



Chapter 3: A Breakdown of the Inquiry into Future Directions for the Consumer Data Right - Final Report

CHAPTER THREE

Hot on the heels of last week's summary of Chapter 2: Future Directions for the Consumer Data Right, from the report of the same title, this week we will pick apart Chapter 3: Expanding the Consumer Data Right to support switching.

Now, for anyone that has ever seen me present, or write material on the topic of Open Banking, you would know that I consider the notion that switching of products as the main reason consumers will utilise Open Banking to be such a missed opportunity. Don't get me wrong; consumers' ability to control, access, and share their data to create greater insights, knowledge, and efficiencies is paramount. The notion that they will somehow opt to change their mortgage provider, or their transactional accounts regularly, that I am sceptical about. But don't let my views take away from Scott Farrell's Chapter 3.

This chapter examines how expanding the Consumer Data Right from the current data sharing functionality to an action-initiated framework could further increase consumer convenience and ease of engagement. It is hoped that this expansion will encourage innovation and dynamic data-driven services and products. At the core, this Chapter will compare the current functionality of an accredited CDR participant with that of an expanded action-initiated enabled accredited CDR participant, through the inclusion of a customer journey at Box 3.1.

EXPANDING THE CONSUMER DATA RIGHT TO SUPPORT SWITCHING

Read Access vs Write Access

What is the difference between read and write access? Read access and write access (action-initiation) are the technical terms used to describe the powers given to a third party engaging with data holders.

Read Access is the ability for a third party to download or view specific data and information held by the data holders.

Write Access is the ability for the third party to give the data holder instructions to take action/actions.

According to the inquiry, the read access function will be referred to as 'data sharing'. It will enable an accredited participant to 'pull' data from a data holder, but not interact with them in any other way. An accredited participant with write access can send the data holder instructions to create or change the data they hold, thus 'writing' new information or data on the consumer.

By definition, the term 'write access' may be considered misleading, as it is not limited to merely updating or changing a consumer's data. Depending on the actions specified by the accredited participant, via the consumer's consent, a person with 'write access' could potentially apply for products or services on the consumer's behalf, update their personal details, they could initiate payments, or open and close their accounts. For this reason, the inquiry would prefer the term 'action initiation' instead of 'write access'.

Action initiation will be a decision-enabler for consumers interested in identifying and moving to new products and services. Introducing action initiation and expanding data sharing will provide the regime greater capability to deliver data driven services and their benefits to consumers.

WHAT THE CONSUMER DATA RIGHT CURRENTLY OFFERS CONSUMERS - DATA SHARING

Whilst still in its infancy, the current primary use of CDR data sharing is providing an efficient way for consumers to identify the most appropriate product or service to suit their needs. This may include product comparison, financial management, credit validation or budgeting services.

Data sharing will reduce the effort and time required to research and compare complex products on offer from multiple providers. It may boost a consumer's power and access to financial understanding, reducing informational asymmetries and therefore empowering the consumer to make an informed choice; encouraging competition in the marketplace. This implementation of data sharing has filled the important first phase of evolution. Focusing further on 'read access', the immediate expansion of ecosystem participation, the functionality available and the types of data that the CDR covers will facilitate growth and innovation. Such products and services may include data analytics, pattern and trend identification and deeper data management services.

WHAT ACTION INITIATION COULD OFFER

By enabling action initiation within the CDR, third parties could help consumers overcome issues and reduce complexity, time, and money associated with carrying out actions/instructions. The types of action-initiated instruction may differ across different sectors of the CDR but could include authorising a third party to;

- Initiate payments on behalf of a consumer
- Update personal details and information
- Change billing delivery preferences, such as frequency, destination, mail vs email
- Opening and Closing accounts

- Assisting in the switching of products/services, as well as providers of those products/services.

It is important to remember that action initiation is not a product or service. It is a function that an accredited service provider may offer to assist and enhance the consumer experience through innovative solutions.

There is a fear that action initiation if misused, or without the proper safeguards, could enable a third party to act in ways contrary to the consumer's express wishes, or acting without the consumer's consent. The breadth of prospective harm will depend on the industry sector involved and the actions permitted under that sector.

The Inquiry has considered the introduction of this functionality, including where responsibility and liability reside and the protections needed for both the consumers and the participants. The role of robust consent in this process will be necessary to ensure consumers are informed about how their data will be used, accessed and to give them the ability to consent to clear parameters around the action initiation services.

Box 3.1 – Account aggregator – an example of action initiation

Data Sharing – If an accredited person can access data from a number of banks, it could view and transform this information to provide services to the consumer. The accredited person could, for instance, offer a service that enables the consumer to view all their financial products in a central location. This service would be limited however, as the consumer would need to contact their individual banks to update their information, close their accounts, open new accounts, or make payments.

Action Initiation – If an accredited person can both access data from a consumer's banks and initiate actions with them, then they could offer consumers a more complete service to manage their finances. The accredited person could now provide the same financial overview as described above, as well as enabling the consumer to centrally initiate actions such as registering for new accounts, closing old accounts and making payments.

BEHAVIOURAL BARRIER TO CONSUMERS ENGAGING WITH SERVICES

The inquiry considered that consumers might not regularly engage with or reassess their products or services, and rarely take steps to adapt or change their products or service providers. This holds even when change may produce greater benefits or value. This topic

has been examined by behavioural economic analysis and several multi-jurisdictional consumer studies.

In its submission, Deloitte provided a clear breakdown of the six key behavioural biases that can affect a consumer's willingness to engage, from its research in the field.

Box 3.2 – Behavioural biases as outlined in Deloitte’s submission²¹

- **Analysis paralysis:** ‘There are too many options, I just can’t decide.’

Consumers freeze when too many choices are presented. Decision paralysis brought on by the inability to choose between options is typically the result of cognitive overload and fatigue. This state of choice overload tends to reduce consumers’ confidence in a decision they have made and can prevent making one at all.

- **Facing an uncertain future:** ‘I know I should... but that can wait.’

Consumers strongly prefer present payoffs to future rewards. While the potential savings from a lower mortgage rate can be significant over 25 years, they may not create enough of a sense of urgency in people to offset the more immediate transaction costs of gathering information and switching now.

Cognitive research has shown that people often learn and make decisions using ‘case-based reasoning’—solving problems by recalling previous situations and reusing that information. With no personal experience, feedback, or a memory of past reference points, consumers feel ill-equipped to make the right call; even after gathering additional information to supplement their view, they are often left with the sneaking suspicion that important ‘unknown unknowns’ remain. The behavioural tendency to explicitly or implicitly lean on anchors—trusted reference points—provides our brains with a place to start understanding what good looks like. Without these anchors, and with only tenuous confidence in their own ability to choose wisely, consumers stall and do nothing—sometimes indefinitely—rather than commit to the wrong option.

- **The impact of emotion on behaviour:** ‘I worry about failure, and I hate feeling dumb.’

Consumers are often overcome by fear of failure when presented with an important choice. They hate the idea of being forced to live with a sub-par option, but, just as importantly, they worry about looking silly or stupid for having chosen poorly.

- **Loss aversion effect:** ‘I’m worried about what I’ll lose... and not certain of the value of what I’ll gain.’

Consumers focus on what they’ll lose by changing provider. They put three times as much weight on what they’ll lose, compared to what they may gain.

- **Endowment effect:** ‘I value what I have more than something new.’

Consumers value things they’ve previously made a decision to acquire.

- **Status quo bias:** ‘I prefer to stick with what I have ... even if there’s a better alternative.’

Consumers value stability, preferring to stick with what they already have.

SWITCHING USING THE CONSUMER DATA RIGHT

In its terms of reference, this inquiry was instructed to examine how the CDR can be utilised to solve behavioural and regulatory barriers to create convenient and efficient switching between products and providers. Sensing broad economic and competition benefits, which further supports the principle for creation, expanding participation in data sharing and creating action initiation will enable and encourage greater switching by consumers.

This examination can be broken down into the following considerations;

Risks and costs - Switching may present risks to a consumer. The decision to switch weighs on the trade-off between attractiveness to features/pricing of a new product/service over the loss of features/functionality or costs of the existing offering. Switching takes time to complete and may incur additional or hidden costs, exit fees or time/labour-costs. The risk may present through a consumer being signed up to a product/service that does not fit their needs or with hidden implications that they were not fully aware of.

According to the Productivity Commission, the average Australian household could save up to \$1,000 per year on their home loan, or experience savings of \$200 per year on their credit card, with only 17% switching cards over a five-year period (Silva-Goncalves J 2015).

Current consumer appetite for switching - For various reasons, Australian tends to stick to a product or a provider for the long term. A recent study found that only 19% of customers changed a banking product in the last three years (Deloitte).

In its submission to the Inquiry, Finder referenced results of its Consumer Sentiment Tracker survey which demonstrated that from September 2019 to April 2020, 17 per cent of consumers surveyed switched mobile plans, 13 per cent switched energy services and 3 per cent switched home loans. Home loans were the most difficult product to switch while being the product with the highest savings potential (Finder).

Conversely, the market for budgeting and financial management services that use screen-scraping to assist consumers with managing their products/services, and new services that help consumers find and switch to better energy deals, indicates that consumers are willing to switch and to use services which advise on and manage the process for them providing the risk/cost trade-off is favourable (86400).

Creating an environment that encourages switching - The inquiry considered a range of elements necessary to create the environment in which consumers would feel favourable to switching.

1. Encouraging consumer engagement
2. Access to information on available offering
3. Access to assistance and understanding
4. Switching between products and providers
5. An appropriate level of consent requirements
6. Privacy safeguards and authentication measures
7. The appropriate transfer of data allowed within the Consumer Data Right regime

Consumer trust and confidence necessary for switching using the Consumer Data Right - The gaining of community trust and confidence in how data is managed and used is one of the broad criteria that informed the Productivity Commission's recommendation to create the Consumer Data Right in Australia. For the CDR to function effectively, there is a need for trust in the first of its four guiding principles - that *it be consumer-focused, be for the consumer, about the consumer and seen from the consumer's perspective.*

Consumers will have limited visibility over the back-office transfer of their data. They will be more familiar with and focused on their relationship and data transfers with the accredited participants and the data holders involved. At its core, they will be seeking a particular outcome from these providers that will match their expectations and their understanding of the product/service their data sharing would produce. Anything less than meeting these expectations risks undermining consumer trust in the exercise and potential brand risk to the participants involved.

The Consumer Policy Research Centre has observed the role of responsible business practices and regulation centred around good consumer outcomes can play in enshrining trust and enabling ongoing data sharing for continued innovation and economy-wide benefit.

Switching-related processes - Multiple elements and actions will encourage the use of switching-related services and have been identified by the Inquiry. The ease of access, the

level of understanding, the time involved and the potential for a better outcome will rest on these elements, along with the introduction of action initiation across operations;

1. Populating the application form
2. Lodging an application
3. Product disclosure obligation
4. Providers must process applications, including undertaking regulatory compliance activities
5. Providers may require identity verification of prospective customers
6. Making any funds transfers to new providers or payment of outstanding amounts with previous providers
7. Transferring across direct debits and scheduled payments
8. Transferring data across from the old provider
9. Closing old accounts

Sector-specific obstacles to switching - Not all services or products may promote streamline switching, such as specific sector or products with nuanced requirements. While some of these challenges may be addressed through the introduction and evolution of the Consumer Data Right, some may be addressed through sector-specific reform and policy expansion.

One example of issues that will not be altered to fit within the CDR is the major obstacle to switching for some products in the banking sector that create a new security interest or effect transfers of real and personal property security interests when switching between secured lending products.

An example of a barrier to switching in the energy sector, depending on the state or territory; it can take up to three months to functionally switch energy providers as the old energy provider is required to get an accurate reading before they terminate an account, and meter readings generally occur at the end of the 90-day billing cycle. It may be necessary to have a meter read before switching providers, and a consumer may incur an exit fee or a special meter reading charge.

In both these sectors, fees and charges can also present another disincentive to switch as savings from switching would need to cover that cost and still present ongoing cost savings, the risk/cost trade-off.

The Inquiry accepts that, while the CDR offers a significant streamlining of switching for consumers in most sectors, there is a range of sector-specific requirements that will continue to be friction points where consumers or accredited persons would be required to move off the CDR infrastructure to complete a switch.

EXPANDING DATA SHARING TO ASSIST IN REMOVING BARRIERS TO ENGAGEMENT

To create greater innovation and competition in the market, and the recognition that switching is considered a base-level necessity of which action initiation will afford, the need to remove barriers to engagement is crucial.

There a range of practical barriers that must be navigated if consumers can overcome perceived/real disincentives. Some of these can be addressed by the expansion of CDR data sharing;

1. Identifying all the relevant offerings in the market - *the CDR data sharing rules provide a mechanism to make comparison and product identification easier; however, product reference data (PRD) information provided through the CDR may not include all the data a consumer considers relevant for comparison purposes.*
2. Transparency of pricing and the practice of 'discounting'
3. Analysis of the pros and cons of the offerings - comparison
4. The navigating of bundles
5. Quality of comparison services
6. Non-accredited person advisers cannot access data

Recommendation 3.1 – Analysis and comparison of bundled products

Analysis and comparison of bundled products should be facilitated by the Consumer Data Right. The Data Standards Body should consider the most appropriate and efficient method to better enable product reference data about the range of services available, including bundled products, to be provided to consumers and accredited persons.

Join us next week to explore Chapter 4: Action Initiation Framework

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This article explores Chapter 3 of Scott Farrell's Future Directions for the Consumer Data Right report. From data-empowered consumers to an economy-wide foundation, an integrated data ecosystem, towards international digital opportunities. What is the future direction of the Consumer Data Right in Australia?