



17 May 2022

Secretariat
Statutory Review of the Consumer Data Right
The Treasury
Langton Crescent
PARKES ACT 2600

By email: CDRstatutoryreview@treasury.gov.au

Dear Sir/Madam,

Consultation — *Statutory Review of the Consumer Data Right (CDR)*

Please find below our submission to the statutory review of the Consumer Data Right (CDR) program.

About illion

illion is the leading independent provider of data and analytics products and services across Australasia. The organisation's consumer and commercial credit registries make up a central component of Australia and New Zealand's financial infrastructure and are used to deliver end-to-end customer management solutions to clients.

As a data insights and analytics business, illion transforms data into complete and actionable information, and believes that quality data is the foundation of its continued success in helping businesses (including banks) manage risk and secure appropriate consumer outcomes.

illion currently services a large range of authorised deposit-taking institutions, asset finance companies, business lenders, personal loan providers and brokers of each of these products. Our role is one of education, consultation, and solution provision in each of these markets.

illion is a strong supporter of the implementation of a CDR in Australia. illion Open Data Solutions and Credit Simple were amongst the first group of organisations to become Accredited Data Recipients and we are actively developing products and services utilising the CDR. We have engaged extensively with Treasury and the ACCC in previous rounds of consultation as well as multiple Parliamentary inquiries on this topic.

The CDR framework provides substantial benefit to consumers, transforming the way they interact with the financial ecosystem by providing the ability and tools to safely share data with different proprietors, other financial institutions and FinTech companies. In doing so, consumers can access the

most appropriate and economical financial products to suit individual needs. Likewise, granting access to consumer data ensures that providers can offer innovative products at more competitive rates. illion believes that intermediaries, such as credit reporting bodies, are critical to the practical expansion of the CDR in Australia, particularly into new sectors.

Submission

We believe the current regime is failing to meet the four key guiding principles of CDR, which are reproduced below.

1. **Be consumer focussed.** *It should be for the consumer, about the consumer, and seen from the consumer's perspective.*
2. **Encourage competition.** *It should seek to increase competition for products and services available to consumers so that they can make better choices.*
3. **Create opportunities.** *It should provide a framework from which new ideas and business can emerge and grow, establishing a vibrant and creative data sector that supports better services enhanced by personalised data.*
4. **Be efficient and fair.** *It should be implemented with safety, security, and privacy in mind, so that it is sustainable and fair, without being more complex or costly than needed.*

We would like to highlight the relatively low rate of adoption for the use of CDR data, despite the high uptake by the financial services industry in becoming ADRs.

The financial services market has for many years used solutions built using Digital Data Capture (DDC), also known as screen scraping. DDC is a simple process whereby a consumer consents to the collection of their screen display data from an application so that it may be translated and displayed via a second application, facilitated by a trusted third party such as illion. DDC is used widely in the financial services sector by lenders, financial management applications, personal finance dashboards, and accounting products to retrieve customers bank transaction data.

The DDC model is simple for the end user and is simple and cost effective for financial services organisations to implement. When considering the ease and lower cost of implementation of DDC when compared to CDR processes, it is not surprising that the majority of financial services organisations continue to use DDC. As a consequence CDR in the current implementation is failing to meet the first and second guiding principles.

In terms of barriers to entry, despite the introduction of the representative, sponsor and trusted advisor model there remain significant barriers (and costs) of entry. The potential for reciprocal data supply for organisations that are not ADRs has created significant confusion and resistance in the market.

In addition, the multiple changes in the legislation have created additional costs for providers (like illion) who are ADRs and wish to provide services to businesses wishing to consume CDR data. The amount of change, cost or accreditation and barriers for entry do not make provision of CDR services a particularly attractive business proposition at present.

Further adoption of the CDR by potential ADRs and other entities are being held back by the high costs of compliance – the overall regime needs to be reformed significantly before the scope of the program expands to cover an even larger proportion of the economy as, we believe, it is currently failing the third and fourth guiding principles of the CDR.

It is also important to consider that the Financial Services sector is already significantly regulated through legislation such as the *Privacy Act* and *National Consumer Credit Protection Act*. Any recommended changes to the CDR legislation should work in concert and rely upon existing provisions rather than adding to the regulatory burden. We note that the Australian Law Reform Commission (ALRC) is currently conducting a review into Financial Services Legislation, and this offers significant opportunity to synchronise the regulatory framework across the whole sector.

In addition to the more general issues raised above we have some technical areas of concern with the CDR rollout:

Trusted Advisor model -

- Trusted advisors currently use bank transaction data as supporting documentation required under banks credit policies. An income and expense report from a data aggregator which supports affordability assessments is not satisfactory for compliance purposes. Banks have their own assessment processes as well as verification processes. Banks will not accept data unless it is in an official format or from trusted source (e.g. pdf eStatements or data feeds from illion).
- Banks require that data is in a digital format, from a trusted source. Data sharing has already evolved beyond manual processes and data is typically passed between multiple systems to transform it into the required format. If you put a raw data file (equivalent to excel doc) in the hands of a broker, it can no longer be trusted by a bank. They will therefore continue to require additional documents (not available through CDR) to support the data provided either through traditional means or directly from the consumer. Alternatively, banks will accept raw data sourced via CDR if it comes directly from a trusted source.
- If the intent of the Trusted Advisor rules is indeed that 'data leaves the ecosystem', then banks shouldn't have to reach out to the consumer again to attain that data. The only logical way to get the banks raw data from a trusted source is via AP Disclosure requests unless a secure arrangement can be put in place.

Reciprocal Data Holders –

- illion work with hundreds of banks and non-bank lenders through DDC and Statement OCR technologies to provide bank statement data and analysis for lending applications. A lot of the hesitation from non-bank lenders in going through an accreditation process relates to the reciprocal data holder obligations.
- Illion's understanding is that non-bank lenders are likely to have their reciprocal data holder obligations exempted for a period of time if they want to participate early as a recipient. As we're providing guidance to the industry there needs to be further clarification and communication on this point the market can be better informed about receiving ADR Accreditation.

- The majority of non-bank lenders are looking at representative models rather than sponsorship or unrestricted knowing that RDH obligations are likely to come into play. Despite exemptions being offered, they are not guaranteed and lenders are unsure they will suffice until Open Finance is better defined. We're seeing significant delays in firms actively looking to utilise CDR in the short term unless they can have representative support, where the representative model isn't something scalable due to liabilities placed on Providers.
- It is becoming increasingly apparent that the risk appetite is not conducive with a 'scalable' solution as intended. The liability is too onerous to take on at scale even with stringent, resource heavy processes in place. It is unlikely that large firms with existing businesses are going to be able to take on a large number of representatives due to the liability risk of non-compliance, as well as the reputational risk it places on their other businesses. It is likely that only small fintechs will enable the market through the representative arrangements as the risk appetite is much higher with less at stake. Only partnership driven relationships with larger players will form the solutions at enterprise scale in this space. However, this is now the preferred model for all non-bank lenders with RDH obligations which is significantly slowing down uptake of CDR.

Joint Account Holders -

- Data recipients are not made aware of sharing restrictions in joint account scenarios. If a consumer has tried to submit a joint account as a part of their application but a sharing preference other than the pre-consent has been selected, the presence of that account will not be known to the Data Recipient. Applications may be processed prior to the full information being made available, unknown to and against the intent of the applicant.
- Data recipients are not made aware when an account is jointly owned. Limitations of CDR data have resulted in an inability to identify the presence of multiple account owners to accounts and therefore troublesome in assigning income streams to individuals. If you do identify and confirm that an individual controls an income stream today then there's a risk CDR won't work for you as the rules currently stand. A large, international bank recently postponed a CDR implementation as their credit risk team did not approve of the solution as CDR data was unable to support the accurate allocation of income for individual applicants.

E.g. Partner 1 applies for a loan but is unemployed, cites income of Partner 2. Discloses data of an account of which Partner 1 is an owner (indicated through CDR), and as no other account holders are identified the data supports Partner 1's claim. Partner 2's income is therefore assigned to Partner 1. Banks can assess this scenario differently, but only if they know the account is jointly owned.

Joint accounts are currently identifiable through Digital Data Capture services as a) the type of account is identified or b) multiple account holders can be found. It's also noteworthy that NAB publishes the ownership status of accounts in their pre-CDR external API's.

Conclusion

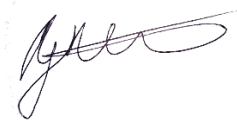
Illion greatly appreciate the opportunity to comment on the operation of the CDR regime and we welcome the recent greater collaboration between industry and Treasury as the CDR regime expands to other sectors.

Illion's conclusion is that CDR is technically a far superior solution to the Digital Data Capture mechanisms currently used in financial services. We also see huge opportunities for consumer benefit in the extension of CDR beyond Open Banking to Energy, Telecommunications, Open Finance and in extending to and write rather than the current read only.

However we believe that the current regime is unnecessarily restrictive, complex and consequently expensive to implement and support, this is restricting the ability of organisations to implement CDR and ultimately resulting in CDR not achieving its guiding principles. Prior to extending the regime beyond Open Banking there is an urgent need to review the current access methods and move towards far greater unrestricted access (which could be achieved by extending the Trusted Advisor model to a much wider remit of organisations).

If there are any questions or concerns arising from this submission, please feel free to contact me at any time at richard.atkinson@illion.com.au.

Yours sincerely,



Richard Atkinson

Head of Data Product