

Response Paper

Productivity Commission Inquiry into Data Availability & Use

# OPEN FINANCIAL DATA

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# TABLE OF CONTENTS

Introduction & Overview	02
Recommendation #1: Reframe the Discussion	03
Recommendation #2: Enable the Ecosystem	05
Recommendation #3: Establish a Steering Group	06
Recommendation #4: Remove Current Barriers	07
Recommendation #5: Ensure Customer Privacy	08
Summary	09

# INTRODUCTION & OVERVIEW

Fabric welcomes the opportunity to provide input into the Productivity Commission's Inquiry into Data Availability and Use.

Fabric is broadly supportive of the Productivity Commission's preliminary report, in particular its recommendation to give consumers a **comprehensive right to access and share their data**. If enacted thoughtfully with financial data, such a right can build a progressive and competitive financial services industry and deliver better financial outcomes for all Australians.

Our submission focuses exclusively on this right; adding further context and clarity to help the Commission make a final recommendation that will deliver a modern, convenient and safe way for Australians to share and derive value from their financial data.

We provide 5 recommendations to successfully and fairly implement a consumer comprehensive right in financial data: Reframe the Discussion, Enable the Ecosystem, Establish a Steering Group, Remove Current Barriers, and Ensure Customer Privacy.

A note on terminology:

Throughout this submission we use the term "APIs" to mean "the technological mechanism/s by which a consumer comprehensive right is made available". It is imperative that any discussion and therefore mandate to deliver a customer comprehensive right is not tied to existing technologies. We use APIs in this context only to create alignment with the Commission's preliminary report.

## RECOMMENDATION #1

# REFRAME THE DISCUSSION

The Productivity Commission should reframe APIs as an *opportunity* for banks, not a threat.

1.1 Banks currently have a monopoly on customer financial data.

1.2 This monopoly limits innovation and competition in the financial services industry and despite perceptions does not benefit any single individual or organisation, including banks.

1.3 Why? Banks, like most industry incumbents, are rarely the best at delivering value from their data.<sup>1</sup> As a result, valuable customer financial data is locked up where it can't be turned into value efficiently, meaning customers suffer from poorer financial products and services, the industry as a whole suffers from low competition, and banks themselves suffer from being unable to benefit from one of their biggest assets.

1.4 Fortunately, as is being demonstrated globally through the rise of fintech, there is a natural partnership between banks and fintech companies whereby banks provide core banking infrastructure, and fintechs deliver consumer experience. Where this is done well, the bank and its ecosystem of third-party developers can be seen as an “extended enterprise” that delivers value to customers, with shared business objectives<sup>11</sup>.

1.5 Through such partnerships, banks have the opportunity to create ecosystems of third-party providers and power a whole raft of new applications which are linked to their services and in turn create stickier and more engaged banking customers.

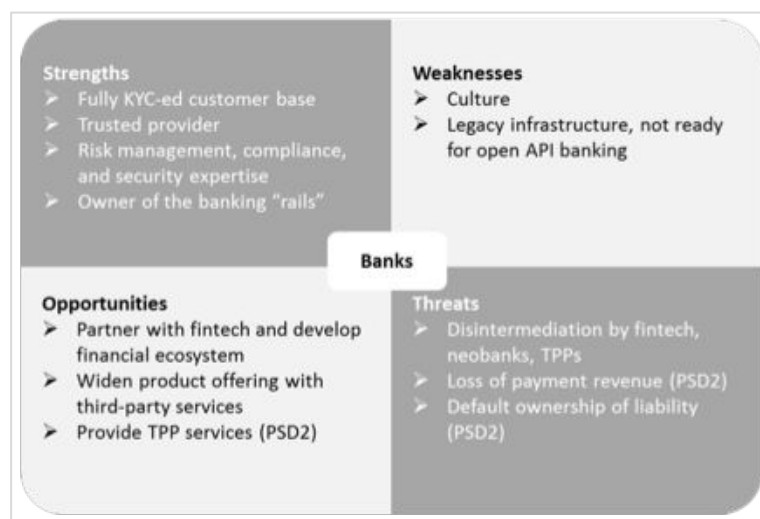
1.6 As research house, Aite Group, has found, such partnerships can also enable banks to redesign their IT architecture and be leaner and more efficient at delivering new services.<sup>11</sup>

1.7 For fintech-bank partnerships to work, banks must open up their services to fintechs through data sharing. Unfortunately, however, most of Australia's banks have so far shown little interest in doing such and Australia's government is needed to force their hand.

<sup>1</sup>Massachusetts Institute of Technology, The Impact of APIs on Firm Performance, October 2016.

<sup>11</sup> Aite Group, The Programmable Bank: How Banks can Deploy and Monetise Open APIs, December 2016.

1.8 The SWOT analysis copied below, by Aite Group<sup>ll</sup>, provides an overview of how APIs can be viewed by banks.



1.10 We argue that any threats resulting from APIs are unlikely to eventuate while banks retain customer trust, regulatory right to deliver core banking services and access to infrastructure such as payment rails.

1.11 As MIT recently found<sup>l</sup>, API adoption by incumbents is related to increases in net income, operating revenue, market cap, sales, and intangible assets, as well as lower costs. Additionally, the size of the impact of adoption of APIs does not vary dramatically with industry or the timing of adoption. In other words, it's not too late for banks to adopt APIs.

1.12 Gains from APIs can be broken into upstream efficiency, internal efficiency, and downstream efficiency in value creating activity.<sup>l</sup> These gains benefit everybody in the ecosystem: consumers, fintechs, third parties, challenger banks and major banks alike.

#### Recommendation:

**We recommend that the Productivity Commission take the view of APIs not as a threat to banks but as an opportunity to improve their internal capabilities and ability to provide better services to their customers.**

## RECOMMENDATION #2

# ENABLE THE ECOSYSTEM

Focus on enabling the ecosystem, not particular groups or technologies

2.1 The concept behind APIs, and the view taken through PSD2 in the UK, is to build the foundation for an ecosystem of innovation and growth in financial services.

2.2 As in any industry where APIs are now standard, APIs have not been mandated - they have instead been the most efficient technological means of delivering the use case at hand at that point in time.

2.3 APIs are just one mechanism that can enable a customer's comprehensive right but are by no means the only mechanism.

2.4 Much has been said by the major banks as to the cost of implementing APIs. While much of this, in our view, has been an attempt at stalling progress, development (and ongoing management) costs of APIs are very real for smaller financial institutions.

2.5 Forcing smaller banks and mutuals to meet the standards for API implementation may be too onerous and cost intensive.

2.6 Creating different implementation timelines between banks based on size however may indirectly marginalise the 4 million customers of smaller banks from benefitting from a comprehensive right.

2.7 Additionally, such an exception may drive customers away from smaller, challenger banks to larger, API-enabled banks, which would fail to achieve the aim of increasing competition in financial services.

2.8 Instead of APIs, other technical data sharing mechanisms, such as request-based aggregation, data feeds to intermediaries and whitelisting screen scrapers can deliver the same customer outcomes and comprehensive right without such burdens.

### **Recommendation:**

**We recommend the Commission endorse the recent Parliamentary Inquiry recommendation that *all* "Deposit Product Providers be forced to provide open access to customer and small business data by July 2018. And that this should be a "binding framework". We recommend that the Commission however remain flexible and technology-agnostic in its recommendation of implementing its customer comprehensive right.**

## RECOMMENDATION #3

# ESTABLISH A STEERING GROUP

Establish a cross-industry steering group and empower ASIC to have oversight and overall responsibility.

3.1 In implementing similar reforms, the UK have established an “Implementation Entity Steering Group” or “IESG”.

3.2 The IESG has membership from each of the 9 major banks, as well as 5 advisory group conveners, 2 consumer representatives, and 4 regulatory observers.

3.3 All members of the IESG have equal voting rights.

3.4 The IESG has responsibility for setting data scope, standards, timelines, pricing and frameworks for open APIs in the UK.

### Recommendation

**We recommend a similar steering group be set up in Australia to implement a consumer comprehensive right. We recommend that this group include the major banks, the Customer Owned Banking Association (COBA) to represent challenger banks, the Australian Consumers’ Association (Choice) to represent consumers, Fintech Australia to represent the Fintech industry, and current data sharing enablers such as Fabric, with oversight from ASIC, ACCC and APRA.**

**We recommend the Commission leave the setting of standards, pricing and frameworks to this cross-industry group so that each stakeholder has equal participation rights to direct development. If the Commission does wish to set standards, we recommend that all standards around security as well as data availability and frequency be set at at least current aggregation standards.**

**Importantly, we recommend that the Commission does not endorse any existing standards or standards settings bodies. Such a body and such standards should be developed from a truly cross-industry group setup and managed by ASIC.**

## RECOMMENDATION #4

# REMOVE CURRENT BARRIERS

Remove barriers to the current ecosystem and enable it to flourish while APIs are being developed and implemented

4.1 Screen-scraping and request-based aggregation technologies are currently meeting market needs, however, more can be done to ensure the industry continues to flourish and does not fall behind global standards while APIs are being developed and implemented.

4.2 As the Commission will be aware, ASIC's ePayments code currently makes the practice of sharing online banking credentials a grey area.

4.3 Australia's Customer Owned Banking Association, COBA, sees a case for the ePayments Code to be "amended to ensure consumers are protected".<sup>III</sup>

### Recommendation

**We recommend that the Commission endorse existing aggregation technologies and credential sharing as a valid interim as well as redundancy solution in case APIs take longer than expected to implement and standardise.**

**We recommend the Commission ensure customers' use of such technologies is not against banks terms and conditions.**

<sup>III</sup> Customer Owned Banking Institution, Productivity Commission Inquiry into Data Availability and Use, August 2016.



## RECOMMENDATION #5

# ENSURE CUSTOMER PRIVACY

Ensure existing data sharing mechanisms as well as future developments meet Australia's Privacy Principles

5.1 Australia's Privacy Principles state that businesses should only collect the data they require to deliver the primary purpose for which the customer has permissioned them to collect it.

5.2 Existing screen scraping technologies are currently operating outside of these principles by providing their clients all of the financial data captured from a customer, regardless of whether they require it or not.

5.3 Customers are generally unaware of what data they are sharing and how it will be used.

5.4 New technologies, such as the OAuth mechanism developed by Fabric, put consumers in full control of what data they share, for what purpose, and for what period of time, while also providing them with the ability to revoke access at any point.

### **Recommendation**

**We recommend the Commission put particular focus on how consumers can be educated of their comprehensive right and, in practice, are given full control of their data in line with Australia's Privacy Principles.**

# SUMMARY

The Productivity Commission's Inquiry comes at a tipping point for the Australian financial services industry. Many governments globally, including those closest to home in Singapore and Hong Kong, are making tremendous progress in removing the barriers for customers to easily access and share their financial data.

Fabric endorses the Productivity Commission's comprehensive right. Throughout this submission, we have provided extra context and clarity to ensure the Commission releases a final recommendation that puts the consumer front and centre while enabling the financial services industry to prosper and benefit all Australians.

As the Commission looks to produce its final report and enable the development of a cross-industry steering group, we welcome the opportunity to be involved.