

Submission to the Review into Open Banking in Australia

Open Banking Review, the Treasury

September 2017

Introduction

Enabling better access to data held by public and private sector entities is an important matter for public policy. In the financial sector, the focus is on making it easier for individuals to access their personal information held by their bank and, if they wish, to securely share it with third-party service providers. This could facilitate innovation and promote competition in a range of financial services, including payments.

The Reserve Bank is the primary regulator of the payments system. The Payments System Board (PSB) is responsible for the Bank's payments system policy, including in relation to clearing and settlement facilities. The PSB is required to exercise its responsibilities in a way that best contributes to: controlling risk in the financial system; promoting the efficiency of the payments system; and promoting competition in the market for payment services, consistent with the overall stability of the financial system. The Board views the promotion of competition as a key part of its mandate.

Consistent with this mandate, the Bank supports the introduction of an open banking regime in Australia. This is an area where the banks and other stakeholders can work constructively with the public sector to deliver outcomes that are in the national interest.

This submission briefly discusses the potential benefits of open banking. While the focus is on efficiency and competition in the payments system, data sharing has broader implications for the financial system and economy. It also discusses some of the important challenges that need to be addressed: the design of a system that is both easy to use and safe; the development of standards; licensing of third-party service providers; and the need for a collaborative approach to open banking. In addition, the submission notes the relationship between open banking and digital identity.

Benefits and Challenges of Open Banking

Data sharing, in its broader sense, has the potential to deliver significant benefits in a range of fields, including health care, research, public policy and finance. In the financial services industry, open data has the potential to promote competition and efficiency through new and improved services, increased price transparency and better-informed decision making. While open banking has implications across the financial sector, there are at least three types of services that are of particular relevance from a payments perspective:

- Product comparison services that use a customer’s transaction data to provide a tailored estimate of potential savings or other benefits from switching to a different product or service provider.
- Data aggregation services that provide a full picture of an individual’s financial position and payment behaviour across various products and providers, helping with budget management and decision making.
- Payment initiation services that facilitate secure online payments directly from a customer’s account without the need to provide bank login details to a third party.

The first two examples involve the customer being able to provide their personal information held by financial institutions to third parties. The third example involves customers providing third parties with the ability to perform actions on their accounts. The Bank is of the view that the initial focus should be on the first type of access – sometimes known as ‘read’ access. The second type – ‘write access’ – could be considered at a later date, potentially as part of a phased approach to open banking.

While there are potentially material benefits from an open banking policy, there are also a number of challenges that need to be addressed to design a system that is both safe and easy to use. Among these, data security, fraud prevention and the protection of individuals’ privacy are major issues.¹ Providing third parties with the ability to access personal banking information potentially creates new opportunities for fraud that will need to be carefully managed in the design of an open banking regime. Similarly, open banking arrangements will need to ensure that individuals maintain control of who has access to their data and the purpose for which the data are used. Open banking standards will need to incorporate appropriate safeguards while also facilitating the entry of new participants and minimising frictions for consumers.

Data Sharing Standards

The benefits of open banking are more likely to be realised if the system is based on transparent, common industry standards for data sharing, including data definitions, formats, security and access arrangements. The Bank’s view is that open banking standards should be sufficiently flexible to be able to accommodate future innovations and advances in technology. However, standards should also promote best practice in relation to data sharing, for example by specifying minimum functionality requirements benchmarked against current best practice. In this regard, some other jurisdictions have identified application programming interfaces (APIs) as being the most suitable method for sharing data in an open banking regime.

Data sharing standards that are specific to the finance sector and developed by industry stakeholders are likely to be more relevant and more effective. Such standards would also provide more meaningful guidance to the industry and reduce regulatory uncertainty. This approach would be consistent with the Productivity Commission’s broader recommendation that sector-specific data sharing standards be developed by industry participants. It is also consistent with the PSB’s preference for industry self-regulation where possible.

However, the Bank also recognises that there are commercial interests involved in open banking and it will be important to ensure that technical standards do not present an undue barrier to entry for

1 Other issues include the allocation of liability among participants in the system and implementation costs.

new players. Accordingly, consideration could be given to the development of standards being facilitated by an independent party to help ensure that standards are consistent with the aim of promoting competition in financial services (see below).

Industry Coordination

The development of an effective open banking regime will require coordination across a range of stakeholders, including banks, potential new entrants (e.g. fintechs), consumer groups and regulators. Close cooperation between banks will be necessary to successfully implement an open banking regime. Experience suggests that there may be a role for the public sector to help overcome coordination challenges if industry consensus proves difficult to reach.

While there are a range of potential approaches to industry coordination, the approach taken in the United Kingdom may provide some broad guidance. There, the development of standards is overseen by a steering group composed of a range of different stakeholders including banks, established third-party service providers, potential entrants and user groups. Under this type of model, the government and regulatory agencies could participate largely as observers as long as the overall program is progressing satisfactorily. However, if progress was proving difficult, the government and regulatory agencies could potentially take on a more active role.

Accreditation or Licensing of Third-party Service Providers

An important issue in an open banking regime is how to promote the entry of new players in the market in a way that deals with the security and privacy issues associated with access to customer-level data. This may require some form of accreditation or licensing regime, as is the case in Europe.

There are a number of factors to be considered in thinking about an accreditation or licensing regime. One is that third-party service providers may operate across a range of financial services and products; some entities may provide services that span several activities (e.g. payments and non-payments related services). Accordingly, any licensing or accreditation regime should not be focused solely on one aspect of financial services (e.g. payments); a fragmented system is unlikely to be efficient.

In considering an appropriate entity to administer licensing or accreditation requirements, there is the question of whether this should be done by the public or private sector. In this regard, it seems likely that many (but not all) entities involved in open banking and using household data would be subject to ASIC's Australian financial services licence (AFSL) requirements. If there are additional risks from open banking that are not addressed by the standard AFSL regime, there would be a case for some additional requirements applying to such entities.

These risks could, in principle, be mitigated by requirements set either by the public sector (e.g. by augmenting AFSL requirements for entities seeking access to customer-level banking data) or by the private sector. In the latter case, an industry body (e.g. AusPayNet) could be assigned responsibility for overseeing accreditation for third-party service providers. While such an approach could have the benefit of drawing on relevant industry expertise, it would also be important to ensure that any accreditation standards would not present an unwarranted obstacle for potential new entrants. Accreditation requirements will need to strike an appropriate balance between managing security risks and facilitating access to the market. Some of the risks arising from open banking could be mitigated by requiring entities to have appropriate liability insurance.

The Bank observes that in Europe, the revised Payment Services Directive requires third parties to be accredited by the relevant authorities in their jurisdictions. Among other things, this process involves third parties providing evidence of their financial resources and data security policies. Consistent with this, in the United Kingdom, third parties must be accredited by the Financial Conduct Authority (the financial services regulator).

In any case, irrespective of specific arrangements, the Bank notes two principles that could guide the development of accreditation requirements:

- Licensing or accreditation criteria should be developed with input from a range of relevant stakeholders, including potential service providers.
- Any framework should be principles-based where possible – in an open banking context, this could require entities to demonstrate that they are appropriately managing risks rather than being prescriptive with regard to how they should do so.

Open Banking and Digital Identity

A framework for trusted digital identity is a related initiative that has the potential to make online interactions more convenient and secure, including in the context of open banking. A trusted digital identity could help mitigate the scope for identity fraud, while providing convenient authentication, as part of an open banking regime.

While digital identity could be an important component of open banking – as well as having wider benefits for online interactions – the recommended approach in the United Kingdom was to implement open banking with flexible authentication arrangements. The aim was to provide scope for future developments in digital identity to be incorporated into open banking arrangements.

Open banking and digital identity are both areas in which Australia is lagging internationally. While the Bank's preferred approach would be to integrate the two initiatives, it is likely that doing so could have implications for the timely implementation of an open banking regime. Accordingly, a flexible approach similar to that taken in the United Kingdom could be contemplated – that is, an open banking regime designed to be able to incorporate future developments in digital identity.

Summary

Providing consumers with the ability to share their banking data with third parties could have benefits for innovation, competition and efficiency in the payments system. The Bank supports the timely implementation of an open banking regime that is both easy to use and secure. In particular, it supports the development of a framework and standards that would initially facilitate the ability of consumers to share their data with third parties on a 'read' basis. A collaborative approach to open banking will be necessary to achieve the potential benefits for competition and efficiency. Consistent with its mandate for promoting competition and efficiency in the payments industry, the Bank stands ready to contribute to this important initiative.

Reserve Bank of Australia
22 September 2017

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