

Hybrid Approach: Pressing Go on Open Banking in Australia

Open Banking is well underway in Australia. More Financial Institutions release their Data Holder solutions almost weekly, and consumer awareness of Open Banking is increasing.

Uptake in Open Banking accreditation, however, has been slower than expected. Newly proposed models for Open Banking accreditation by the Australian Competition & Consumer Commission (ACCC) look to make it easier and more cost-effective for financial services providers of all types and sizes to get started with Open Banking.

Those models are expected to provide an immediate path to Open Banking for all financial institutions and FinTechs. Rather than wait, they can start using tried-and-true account aggregation methods, including secure direct data access, to learn what works with their customers and how to provide a set of Open Banking services that meet consumer needs. This approach of combining existing methods with new standards is called a hybrid approach to Open Banking.

This paper aims to show the continued evolution of Open Banking models in Australia and how hybrid service models can speed the process for service providers. Consumer awareness will continue to grow. So will consumer expectations that they can choose who can access their data and how their data is used, as codified in Australia's Consumer Data Right (CDR). A hybrid approach to Open Banking gives financial services providers a jump-start in their product offerings and experience while the Open Banking ecosystem continues to mature.

Open Banking in Australia

Large financial institutions and financial services vendors have been preparing for Open Banking since the government agreed to the CDR in 2018. The big four began providing phase one Open Banking data in July 2020.

Consumer awareness of Open Banking in Australia, however, is still relatively low. Some 16% of consumers had heard of Open Banking and 24% knew the term Consumer

Data Right, according to a survey conducted by RFI Research. At the same time, well over half of respondents are open to understanding more about how Open Banking and CDR can help solve financial management problems.

The opportunity for banks and FinTechs to fulfill that need is high. Half of Australians report that they struggle to manage their finances, with a higher proportion among younger consumers. Consumers in the 18-24 and 24-35 age groups are also more likely to think that banks can do more to support their financial management with personal financial management tools (39% and 33% respectively)^{1,2}.



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Open Banking grants consumers the ability to share personal banking data with third parties accredited by the ACCC. This makes it easier for consumers to access banking solutions and products that fit their specific needs or that allow them to achieve personal goals. Open Banking can enable consumers to search for better pricing and in turn making it easier for these same consumers to switch banks more efficiently and gives consumers the ability to view and manage their financial information in one place.

Some of the personal data that accredited third parties may be able to access, with consumer permission, includes credit card and savings, mortgage, joint bank account, and personal loan data. Consumer permission requirements are specified in the ACCC's Consumer Data Right (CDR) provisions. Banks and FinTechs follow a CDR accreditation process to ensure that they comply with [CDR guidelines](#).

Why Traditional Data Aggregation Remains Important

For more than 20 years, screen scraping has been the method available for financial service providers to collect consumer financial data with permission prior to Open Banking account linking and APIs. It is still used today as Open Banking develops. Screen scraping grants third-party companies the ability to collect financial data from their customers to help paint a picture of what sort of products or services may benefit a given customer.

¹"Update on the current state of Open Banking in Australia 2021," RFI Australia & New Zealand.

²Ibid.

Open Banking is changing the financial landscape because consumers want more control and transparency where their financial data is concerned. Instead of screen scraping, Open Banking relies on application programming interfaces (APIs) to seamlessly access consumer data. With sophisticated APIs, financial services providers of all types can track consumer spending habits, improve lending decisions, and suggest suitable products and services catered to each individual consumer.

In addition to enabling consumers to grant data-access permissions, Open Banking provides efficiencies for service providers. Open Banking tends to be faster than screen scraping.³ Where screen scraping has to navigate websites, Open Banking APIs establish direct connections to consumer data in real-time.

Yet the Open Banking ideal is not yet established enough to become the sole way for consumers to gain the benefits of granting third-parties access to their financial data. Open Banking standards, regulations, and methods are still developing in many parts of the world, including Australia. It will be some years before data from all types of accounts and institutions can be accessed through Open Banking.

As a result, traditional screen scraping will not disappear any time soon and likely not completely. Many companies and consumers alike will continue to view screen

scraping as a useful, practical technology to be used as a complementary tool, especially when responsible data access, privacy, and security practices are employed.

Hybrid solutions that use both Open Banking standards and traditional data-aggregation methods are developed to provide secure access to Non-CDR and CDR data. Open Banking flows and maintains the best data coverage across the market. This approach of using screen scraping, direct secure data access, and Open Banking makes it possible to provide the broadest range of access to financial data for new consumer services now.

New Open Banking Accreditation Models

Recent Open Banking regulatory developments in Australia also suggest the need for hybrid approaches to data access. The Australian government intends to build consumer trust in Open Banking through organisations that received accreditation by the Australian Treasury to make products and services available through the CDR.

Organisations like banks, brokerage groups, and technology companies that met stringent requirements became unrestricted accredited data recipients (ADRs). The requirements are rigorous. Treasury added the new accreditation models “to accelerate the benefits of the CDR for consumers by reducing barriers to participating in open banking and by allowing more Australians to leverage their data in common banking scenarios.”⁴

What Is Open Banking?



Open Banking is designed to give consumers more options to obtain innovative financial services by providing secure access to banking transaction data through qualified third-party providers. With greater access to transaction data connected to more innovative services, consumers can better achieve the financial outcomes they desire.

Open Banking is, simply put, recognition that each consumer has the right to access, use, and permission the use of their financial data held by their institutions as the consumer sees fit. This access benefits not only the consumer, but upholds regulations and standards that protect all stakeholders from the banks to the FinTechs that provide data-powered solutions.

While the goals of open banking initiatives may vary slightly in different regions from inspiring innovation to fostering competition to preserving market stability, they all include some common elements. Key among these are consumer control, prescribed technical standards, and effective risk management by all parties.

In Australia, financial institutions have been required to support the Consumer Data Right since 1 July 2020. Australia's bank customers can give permission to accredited third parties to access their savings and credit card data. Since 1 November 2020, they can also permit accredited third parties to access mortgage, personal loan, and joint bank account data.

<https://www.ausbanking.org.au/priorities/open-banking/>

³ “Report on open banking and application programming interfaces,” Bank for International Settlements, November 2019, p. 9. <https://www.bis.org/bcbs/publ/d486.pdf> 12 Oct. 2021.

⁴ “Consumer Data Right rules amendments (version 3),” Australian Government, The Treasury, 01 July 2021 Exposure Draft. <https://treasury.gov.au/consultation/c2021-187223> 5 October 2021.

On 7 October 2021, the Australian government registered version 3 of the Consumer Data Right Rules. These amendments make changes to the current Unrestricted ADR model and include several new accreditation models. The revisions lower the barrier to entry to participation in CDR while maintaining trust in Open Banking. The models are described below; it is the intention of Envestnet®| Yodlee® to support all six. Complete details on the models are available the Treasury's Consumer Data Rights amendment documentation.⁵

Unrestricted ADR

This is the existing, original model for Open Banking in Australia and the only level that has full accreditation. Accredited Data Recipients go through a stringent assessment by the ACCC, including a full security review.

Once accredited, they can receive consumer data and use it to provide financial products and services.

They can combine CDR and non-CDR data, store it, and normalize data to make it more useful. ADRs have full liability for the data. The use of CDR data requires that the ADR receive consumer consent to obtain the data and to use it for the intended purpose.

Key requirements that ADRs meet include:

- Taking steps to adequately protect data from misuse, interference, loss, unauthorised access, modification, or disclosure
- Building an internal dispute resolution processes to meet the requirements of the CDR
- Meeting stringent requirements for information security

Sponsorship/Affiliate

The sponsorship/affiliate model allows CDR data access through a sponsor that is an active and unrestricted ADR. The sponsor agreement details which party is responsible for obtaining consumer consent and where the collected data be stored and meets all legal requirements.

"The new sponsored level of accreditation allows a business, such as a start-up fintech, to become accredited without providing an independent information security assurance report if they have an arrangement with an unrestricted accredited person (their 'sponsor') to help them meet their information security obligations under the CDR rules. Once accredited to the sponsored level, the start-up fintech can receive CDR data via their sponsor," according the Treasury's Consumer Data Right newsletter.⁶

Key features of this model include:

- Sponsors collect on behalf of an affiliate, which cannot collect data
- Sponsors pass that data to the affiliate, and consumers are notified
- Affiliates are not permitted to disclose data to non-sponsored or non-affiliate entities
- Data is stored with the affiliate or sponsor

CDR Representative/Principal

The CDR Representative model allows organisations to obtain CDR data via a Principal. Essentially, this model is a commercial agreement between the CDR Representative and an unrestricted principal ADR like Envestnet | Yodlee.

It's important to note that this arrangement is only allowed between one principal and a CDR Representative.

The CDR Representative works to provide products and services to consumers using the CDR policy belonging to the principal. Like the Sponsorship model, any company can sign up to be a CDR Representative. Key features of this model include:

- External accreditation is not required
- Consumers are notified when sponsors collect on behalf of CDR Representatives
- Principals collect data from data holders, then pass that data to the CDR Representative
- Data is stored with the CDR the Principal, who holds full liability for the data

Unaccredited Outsourced Service Provider (OSP)

Under this arrangement, an ADR outsources CDR data to unaccredited providers through a contractual arrangement. The OSP has restricted use of CDR data and does not hold liability for the data. The amended model enables an OSP to collect CDR data on behalf of an ADR for the purpose of providing consumer services.

Under this model, CDR and non-CDR data can be aggregated. Data is stored with the OSP, which does not hold liability for the data. This model enables FinTechs to provide clients with "CDR-as-a-service" products, which can include:

- CDR data collection, analysis, enhancement, and management
- White-labeled systems for clients to manage consumer consent and management dashboards
- Underlying CDR infrastructure



⁵ Consumer Data Rights exposure draft explanatory materials," Australian Government, The Treasury, 01 July 2021. https://treasury.gov.au/sites/default/files/2021-06/187223-cdr_rules_amendments_em.pdf 5 October 2021.

⁶ "Consumer Data Right newsletter," 7 October 2021, Consumer Data Right Division, The Treasury.

Trusted Advisor

This model would allow consumers to give consent to an accredited party to disclose their CDR data to a trusted advisor of the consumer's choice. Trusted advisors are already bound by regulations and handle sensitive consumer data, and data can only be shared with unrestricted accredited ADRs.

However, this model would grant more freedom to consumers and allow them to share their data with their trusted advisors without those advisors having to get accredited. The following entities/individuals would be able to be a trusted advisor:

- Accountants
- Financial counseling organisations
- Legal professionals
- Registered tax agencies
- Mortgage brokers
- Financial planners and advisers

CDR Insights

This model would allow consumers to agree to an insight built from CDR data for low-risk purposes only. It would also allow consumers to work with non-accredited entities to receive insights into their financial data that include:

- Verifying customer expenses and/or income
- Verifying account ownership
- Identifying customers
- Verifying or providing account balances
- Alerting merchants of upcoming failed payments

It's important to note that insights are not protected by privacy safeguards. Additionally, any company with a commercial agreement with an unrestricted ADR, can provide insight services. External accreditation is also not required.

Final Thoughts

As Australia moves forward with embracing Open Banking, every authorised deposit-taking institution (ADI) will be expected to make available basic consumer data with registered data recipients and individuals. This is one of the key things that makes Open Banking work. The proposed addition of new accreditation models

makes a hybrid model a necessary path to full compliance.

Small to mid-sized financial institutions, FinTechs, and neobanks will not have to wait or pay for full ADR accreditation. They can now 'press go' on opening banking with a hybrid approach that combines screen scraping while preparing for full Open Banking, gaining valuable open banking experience now as consumer expectations and demand for CDR participation increase.

Investnet | Yodlee Open Banking

Investnet® | Yodlee® is a global leader in Open Banking and meets regulatory requirements. As a global leader in financial data aggregation and wellness, we offer safe, secure solutions designed to help financial service providers enable their customers to reach their financial goals and lead an Intelligent Financial Life™.

We have a deep understanding of local Australian business needs and government regulations. Investnet | Yodlee is an Authorised Active Data Recipient and Intermediary under the CDR. We are the first provider with the most comprehensive CDR and non-CDR data sets to earn this authorisation.

For financial institutions, Investnet | Yodlee provides a

secure avenue to access comprehensive, accurate and meaningful financial data to meet consumer needs better. For FinTech startups, we also offer in-depth knowledge and years of experience in helping FinTech companies start, grow, scale, and succeed.



Five Questions to Ask an Open Banking Provider in Australia

- 1 *Which of the new Australian Open Banking accreditation models do you support?*
- 2 *Do you plan to use the hybrid model? If so, how will it work?*
- 3 *How does your platform grow and scale as new models and account types are added?*
- 4 *Can you securely get superannuation or other non-CDR data?*
- 5 *How do you ensure that CDR and non-CDR data are normalised for data consistency and insight?*

We pride ourselves on the ability to provide a safe and secure Open Banking-ready platform, enhanced governance standards, and a seamless client migration experience. We began providing secure access to the consumer data long before the publication of Open Banking standards. With data from more than 17,000 global data sources delivered at speed by our finely tuned APIs, Envestnet | Yodlee continues to fuel disruptive solutions for financial wellness, authentication, payment support, wealth management, lending, and more.

Envestnet | Yodlee operates at the highest standard with a focus on privacy and safety. Our solutions are designed to meet Open Banking requirements and emerging standards internationally – AU, the UK, U.S., South Africa, Canada, and more. Our dedicated team is passionate about helping consumers around the globe improve their financial well-being.

This experience enables us to seamlessly evolve with changing markets. We have the expertise to support multiple models across multiple regions, giving us the ability to tailor an Open Banking experience according to any regulatory models that takes hold.

With Envestnet | Yodlee's unmatched, comprehensive and accurate financial data, massive scale, and extensive data science capabilities, we make it easier for startups to enter Open Banking markets. Features of our Open Banking solution include the ability to:

- Access all transactional data and account types
- Team up with an international leader in the industry and a Sydney-based team
- Access comprehensive, accurate, and meaningful financial data
- Integrate with apps, APIs, and other tools, including the FastLink Fin App® with self-configuration and intuitive consumer consent flows and My Yodlee, a rich dashboard for monitoring and analytics.
- Integrate with data-powered open finance solutions from a single Financial Data Platform

