

SUBMISSION TO SENATE SELECT COMMITTEE ON FINANCIAL TECHNOLOGY AND REGULATORY TECHNOLOGY

December 2019

Introduction

1. ANZ thanks the Senate Select Committee on Financial Technology and Regulatory Technology (**Committee**) for the opportunity to comment on the promotion of effective and sustainable growth in financial technology (**fintech**). Ensuring that Australia has the appropriate policies in place for fintech and other arenas of innovation is important to our financial sector and we welcome the Committee's focus on this policy topic.
2. There have been some important policy initiatives in recent years to support fintech and innovation generally. The consumer data right, initially to be applied to banking and then other sectors, offers the chance for new services to consumers. Both the Australian Securities and Investments Commission (**ASIC**) and the Australian Prudential Regulation Authority (**APRA**) have taken steps to foster innovation through ASIC's sandbox and APRA's restricted ADI licensing regime.
3. Fintech sits within a broader economic context as well. We note the Government's *Australia 2030 Prosperity through Innovation* report from 2017 and its recommendations for encouraging innovation through the Australian economy. Its recommendations, including for greater access to public sector data, could be considered by the Committee within the context of fintech encouragement.

Our support for fintech

4. ANZ is a strong supporter of, and investor in, fintech. While fintech is important to many aspects of what we do, ANZi is our dedicated innovation and investments function. It has three groups that focus on different ways of supporting fintech innovation.
 - Our **New Business Labs** builds, incubates, tests, validates and launches new companies in line with our strategic priorities, such as home ownership and small business;
 - The ANZi **Partnerships** function builds relationships, collaborations and growth opportunities for NBL and Ventures portfolio companies; and
 - **ANZi Ventures** makes early-stage and growth (Series A to C) investments in strategically aligned fintech start-ups globally.
5. Investments made through ANZi focus on four key areas: homeownership, trade and capital flows, small and medium businesses and open data. To date, we have made investments in the following entities:

HOME OWNERSHIP		OPEN BANKING / DATA		SMB		
						
Online home loan origination platform	Offers home sellers a minimum price guarantee to reduce outcome and price uncertainty	Provides Open Banking infrastructure layer for banks and <u>fintechs</u>	Technology platform helps organizations to safely and securely share data	Expense management and virtual card issuance platform that helps businesses control their spending and automate their expense reporting	Delivers interactive smart receipts to a customer's banking app.	Business loan marketplace - covering working capital, debtor finance and equipment finance

6. As context for the Committee, we note that investments and technological innovation of ADIs, including ANZ, are subject to APRA regulation, including 3PS 222 on intra-group transactions and exposures. This means that fintech innovation through banks occurs not only through the prism of the conduct regulation of the ASIC but also the prudentially focused regulation of APRA. Much of the focus to date with fintech and regulation has been on ASIC's licensing and conduct rules (eg ASIC's regulatory sandbox). As the Committee considers the regulatory framework in which fintech investment and development occurs, we would ask it to consider APRA's and other spheres of regulation, particularly as they apply to established banks and financial services entities. These entities are well placed to fund fintech innovation and the regulatory framework in which this occurs is an important consideration.

Suggestion for Committee

7. At this stage, we have one main suggestion for the Committee on how to promote fintech within Australia. We look forward to engaging with the Committee further as it develops its ideas for supporting fintech.
8. Our suggestion concerns the consumer data right (**CDR**) and the ease with which entities can access CDR data (with the consumer consent). It is something that the Committee may like to explore with the Australian Competition and Consumer Commission (**ACCC**). The CDR regime is a strong and robust mechanism for consumers to realise the benefits of open data through the economy. ANZ supports the regime and has been working to make CDR data available in line with the Government's requirements.
9. At present, there is only one level of accreditation to receive data under the CDR. This tier is 'unrestricted'. An 'accredited person' holding an unrestricted accreditation can receive all CDR data that is available under the CDR as it applies to banking (with the consumer's consent). To help lower barriers to entry and foster innovation across the economy, additional tiers of accreditation could be introduced. These additional, lower, tiers could allow accredited persons to receive different types of CDR data or insights based on that data. These lower tiers could impose fewer requirements on an accredited person because the risk of the data would be lower.

Background

10. The CDR regime involves 'data holders' making designated data ('CDR data') available for exposure to 'accredited persons' when consumers request this. Initially, the data holders will be ADIs and the designated data will be banking data. The Government has indicated that the next sectors to which the CDR will be applied are energy and telecommunications.
11. Any entity can be an 'accredited person'. Under the *Competition and Consumer Act 2010* (Cth), the 'Data Recipient Accreditor' may accredit a person if they are satisfied that they meet the criteria for accreditation. These criteria will be primarily set down in the *Competition and Consumer (Consumer Data Right) Rules* (**CDR Rules**) (which are still under development). The CDR Rules are promulgated by the ACCC.
12. The current draft CDR Rules are focused on the application of the CDR to banking. They contemplate a single level of accreditation termed 'unrestricted'. Unrestricted accredited persons can receive all banking data that is available under the CDR (subject to having customer consent). The corollary of having the ability to receive all banking data is that accredited persons with an unrestricted level of accreditation must adhere to a significant set of understandable requirements to keep data secure (see schedules 1 and 2 of the CDR Rules).
13. To encourage more entities to participate in the CDR framework, and as the CDR is applied to sectors with less sensitive information, consideration could be given to whether additional, lower, levels of accreditation could be introduced. These lower levels of accreditation could involve fewer security requirements of accredited persons. They would entitle these accredited persons to (a) receive less sensitive information and/or (b) to access sensitive information securely.

Less sensitive information

14. Less sensitive information could be information that carries fewer risks for consumers if a third party were to gain unauthorised access to the information (or use it in an unauthorised manner). While all banking data is very sensitive, other industries could involve data of lesser sensitivity. As the CDR is applied to other industries, lower levels of accreditation could be introduced. These lower levels would allow the accredited person to access less sensitive information only.
15. Of course, those accredited persons with an 'unrestricted' level of accredited should be able to access all data (subject to consumer consent). That is, once an entity is accredited to an 'unrestricted' level, for example, they should be then accredited to receive all data.

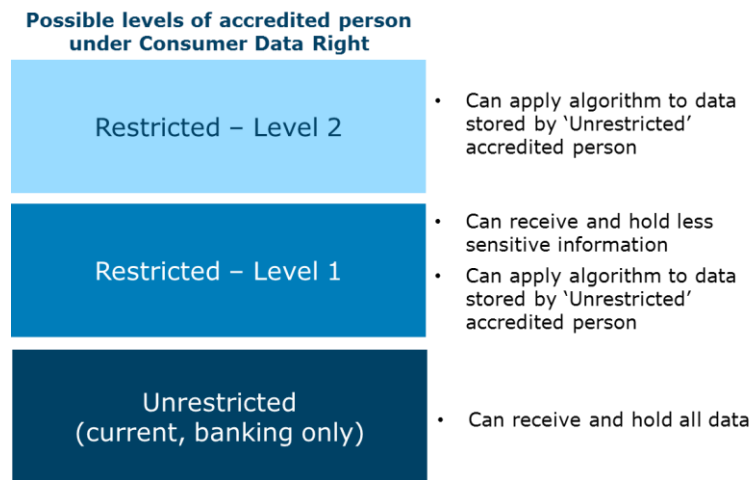
Access sensitive information more securely

16. The primary reason that there are such strong security requirements on accredited persons is that under the CDR these persons receive a copy of the CDR data from data holders and then hold the CDR data subject to the terms of the customer's consent. This exposes the CDR data to access and misuse risk while it is in their hands.
17. Another way to allow accredited persons to provide services based on the CDR data is to establish a mechanism whereby a data holder or an accredited person with unrestricted accreditation hosts the CDR data but then allows other accredited persons to provide a 'service' based on the CDR data. The data host would be responsible for keeping the data secure while the other accredited person would only be responsible for providing the service based on the data.
18. For example, a fintech offering a personal financial management app could engage with customers, seek their consent to access the customer's CDR data and then send a request to the data host to run the app's service based on the data held by the data host. The data host would then call up the customer's data, run the service and then send the results back through to the app for the customer's use. Because the fintech has never held the data, they may not need as high a level of accreditation as an entity that does.

Benefits of this approach

19. The benefit of having multiple levels of accredited is that the level of regulation is calibrated to the level of risk. Where entities are posing less risk to customers, then they would be subject to lower levels of regulation. This would decrease barriers to entry to markets that use CDR data. Fintech could be a strong beneficiary of this approach.
20. This model of regulation could be easily established by the ACCC under its current CDR rule making power. As energy and telecommunications are scheduled to be the next industries to which the CDR is applied, the Committee and the ACCC could explore what levels of accreditation are most appropriate for information of varying levels of sensitivity.
21. Further, work could be done on what is needed to allow accredited persons with lower levels of accreditation to access sensitive CDR data held by others. For example, what outputs are allowed with lower levels of accreditation (presumably there would be outputs that are just as sensitive as the data itself).

22. A basic schema of what the levels of accreditation could be is set out below:



23. We believe the adoption of these kinds of accreditation to receive CDR data would be the appropriate next-step in encouraging the use of data in fintech innovation. We would be happy to work with the Committee and the ACCC on developing this idea further.

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