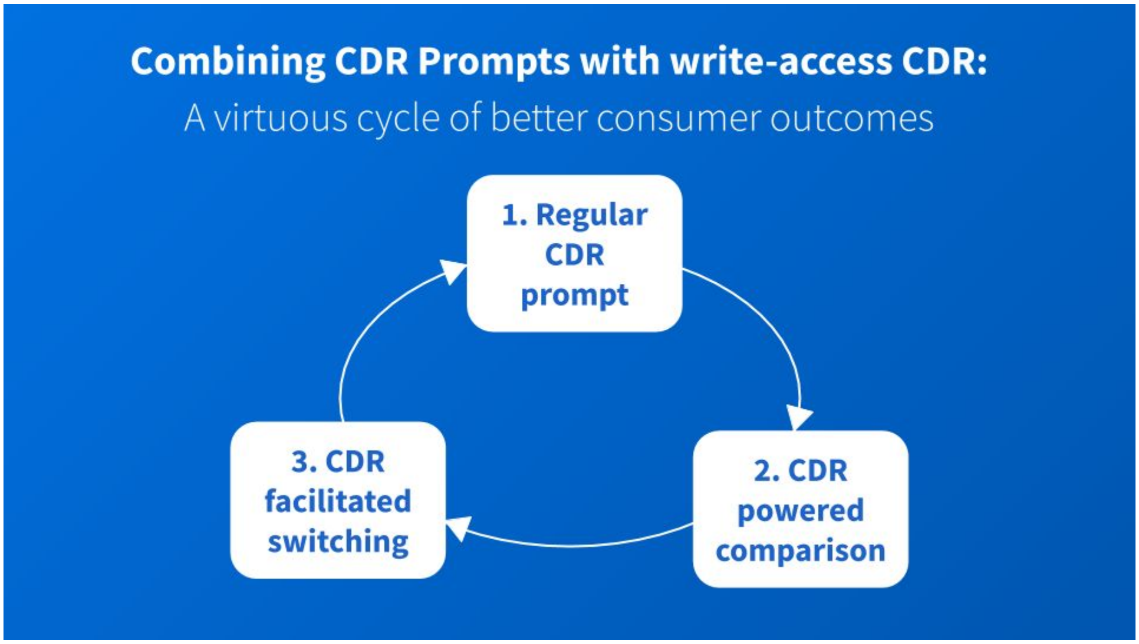
One example of this is demonstrated by the findings of a large-scale randomised controlled trial by the UK Financial Conduct Authority released in December 2015 that found that including the previous years' premium in renewal notices for all general insurance policies increased the number of consumers that switched to a new insurer or negotiated the premium with the insurer by between 11% and 18%. A similar study in Australia on credit cards from March 2019 by the Behavioural Economics Team of the Australian Government (BETA) found that timely and personalised SMS prompts increased credit card repayments among consumers who had previously paid the minimum by an average of $134 in the month the text was received. The study also found a prolonged impact as consumers who received an SMS reminder had, on average, smaller balances 12 months later too. For electricity, another study by BETA from 2018 found that a simplified bill design, which included information about personalised savings increased confidence in using the bill to find a better deal by 13%.

It's clear that disclosure nudges and prompts can have a noticeable impact on consumer behaviour. Applying this principle across a population could lead to significantly improved consumer outcomes. However, as far as we're aware, no national government has found a consistent way to prompt consumers into searching for better deals across their personal finances. With the introduction of the

CDR, Australia has a unique opportunity to change that. Where other nations have focused on open banking, we have set the wheels in motion on an economy-wide CDR. Introducing a consistent, economy-wide prompt to the CDR would be another ground-breaking innovation for our country, while also acting as a catalyst to the original benefits that the CDR was built to deliver. In BETA, it looks like Australia already has an arm of government that would be very well qualified to test the efficacy of this intervention.

Our experience in providing comparison services informs our view that these CDR Prompts would need to be carefully reviewed on a sector-by-sector basis. For some sectors, this review may even need to be done at a product level. The challenge will be to find a comparable product set for each product in the market in order to do a useful comparison for the consumer. This is easier in the market for something like a savings account where the interest rate is likely to be a key feature for most customers. In contrast, other markets have a more complicated feature set where consumers might be assessing price against a number of other qualities. In the first instance, we'd recommend trialling the CDR Prompts in the two industries where prompts are already being investigated (superannuation and home loans). If these are a success, appropriate prompts could be investigated as part of the consultation process for introducing CDR to each industry with retrospective consultations where the CDR is already live.

On other future developments in the CDR, we await the final report from the Treasury's Inquiry into Future Directions for the CDR being led by Scott Farrell. We hope that the report will recommend the introduction of "write-access CDR" that will enable frictionless product switching. We believe that if both write-access for switching and regular CDR Prompts were to be introduced in Australia, the outcome could be a virtuous cycle of better outcomes for consumers. The cycle starts when consumers are reminded by the CDR Prompt to compare, which tells them whether they could be getting a better deal. The consumer then uses a CDR-powered comparison service to make finding personalised product savings insights easier than ever. Finally, and thanks to write-access CDR, the consumer can also use the CDR to physically switch providers in a seamless way. The consumer then reaps the benefits of the improved deal until the virtuous cycle starts again through the next CDR prompt.



If the CDR Prompts were to be introduced, then one interesting discussion would be around when they should occur. Many products have a standard annual renewal cycle, so it makes sense for the CDR Prompt to be combined with any renewal notice. An alternative is provided by the market for private health insurance, where all price changes across the sector occur on the same date every year (1 April). This defined price change date creates a clear period of time when consumers are encouraged to engage in this market. This gets a lot of coverage in the media and it also means that many private health insurers will focus their marketing efforts in this period.

This leads to a broad increase in interest from consumers during this period and this is reflected in the traffic on the Finder site. This year was an exception, as the premium rise was pushed to October due to COVID-19, but in 2019, we saw around a 30% increase in traffic to our health insurance comparison pages in the month leading up to the 1 April price change, and this is a pattern we see in a normal year. If the CDR Prompt system was to be rolled out, then perhaps a particular and separate date could be chosen for each sector to amplify the impact of the CDR Prompts that are being sent out. The end result of this could be designated switching months for certain products.

Section 3: Prioritising introducing CDR in the markets for general insurance in Australia with a particular focus on pricing information

As we hope is clear throughout this submission, Finder continues to be very supportive of the Consumer Data Right (CDR). We have been keenly involved in the public policy discussion on this topic and one of our co-founders, Frank Restuccia, sits on both the advisory committees helping the Data Standards Body to introduce the CDR to the sectors for banking and energy. Finder is also currently applying to be accredited data recipient for the regime at an unrestricted level.

As stated in our prior submission to this Select Committee, we believe that the market for general insurance would benefit radically from the introduction of the CDR and we were pleased to see the

Select Committee recommend that the CDR should be introduced to the market for general insurance in its interim report. In this section of the submission, we build on the views shared in our original submission on this topic.

When it comes to general insurance, the main issue for many consumers is the difficulty of comparing these products. Even engaged consumers will struggle to get a good view of all the policies on the market, the level of cover each policy will provide and the price at which the insurer is able to offer them that policy. This is because most insurance providers in Australia are unable or unwilling to share pricing data with websites like Finder that aim to help consumers compare policies. As a result, Australians that want to know how much a policy will cost will need to contact the insurer and provide a significant amount of information in order to get a quote. This means that to conduct a proper comparison in this market, the consumer likely has to provide the same or similar information to a number of providers in order to acquire and compare multiple quotes.

This is a particular issue in the market for car insurance, where Australians are particularly price sensitive. Finder research backs this up with a survey from July 2020 showing that price is the most important factor when choosing a car insurance policy for 47% of consumers with a car. The next most important factor was the comprehensiveness of the policy, which 32% of consumers identified as the most important factor when choosing a policy. In reality, it is very hard for these consumers to know how well priced their general insurance policy is compared to the whole market. Even the most diligent consumer is likely to only get quotes from a handful of insurers.

This stands in contrast to health insurance, energy and telecommunications products, where pricing information is more readily available for providers across the board and so comparisons are easier. Health insurance is a particularly relevant example here as another insurance category. In this vertical, all Australian health insurers are required by law to create a Private Health Information Statement for each of their products, which it has to share with the Private Health Insurance Ombudsman. This information is made available through the government private health insurance comparison site (privatehealth.gov.au) and this product data is also made publicly available in a machine-readable form which allows comparison sites like Finder to also provide accurate pricing and policy information on a wide range of products.

Another interesting model in the health insurance sector is the introduction of a tiered system where policies have to be classified as Gold, Silver, Bronze or Basic based on the coverage offered. This system is not perfect but it does make it easier for consumers to do a relatively simple like-for-like price comparison.

We believe the CDR can help to solve these comparison problems in the market for general insurance and we'd advocate for a similar approach to introducing the CDR to these sectors as has been implemented for banking and energy. This would mean that the first dataset shared in the CDR for general insurance would be product reference data (including pricing data). Generally, these data sets are significantly less sensitive than the customer-specific information that most people think of as being shared under the CDR. However, in many cases, these data sets can also offer lots of value to consumers, particularly when they are used by comparison sites like Finder to make comparing on both price and features simpler for consumers.

Finder suspects that some of this pricing data will not be readily available in a consistent format for all providers in the general insurance sector so we would recommend the Treasury and/or Data Standards Body start consulting on this issue now to see what is available. Ultimately, the CDR may have a role to play in formalising a consistent approach for this pricing information in this sector to ensure products offered by insurance providers in these sectors can be compared more easily.

When we look to the UK, we can see what is possible. In the UK, research undertaken for the Competition and Markets Authority from 2017 found that 71% of UK consumers had used a price comparison website in the last 12 months. In contrast, Finder research in Australia shows that just 43% of consumers have used a comparison website in the last 6 months. Importantly, a high proportion of the UK usage of comparison services occurs in the general insurance sector. This is especially true for car insurance, with research from Consumer Intelligence finding that 75% of UK motor insurance buyers use a comparison site when their policies come up for renewal. Finder also has an office in London and it is clear that price comparison for car insurance is significantly more advanced in the UK. Importantly compared to Australia, many of the biggest car insurers in the UK make pricing information available to price comparison websites, allowing consumers in the UK to compare their options more easily.

This may also play a role in the different trajectory of pricing for car insurance in these two markets. In the UK, the average comprehensive car insurance premium has dropped in price by 14% from Q3 2017 to Q3 2020, according to figures from the MSM Car Insurance UK Price Index. In contrast, there has been a steady increase in the average comprehensive car insurance premium in Australia in the same period, according to indexed figures from the Insurance Council of Australia.