Green shoots are finally emerging for open banking

Depending on who you talk to, open banking in Australia is on the point of acceleration or the pause in its rollout is a welcome chance to improve data quality.

ANDREW CORNELL
7:50am today

MasterCard head of open banking Brenton Charnley and WeMoney founder Dan Jovevski. company supplied.

Open banking in Australia is finally exhibiting early signs of the network effects that have played out in other countries such as the UK, signalling an upwards shift in what many see as frustratingly slow progress for the reform.

The concept of open banking enables customers to share their personal banking data with accredited third parties, making it easier to switch between banks (akin to porting a mobile phone number).

While it was introduced in 2020, progress has been relatively slow compared to the UK where it is considered a major success. Data from the UK open banking organisation showed in the six months to June 2023, more than 1 in 9 British consumers were active users of open banking, an increase from 7% in December 2021.

But according to 2023 research cited by Deloitte, showing 55% of Australian consumers have never heard of open banking and only 6% claimed to have a good understanding of the concept.

Open banking in Australia is built around the Consumer Data Right (CDR) construct). The CDR is designed to ease the access to and sharing of personal information across a range of services, including energy and other utilities.

For supporters, including the Federal Government and **Australian Competition and Consumer Commission**, waiting for the network effects of more consumer awareness and more opportunities to use CDR has been akin to waiting for Godot.

According to a new report by **Deloitte** and **Commonwealth Bank**, "the CDR has had mixed success. It's enabled data sharing in banking and energy, but there has been low consumer adoption, slow expansion and limited business innovation."

In the final report of its Retail Deposits Inquiry, the ACCC found the CDR "is not yet fulfilling this role for a meaningful number of consumers." Of parallel concern is the alternative to CDR, known as "screen scraping" which typically requires access to login details, introduces extra risk and Treasury has recommended it be banned.

But viewed through another lens, the CDR uptake data is finally looking more promising. According to the ACCC, as of November 2023, more than 70 banks were participating in the CDR as a data holder, covering an estimated 99.7% of Australians' customer accounts. Additionally, more than 40 fintechs and accredited third party recipients are offering CDR services to consumers who have consented to the sharing of their data.

MasterCard established an open banking business last year and the head of that business, Brenton Charnley, said collaboration between banks, fintechs and other stakeholders in the ecosystem is essential to ensure the ongoing security, privacy, and transparency of financial data interactions.

"While progress is being made, there's need for greater alignment within the ecosystem," he told *Capital Brief*. "Clear objectives for CDR's success would provide industry stakeholders with valuable guidance, while enabling them to focus investments in areas that drive meaningful outcomes for consumers."

At WeMoney, Jovevski says open banking connections (versus screen scraping) have grown from 2% to 90% between June 2022 to January 2024 for members who connect their first account to the WeMoney platform.

But he told *Capital Brief* "I think CDR is a 10 times better solution than screen scraping but we can't be in a position ourselves where we switch to CDR and it's not complete and there's no back up or alternative like screen scraping."

The challenge for CDR remains the network paradox. As the ACCC says: "The ability of the CDR to reduce searching costs for consumers is itself dependent on consumer awareness and usage of both the CDR and CDR-enabled comparison services."

It's on that front that some of the more committed fintechs are optimistic. **Paul Stoddart**, global payments leader at **GoCardless**, describes a combination of open banking and real time payments as a "Holy Grail" for payment evolution and notes current disruptors, like buy now, pay later, could not work without some kind of open banking in the background to give the lender financial data.

"We are seeing use cases coming to bear for open banking and for (the NPP) PayTo service (which enables regular billing)," Stoddart says. As the name implies, GoCardless is looking to supplant traditional card-based payments by facilitating account to account transfers, replacing direct debits, and building on the NPP.

Not all interested parties are chafing at the pace of rollout however. Mortgage brokers **Upworth** released analysis of the Deloitte report saying "as participants of the CDR (we) see and cope with the daily struggles of failing system connections and poor data quality."

"We stand by the government˝s side that the best and right course of action for the success of the CDR is to pause its further expansion and ensure that what has been built is fully functional. This means getting the banking sector to provide in a seamless and reliable manner accurate personal information."

Nevertheless, WeMoney's Joveski says "we see great hope in the CDR and have not lost any of our resolve. On the contrary, it has been strengthened given the early data signals of adoption."

WeMoney aggregates financial data for a largely Gen Z and Millennial customer base, promising to facilitate better financial management and lower debt burdens. Its revenue comes from acting as a broker for debt consolidation and fees for a premium service advising on debt management.

"Our view, as one of the major participants, is that the CDR ecosystem is a 'sigmoid curve' growth function, where initially it starts slow but accelerates with time as the ecosystem matures," Jovevski says.

WeMoney says they are the biggest aggregator of CDR data as a consumer brand in Australia since their CDR accreditation in February 2022. The fintech is part of Mastercard's Start Path Open Banking Program which promises to improve the financial wellness and open banking experience.

The accelerating takeup of open banking in the UK does support optimism for the initiative in Australia. Data from the UK open banking organisation showed in the six months to June 2023, more than 1 in 9 British consumers were active users of open banking, an increase from 7% in December 2021.

The challenge remains though. Deloitte's report cited 2023 research showing 55% of consumers have never heard of open banking and only 6% claimed to have a good understanding of the concept.

Read more

BANKING

APRA removes NAB's $500m capital add-on

13 March 2024

Westpac is searching for a new CEO

ANDREW CORNELL · 12 March 2024

Australia's big banks are finally figuring out how to make money in Asia

ANDREW CORNELL · 12 March 2024

ACCC

ASX:CBA

NYSE:MA

TREASURY