CUSTOMER OWNED BANKING ASSOCIATION

Submission to Review into Open Banking in Australia

29 September 2017

About COBA

The Customer Owned Banking Association (COBA) is the industry advocate for Australia's customer owned banking sector. It is owned by its 72 member institutions: 51 credit unions, 3 building societies, 16 mutual banks and 2 others; and a number of affiliate members.

COBA provides representation and advocacy for its members to:

- federal and state governments
- regulators, such as APRA and ASIC
- the media
- industry and consumer groups, and
- the general public and other stakeholders.

It also provides member institutions with expert advisory and support services, such as fraud & financial crimes and research.

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Executive Summary

The customer owned banking sector welcomes the Government's decision to introduce an Open Banking regime.

We strongly support the objectives of:

- allowing greater choice for customers
- reducing the time, cost and inconvenience associated with identifying and selecting financial products and services
- promoting an efficient and competitive banking market, and
- promoting innovation and the provision of higher quality and better tailored products and services.

It is critically important that the Open Banking regime is designed and implemented in a way that maximizes these benefits by taking into account the current state of the retail banking market, the range of participants, and their differing incentives to participate in Open Banking.

Allowing consumers to confidently share their banking data with third parties in a secure environment will better enable consumers to find the best providers and the products that suit them best.

Customer-owned banking institutions offer the full range of retail banking products and services and provide highly competitive pricing on key products such as home loans, credit cards, personal loans and deposits.

Our sector combines award-winning products with consistent market-leading customer satisfaction, reflecting the unmatched customer focus of our mutual business model.

We are confident about our sector's competitive position in an Open Banking regime where consumers can more easily find the best products and the best customer service. Our sector has a strong record of partnering and aggregation initiatives to provide our customers with new products and services.

Customer owned banking institutions, and other challengers, have a natural incentive to participate in Open Banking while the dominant players in the banking market have less to gain and something to lose, i.e. the competitive advantage of exclusive access to their customer data.

These differing incentives need to be taken into account in designing an Open Banking regime that maximizes the benefits and minimizes the burden on challenger banking institutions.

Retail banking markets in Australia, according to the ACCC[1], exhibit a number of indicators that suggest the current oligopoly structure is not vigorously competitive and has not been for some time. These indicators include:

- a concentrated market structure with the largest players maintaining significant market shares over a considerable time and sustaining very high margins and overall profits without attracting significant new entry or expansion by smaller players, and
- a high degree of symmetry in the product and service offerings of the large banks and "we do not observe strong rivalry between them to be the first to roll out new products and services to better meet the needs and wants of consumers."

[1] ACCC submission to Productivity Commission inquiry into competition in the Australian financial system, September 2017

The ACCC says that "in situations of oligopoly, all else being equal, a market structure that enables a competitive fringe of second tier firms to effectively challenge the price and service decisions of large incumbents is likely to produce significantly better outcomes for consumers than one that does not."

COBA's key message to this Review is that regulatory interventions and regulatory compliance costs are critical factors in determining whether the competitive fringe of second tier firms can challenge the major banks.

Implementing Open Banking will involve significant costs, including the costs of building the technical infrastructure, sourcing the necessary skills and resources to participate, and implementing the policies and procedures to comply with the regime.

Given this cost burden and the state of the banking market, mandating participation by all banking institutions on an aggressive timetable will be counterproductive. The costs of complying with regulation fall more heavily on smaller firms. This effect provides yet another advantage to the major banks because they can spread fixed regulatory compliance costs over a vastly bigger revenue base.

Major banks hold 77 per cent of the personal deposits market.[2] Implementation of an Open Banking regime that delivers the promised benefits of competition, innovation and productivity requires the participation of the major banks but does not require the participation of all other banking institutions from day one.

Customer owned banking institutions have a strong, built-in incentive to participate in Open Banking because, as challengers to the dominant players, they are motivated to maximise their competitive potential and the visibility to consumers of their products and services. This means that, subject to strategic priorities and resource constraints, challenger banking institutions are likely to voluntarily participate in Open Banking.

In contrast, the dominant players in the market are less likely to voluntarily participate. The House Economics Committee found that the major banks have "a conflict as the process of opening up data will lead to the asset being shared with other financial services companies."[3] The Productivity Commission (PC) found that "it is likely that access to data provides some degree of competitive advantage for incumbents."[4]

The Open Banking regime implemented in the UK mandated participation only by the largest banks. The UK regulator found that smaller banks would encounter disproportionately higher costs in adopting and integrating the necessary technology. The UK regulator noted that since their participation was "not essential for the remedy to be effective" and that some of them may in any case choose to participate "as part of their competitive strategy, we should not oblige them to do so, but will welcome their participation."[5]

COBA urges a similar approach to cost and proportionality in implementing Open Banking in Australia and we welcome recognition of this point in the Review's Issues Paper.

Perhaps the most critical element of an effective Open Banking regime is customer confidence and trust.

Research commissioned by COBA shows consumers are wary about Open Banking and that there is a need to raise consumer awareness about the benefits of Open Banking.

Our sector supports an Open Banking regime that allows data sharing provided that:

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[2] Reserve Bank of Australia (RBA) - Competition in the Australian Financial System - Public inquiry Submission to the Productivity Commission Inquiry September 2017
[3] House of Representatives Economics Committee, 2nd Report into the Major Banks, April 2017
[4] PC Report *Data Availability & Use* March 2017
[5] UK CMA *Retail Banking Market Investigation – Provisional decisions on remedies* May 2016

- consumers give their informed consent
- consumers remain in control of their data
- an appropriate governance and regulatory framework is in place, and
- security and trust concerns are satisfactorily addressed.

Subject to the above observations, COBA is broadly supportive of the approach proposed by the Australian Bankers' Association in its 22 September 2017 submission to the Review. COBA has not been involved in drafting the ABA's proposed approach but we see considerable merit in the Industry Implementation Working Group structure. We agree with the ABA's position that open data should not be mandatory for all ADIs given the competitive and customer considerations will vary by institution as will the ability to deliver against a regime of mandatory data sharing.

Customer owned banking sector

Australia's customer-owned banking sector consists of 79 authorised-deposit taking institutions (ADIs) trading as mutual banks, credit unions and building societies. Our sector has $108 billion in total assets, 10 per cent of the household deposits market, 12,000 staff and 4 million customers.

Customer owned banking institutions offer the full range of consumer retail banking products and services, including home loans, credit cards, personal loans, transaction accounts, savings accounts and term deposits.

Customer-owned institutions have a different set of incentives to their investor-owned counterparts. Unlike investor-owned ADIs, customer-owned banking institutions are owned by their customer-members, not separate shareholders, and abide by the principle of "one member, one vote." This ownership structure aligns the incentives of owners with those of the customers. As such, customer-owned banking institutions exist solely to serve their customers and do not face the conflicting priorities of providing quality products and service to customers while maximising returns to shareholders.

Customer-owned banks deliver value to their members by:

- highly competitive pricing, i.e. better rates and fees
- excellent service, and
- re-investing profits into the company to promote future growth and improve product offerings and into community programs.

There has been a growing trend since 2010 for credit unions and building societies to rebrand as banks. The customer-owned banking sector now includes 19 mutual banks. The majority of the largest customer-owned institutions opted to rebrand as banks[6] but three of the four largest customer-owned institutions prefer to continue to trade as credit unions or building societies.[7] The general case for rebranding relates to improved recognition including to: "better explain what it [our bank] does", "clearly explain what we do" and "provide opportunities for growth and recognition in a competitive environment".

Customer owned banking institutions are ADIs regulated by APRA under the *Banking Act 1959*. As is the case with listed banks, deposits with mutual banks, credit unions and building societies are covered by the Australian Government's Financial Claims Scheme. Customer owned banking institutions are also:

- Australian Financial Services Licensees regulated by ASIC under the *Corporations Act 2001*
- Australian Credit Licensees regulated by ASIC under the *National Consumer Credit Protection Act 2009,* and
- Reporting entities under the Anti-Money Laundering and *Counter-Terrorism Financing Act 2006* regulated by AUSTRAC.

For more detail on our sector, including on our highly competitive pricing, award-winning products and market-leading customer satisfaction, see *Sector Overview.*

[6] APRA policy requires banks to have at least $50 million in capital.
[7] These include CUA and People's Choice Credit Union.

What data should be shared, and by whom?

There are two broad types of data to be considered:

- institutional data about products, such as pricing and features, and
- customer data.

In relation to institutional data, COBA supports well designed measures to make such data available to third parties for the purposes of making comparisons and ratings to assist consumers.

In relation to customer data, the only customer data that can be shared is customer data approved by the customer.

Customer data that should be in scope to be shared in an Open Banking regime could include:

- transaction history
- account balances
- credit card usage, and
- mortgage repayments.

At a minimum basic transactional data and account balances should be shared. This is likely to provide the greatest benefit to customers and narrow the scope to minimise complexity to ensure that Open Banking succeeds. Other products can be added as the case is made for their inclusion.

A COBA member commented that it would be highly beneficial, and increase the opportunity for third party developers to produce niche applications, if personal identity information data, such as name and address could also be shared: "It should be possible to share Know Your Customer (KYC) data as part of a formal identity management framework. With the appropriate consent from individuals, an identity framework would allow organisations to acquire KYC information on the customer electronically from a trusted identity provider service. This has the potential to streamline the customer experience in multiple scenarios, particularly onboarding."

Deciding who should be required to share banking data should be based on obtaining an effective outcome while minimizing costs (that ultimately will be borne by consumers) and promoting competition.

Given the state of competition in retail banking, as outlined by the ACCC in its submission to the current PC inquiry into competition, regulatory policy interventions must be designed to avoid further disadvantaging "the competitive fringe of second tier firms".

Implementing Open Banking will involve significant costs, including the costs of building the technical infrastructure, sourcing the necessary skills and resources to participate, and implementing policies and procedures to comply with the regime.

The costs of complying with regulation fall more heavily on smaller firms. This effect provides yet another advantage to the major banks because they can spread fixed regulatory compliance costs over a vastly bigger revenue base.

The PC report into *Data Availability & Use*[8] considered the costs associated with the use of APIs as the technical infrastructure for Open Banking.

> "There are costs associated with the use of APIs, including IT infrastructure costs and potential security and operational risks. Mandating the use of APIs would also raise a number of issues.
>
> "There is the cost — to the bank or other financial enterprises that provide the data — of building the technical infrastructure required to facilitate the transfer of data to the third party. The Australian Bankers' Association suggested that the cost of building APIs would be substantial. Conversely, the Open Data Institute and Fingleton Associates (2014), based on consultations with a number of organisations, estimated that capital costs of implementing APIs would be no more than £1 million, with smaller ongoing annual operating costs."

We note that "no more than £1 million" may be a modest investment in some contexts, but extrapolated across our sector that outlay per institution would amount to $144 million or nearly a third of our sector's total net profit after tax. Such a cost would be out of all proportion with the likely benefits.

A COBA member estimates that the cost of an Open Banking solution to implement and manage could be in the region of $250,000 for a banking institution with total assets of between $1 billion and $5 billion:

> "Ongoing costs may be slight lower once the open banking regime is bedded down although much of it will be associated with recurring subscription charges for virtualising infrastructure and platform licensing. An additional up-front investment, perhaps in the region of $75,000 would be required to research and implement necessary internal processes, procedures, compliance and other legislative obligations. These would then likely incur ongoing operational costs in the region of $25,000."

In our sector, compliance costs are ultimately borne by the customer, either through less competitive pricing or diversion of resources away from improving customer service.

Due to their relatively small size compared to the major banks, customer owned banking institutions continually face difficult trade-offs in deciding where to allocate scare resources for investment. The largest customer owned banking institution, CUA, emphasized this point in its submission[9] to the PC inquiry into competition:

> "Our recently announced collaboration with Pivotus Ventures will allow CUA to tap into international banking and technology expertise to explore and develop new digital banking opportunities that will improve the member experience. CUA will have exclusive rights to test new digital banking propositions in Australia and potentially offer them to other financial institutions, particular in the member-owned banking sector. However, we have had to invest a proportion of retained earnings to participate in this collaboration, reducing the amount of capital available to invest in other initiatives this financial year."

While it is clear that there are tremendous potential benefits to Open Banking, these are dependent upon customers' willingness to share their data and the possible applications of this data. As noted in the section below, consumers are wary about Open Banking.

If take-up rates are low, the case for smaller banking institutions to allocate scarce resources to this area is weakened.

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[8] PC Report *Data Availability & Use* March 2017
[9] CUA submission to Productivity Commission inquiry into competition in the Australian financial system, September 2017

Increasing numbers of smaller banking institutions are likely to join in once the costs and benefits become clear enough to make an informed commercial decision. As Open Banking delivers benefits to consumers, it is likely that the market will demand greater adoption as more customers want to share their data with Fintechs and other third parties.

The unknown adoption curve has been highlighted as an issue in the UK pending the launch of Open Banking there:

> 'Matt Cox, head of insight and innovation at Nationwide Building Society is a tad more sceptical though. "So when this thing launches do I think there will be an explosion of people using it? No. Traditionally you see a relatively consistent take-up profile, with early adopters and 5-10 percent of users waiting to consume this. There will be an adoption curve and the steepness of that will come down to how we as an industry get trust and security right."'[10]

Another reason to avoid regulatory interventions that impose cost burdens on the competitive fringe of second tier firms is that smaller banking institutions are critical to product innovation and genuine consumer choice. Promoting the competitive potential of smaller banking institutions is the key to delivering the consumer benefits promised by Open Banking. As previously noted, the ACCC does not see strong rivalry between the major banks to be the first to roll out new products and services to better meet the needs and wants of consumers.

The owner and operator of the UK Current Account Switching Service has examined the potential impact Open Banking may have on the market, particularly around how consumers can compare offerings from different providers. The research indicates that new applications using Open APIs are not enough to see significant movement from customers as their direct effect in enabling consumers to make more rational, informed decisions about their current account is not sufficient to drive significant increases in switching or consideration.

> "It is only when all actors on the supply-side are working together to lower the perceived barriers to switching, whilst driving the creation of innovative and competitive current account products, that the model shows significant increases of consideration and switching. In other words, whilst Open Banking will make it easier to search, customers will not switch unless there is a greater incentive to do so and it is down to the providers to drive that change by developing and marketing new products that are tailored to consumer need at the optimum price."[11]

In deciding on the scope of a mandated Open Banking regime in Australia, COBA recommends following the example of the UK's Open Banking regime and giving due priority to cost and proportionality. As noted in the Review's Issues Paper, the UK regime applies to the nine largest banks, which collectively account for the bulk of the UK banking market.

The Review Issues Paper notes that "for small banks, the cost of implementing the reforms may be disproportionately high" and this was also the finding in the UK. The UK regulator found that smaller banks would encounter disproportionately higher costs in adopting and integrating the necessary technology and that their participation was not essential for the remedy to be effective. The UK regulator, the Competition and Markets Authority (CMA), also noted that some smaller banking institutions may choose to participate as part of their competitive strategy.[12]

Given that Australia's major banks hold 77 per cent of the personal deposits market, an effective Open Banking regime requires the participation of the major banks but does not require the participation of all other banking institutions from day one. Competitive forces will ultimately drive all banking institutions into an Open Banking regime once it is established.

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[10] http://www.computerworlduk.com/applications/is-2017-year-that-open-banking-becomes-reality-in-uk-3653824/
[11] BACS, 2017, What constitutes an effective and competitive current account market?
[12] UK CMA *Retail Banking Market Investigation – Provisional decisions on remedies* May 2016

Customer owned banking institutions have a strong, built-in incentive to participate in Open Banking because of their customer-focus and because they offer highly competitive products and market leading service. Subject to strategic priorities and resource constraints, as challenger banking institutions they are likely to voluntarily participate in Open Banking.

In contrast, the dominant players in the market are less likely to voluntarily participate because it means they are giving up the competitive advantage of exclusive access to their customer data. The House Economics Committee described this as a "proprietary asset" that the major banks would be reluctant to share with other financial services companies.

KEY POINTS:

- *Limit mandatory participation in Open Banking to the four major banks*
- *Allow small banking institutions to participate in Open Banking according to their own timetables*

How should the data be shared?

In its report on *Data Availability & Use*, the PC weighed up the pros and cons of mandating APIs and noted that the costs were probably easier to assess than the benefits.

> "While there would be implementation costs for financial service providers, and these would be relatively more burdensome for smaller providers, it is apparent that there is significant scope for individual consumers to be better off if they were able to seamlessly and securely share their financial data."

The PC found that making product reference data available through APIs would almost certainly facilitate more efficient comparison of financial services and products, leading to greater competition and improved consumer outcomes.

However, the PC concluded that "caution is desirable in considering whether to mandate – via a preferred API for example – third party access to financial data about customers, with the customer's consent." The PC recommended the introduction of a Comprehensive Right to give people more control over their data: the right to access their data and direct that it be sent to another party.

The House Economics Committee[13] found that it is clear that APIs present the largest number of benefits in terms of data security, data credibility and accessibility but that APIs will require meaningful upfront investment. The committee recommended that the Government require ASIC to develop a binding framework to facilitate the sharing of customers' and small businesses' data between Deposit Product Providers and relevant third parties (as deemed appropriate by ASIC) through APIs by July 2018.

If the intention is for the regime to commence on 1 July 2018, COBA believes that this timetable is too aggressive and likely to result in unnecessary costs and unintended consequences.

A COBA member commented that each institution should be responsible for providing access to the necessary data but the use of an intermediary should be explored. "This entity could be an existing player in the sector or a new entrant to the market specifically targeting this business. Institutions would connect with the intermediary and deliver data in line with agree data exchange specifications. Specifications could be co-developed with institutions to ensure alignment across all Australian banking systems. The intermediary could offer a standard set of API services to any number of [qualifying] third parties."

[13] House of Representatives Economics Committee, *Report into the Four Major Banks*, November 2016

How to ensure shared data is kept secure and privacy is respected?

Arguably the most critical element of an effective Open Banking regime is customer confidence and trust.

Research commissioned by COBA shows consumers are wary about Open Banking and that there is a need to raise consumer awareness about the benefits of Open Banking.

The polling[14] (attached to this submission) revealed less than half (42%) of Australians indicated there were interested in having access to their data and being able to provide it to other financial institutions to see if they could get a better deal. Just 12% said they were 'very interested' in this, 37% said they not interested and 20% were 'not sure'. Younger respondents were more likely to be interested.

A significant proportion of people (26%) reported they were opposed to Open Banking, compared to 40% who supported the idea. Tellingly, 34% were 'not sure'. The question that elicited these responses was: "In the UK banking sector, Open Banking will enable personal customers and small businesses to share their data securely with other banks and third parties like Fintechs, enabling them to manage their accounts with multiple providers through a single digital 'app' and to compare products on the basis of their own requirements. Would you support such an idea being introduced into Australia?"

Consumers were asked to agree or disagree with a number of statements about an Open API system in Australia. The statement that received the most support (70%) was: *'More competition and more choice for consumers like me in the Australia retail banking market would be a good thing'*. This was followed by *'I would like the benefit of having more information about my transaction history and where my money goes'* (66%), *'Greater access to my financial data would allow me to better and more accurately compare products from different institutions based on my patterns of use'* (62%), and *'If I open my data to other institutions, my own institution would probably work harder to try and keep me'* (57%).

Turning to institutional data rather than customer data, consumers are clearly interested in better access to information about institutional performance. Just over two-thirds (67%) of Australians indicated that they are interested in having access to performance measures such as customer satisfaction. A slightly larger percentage (69%) of consumers supported the publishing of objective quality-of-service information by banking institutions.

UK bank Barclays commissioned a report on the consumer perspective on Open Banking[15] which found that sharing data may allow convenient and personalized services but it comes at a cost to data privacy and control over how that data is used.

> "It may give rise to new feelings of disempowerment as complex chains of providers sharing data and offering various parts of a service reduce transparency and clarity about liability."

COBA supports an Open Banking regime that allows data sharing provided that:

- consumers give their informed consent
- consumers remain in control of their data
- an appropriate governance and regulatory framework is in place, and
- security and trust concerns are satisfactorily addressed.

[14] The Essential Report: Special Report 25 October 2016
[15] Open Banking A Consumer Perspective, Faith Reynolds, January 2017

Trust is an essential prerequisite for consumers to embrace data sharing. A key component to establish this trust is to ensure that consumers are able to give fully-informed consent before they allow access to their data by a third party. Informed consent means that a consumer understands who they are sharing their data with, for what purpose, and for how long the authorisation will last. Consumers must also have the ability to revoke access for a third party at any time.

Customer data should only be shared with an approved third party after they have received customer permission to do so. This model could require all third-parties wishing to access customer data to meet minimum probity and competence requirements, and comply with a business-to-business code of practice.

KEY POINTS:

- *The most critical element of an effective Open Banking regime is customer confidence and trust.*
- *Consumers are wary about Open Banking and that there is a need to raise consumer awareness about the benefits of Open Banking.*

What regulatory framework is needed to give effect to and administer the regime?

We note the House Economics Committee view that an independent regulator must lead the change process because the major banks "are conflicted in this process and must not be allowed to lead it."[16]

The Committee originally nominated ASIC for this role but in its second report on the major banks suggested ASIC "or another independent regulator." In COBA's view, if ASIC was operating with competition as part of its mandate arguably it would be the best fit to take responsibility for regulating Open Banking.

The PC report on *Data Availability & Use* recommended that the ACCC should be resourced to approve and register industry data-specification agreements and standards and for the OAIC to coordinate with the ACCC on complaints handling about data access and use.

Under the ABA model, the appropriate regulator would become more apparent once the regulatory framework was in place, and may be the OAIC or the ACCC.

Lessons for designing the regulatory framework through an industry-led process can be taken from the implementation of the New Payments Platform (NPP) and the role of the key regulator in that project, the RBA.

As payments system regulator, the RBA initially set out strategic objectives for the payments system and invited industry to determine the most effective way of delivering on those objectives. The RBA subsequently developed 'core criteria', expanding on the initial strategic objectives, in order to provide industry with a more detailed set of expectations and also to serve as a tool against which it could assess any proposals. In response, an industry committee proposed that a new, purpose-built payments infrastructure, the NPP, be developed. Core participants in the NPP are commercial services providers to the customer owned banking sector: Cuscal, Indue and ASL.

The Barclays report cited earlier on the UK consumer perspective of Open Banking found that it is unclear to consumers which regulator is responsible for which parts of the value chain and that multiple regulators are involved.

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[16] House of Representatives Economics Committee, 2nd Report into the Major Banks, April 2017

A COBA member commented that the banking industry is prone to large, complex frameworks that be onerous to manage and which can place a significant compliance burden on institutions. "There should be some guiding principles for a regulatory framework, most fundamental being the desire to protect the consumer and their data. To ensure the digital trust of the financial services industry is not unnecessarily placed at risk, participants should be assessed in terms of their ability to securely obtain, use and store customer data. The assessment must not unduly disadvantage start-up businesses with limited resources with which to manage onerous regulatory and compliance obligations. Ideally, the accreditation status of participants should be made public to provide transparency of risk when consumers sign up and provide consent to third party services. The regulation for intermediary entities should probably be more stringent given the likelihood they will be accessing and storing more data. Overall, a fine balance needs to be struck in terms of regulation, between safeguarding and protecting customer data and allowing convenient customer experience."

COBA broadly supports the approach proposed by the ABA for designing the regulatory framework, including establishing an Industry Implementation Working Group with a decision-making steering group with appropriate banking sector and other stakeholder representation.

Implementation – timelines, roadmap and costs

Given the unknowns regarding the framework, there is significant variation in potential timelines.

Factors in play include an institution's relative priority of the project, complexity of the framework, existing IT infrastructure and availability of skilled resources. COBA member feedback indicates implementation periods could extend to more than 2 years. On the other hand, one member closely interested in participating in Open Banking estimates basic implementation could be achieved in 6 months.

While a simpler framework can mitigate some of these factors, others are inherent to the institution. A mandated implementation date may change the relative priority of the project, but it does not change legacy systems or the resourcing of an institution.

A COBA member commented that "competing initiatives such as the NPP are already underway at present and likely to extend well into 2018 before being bedded down. Implementation of additional initiatives such as Open Banking in parallel with this might present significant challenges for institutions to manage."

COBA notes that mandatory participation in Comprehensive Credit Reporting is also in prospect for the banking industry. This would require significant IT systems investment.

If the Review adopts the ABA's proposed approach, it could recommend implementation milestones to help ensure that Open Banking is delivered in a timely way. We note that the major banks have given in principle support to share general product data within one year and customer data within two years.[17]

A noted above, COBA is opposed to mandatory participation in Open Banking by all ADIs. If the Review supports a phased approach, this should commence with mandatory participation by the major banks with other ADIs to join the regime two years later. Of course, this would not preclude smaller ADIs joining the scheme at an earlier at their own discretion. COBA expects a number of COBA members would be early participants.

[17] ABA submission to Open Banking Review

Sector Overview

Australia's customer-owned banking sector consists of 79 authorised-deposit taking institutions (ADIs) trading as mutual banks, credit unions and building societies. Our sector has $108 billion in total assets, 10 per cent of the household deposits market, 12,000 staff and 4 million customers.

Customer owned banking institutions offer the full range of consumer retail banking products and services, including home loans, credit cards, personal loans, transaction accounts, savings accounts and term deposits. The customer owned sector has an important role to play in the retail banking market because consumers are entitled to genuine choice and competition.

The customer-owned banking model

Customer-owned institutions have a different set of incentives to their investor-owned counterparts. Unlike investor-owned ADIs, customer-owned banking institutions are owned by their customer-members, not separate shareholders, and abide by the principle of "one member, one vote." This ownership structure aligns the incentives of owners with those of the customers. As such, customer-owned banking institutions exist solely to serve their customers and do not face the conflicting priorities of providing quality products and service to customers while maximising returns to shareholders.

Customer-owned banks deliver value to their members by:

- highly competitive pricing, i.e. better rates and fees
- excellent service, and
- reinvesting profits into the company to promote future growth and improve product offerings and into community programs.

The customer-owned banking sector made $487 million in profit after tax in the 2016-17 financial year[18]. While customer-owned institutions generate profits to create capital and to invest in improving products and services, this is not their primary purpose. This distinction is reflected in the Corporations Act[19] which requires that customer owned ADIs are not to be companies run for the purpose of yielding a return to shareholders.

In terms of the 'mutuality dividend', i.e. the benefit provided to members due to better value products, some customer-owned banking institutions commission independent agencies such as CANSTAR to estimate this potential value.

Table 1: Estimates of the 'mutuality dividend'

	Year	Profit	Pricing Benefit
Bank Australia	FY15	$22.6 m	$33.2 m
Teachers Mutual Bank	FY16	$30.3 m	$28.9 m
Heritage Bank	FY16	$33.2 m	$50.0 m
Victoria Teachers	FY15	$15.0 m	$174 per member

Source: Annual and Customer Reports

Customer-owned banking institutions pay company tax like other companies. While customer-owned institutions are 'mutuals', they are not subject to the mutuality tax principle[20] and their income is subject to the corporate tax rate. Our sector paid $187 million

[18] See APRA's Quarterly ADI Performance (QADIP) statistics June 2017 (issued 29 August 2017)
[19] Corporations Act 2001 Schedule 4, 30(4)
[20] Under this principle, 'mutual receipts' are not assessable income. This works on the principle that an organisation cannot derive income from itself and therefore should not be taxed on this income.

in corporate tax in FY 2016-17.[21] The total corporate tax paid by our sector in FY 2014-15 would put the customer owned banking sector within the top 30 companies based on tax paid[22].

Trends in the customer-owned banking sector

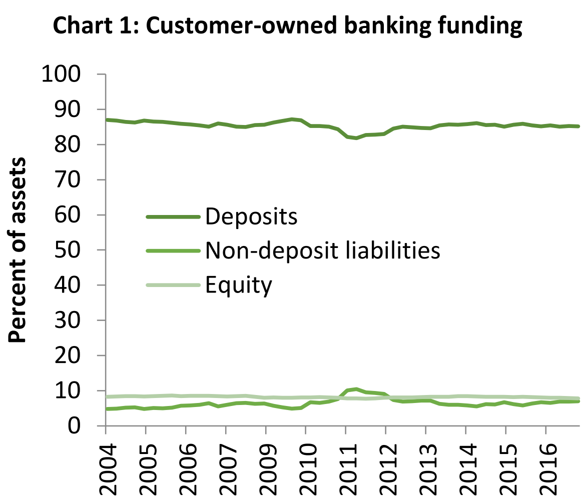
The customer owned banking sector continues to perform strongly with housing loans growing at a rate of 8.5 per cent over the last three years. Sector assets, deposits and housing loans growth has exceed the broader ADI sector over the last three years. Customer owned banking sector assets now exceed $108 billion.

Table 2: Customer-owned banking overview

	Our Sector	3-yr Annual Growth	ADI sector
Assets	$108.2 bn	7.2%	4.7%
Deposits	$92.2 bn	7.0%	6.3%
Housing	$80.6 bn	8.5%	5.3%

Source: APRA QADIP

The customer-owned banking sector remains predominately funded by retail deposits, holding $92.2 billion in deposits in June 2017 (Chart 1)[23]. These deposits are mainly retail deposits. However, many of COBA's larger members access wholesale funding through rated debt issuances, securitisation and negotiable certificates of deposit. Efficient access to a diversity of funding sources for customer-owned banking institutions ADIs remains critical.



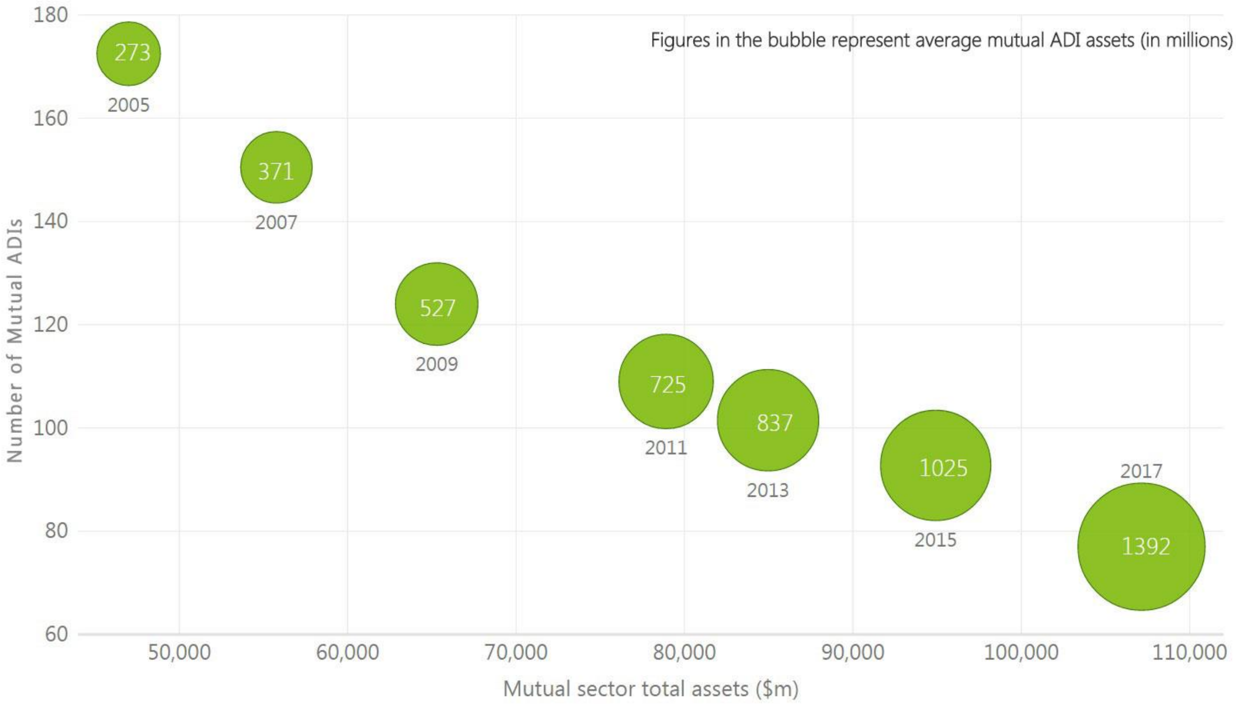
On the assets side, customer-owned banking institutions predominately provide housing loans with around 90 per cent of their lending coming from these products. Asset quality remains high with impaired facilities and past due loans for credit unions and building societies remaining below ADI sector averages.[24]

A long-term trend of consolidation continues to result in fewer but larger customer-owned banking institutions and overall sector growth (Chart 2). The consolidation process is effected by mergers between customer-owned banking institutions, with the largest ten institutions now holding around two-thirds of the sector's assets. This consolidation has seen the average customer-owned banking institution growing to $1.4 billion in assets, up from $273 million in 2005[25]. While there has been a significant amount of consolidation, there are still a large number of smaller customer-owned banking institutions with our sector having a median asset size of $422 million in 2016.

In addition to this 'within' sector consolidation, there have also been a number of customer-owned banking institutions that have become subsidiaries of larger mutuals – Big Sky Building Society in 2012 (Australian Unity), MyLife MyFinance in 2016 (MyLifeMyMoney Superannuation Fund) and QTMB in 2016 (RACQ). These institutions retain their mutual philosophy but with greater ability to take advantage of growth opportunity and to improve broader product offerings for members.

[21] APRA QADIP June 2017
[22] ATO's 2014-15 Corporate Tax Transparency list, https://data.gov.au/dataset/corporate-transparency
[23] Chart 1 is based on data from APRA QADIP June 2017
[24] APRA QADIP June 2017 Table 3d and 4d – note APRA does not provide asset quality for the entire mutual ADI sector.
[25] COBA estimates based on APRA QADIP June 2017

Chart 2: Consolidation in the customer-owned banking sector



Source: COBA estimates based on APRA QADIP June 2017

Emergence of mutual banks

There has been a growing trend since 2010 for credit unions and building societies to rebrand as banks. The customer-owned banking sector now includes 19 mutual banks. The majority of the largest customer-owned institutions have taken the chance to rebrand as banks[26] but three of the four largest customer-owned institutions prefer to continue to trade as credit unions or building societies.[27] While these institutions that have rebranded are now 'banks', this does not dilute their mutual purpose and they remain customer owned and continue to follow the principles of mutuality, serving customer owners rather than maximising profits. The Government's current proposal to reduce the barriers to the use the term 'bank' is likely to increase the number of credit unions and building societies opting to use the term.

The general case for rebranding relates to improved recognition including to: "better explain what it [our bank] does", "clearly explain what we do" and "provide opportunities for growth and recognition in a competitive environment".

Regulation of customer-owned banking

Customer owned banking institutions are Authorised Deposit-taking Institutions (ADIs) and are regulated by APRA under the *Banking Act 1959*. Customer owned banking institutions are subject to the same prudential standards as other ADIs. This means that they are subject to restrictions on leverage through regulatory capital requirements and as well as APRA's lending standards. In terms of APRA's regime, customer-owned institutions are standardised institutions that are subject to APRA's simplified minimum liquidity holdings regime.

As is the case with listed banks, deposits with mutual banks, credit unions and building societies are covered by the Australian Government's Financial Claims Scheme.

[26] APRA policy requires banks to have at least $50 million in capital
[27] These include CUA and People's Choice Credit Union

Customer owned banking institutions are Australian Financial Services Licensees regulated by ASIC under the *Corporations Act 2001* which means they are subject to the same rules as other businesses that conduct financial services businesses.

Customer owned banking institutions are Australian Credit Licensees regulated by ASIC under the *National Consumer Credit Protection Act 2009*. This means they are subject to responsible lending, credit contract and general conduct obligations.

Customer-owned banking institutions are regulated under the Anti-Money Laundering and *Counter-Terrorism Financing Act 2006* and are therefore subject to regulation by AUSTRAC.

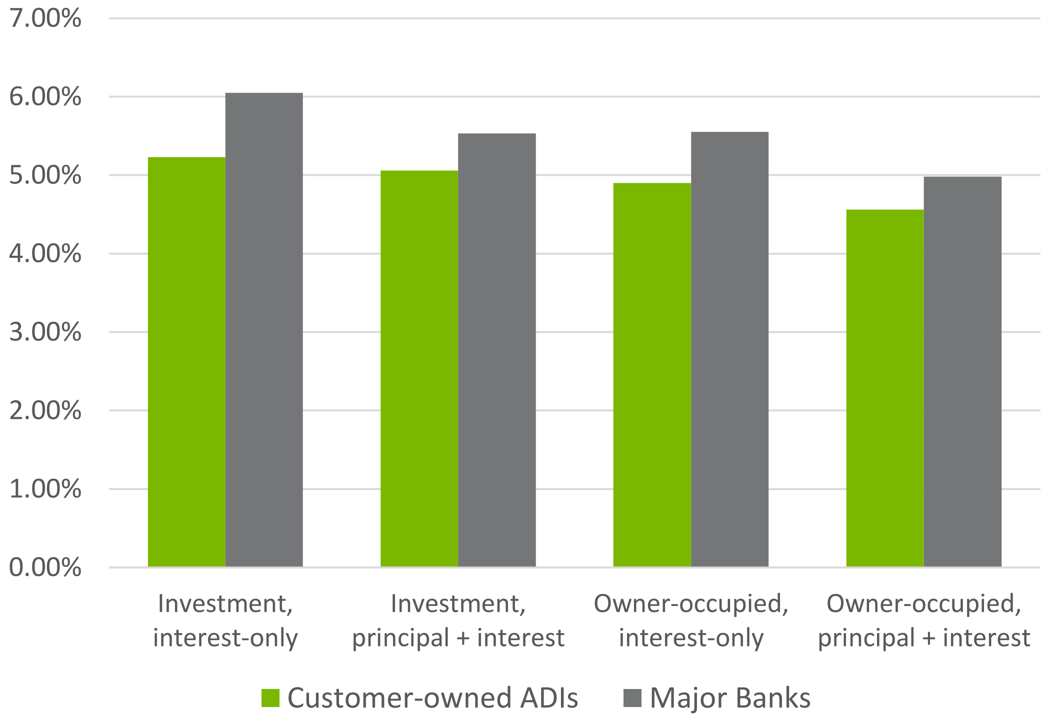
Competitively priced and award winning products

Customer-owned banking institutions offer the full range of retail banking products and services and provide highly competitive pricing on key products such as home loans, credit cards, personal loans and deposits. These award winning products have the same features as more expensive products in the market and provide significant diversity in the market. This provides consumers genuine choice in financial services.

Home loans

Customer-owned institutions provide a complete range of great value home loans, including: investor, package, interest-only and reverse mortgage products. Our sector's products are competitively priced with an average standard variable rate that is 40-80 basis points lower than the major banks' rates (Chart 3).

Chart 3: Average standard variable rate comparison

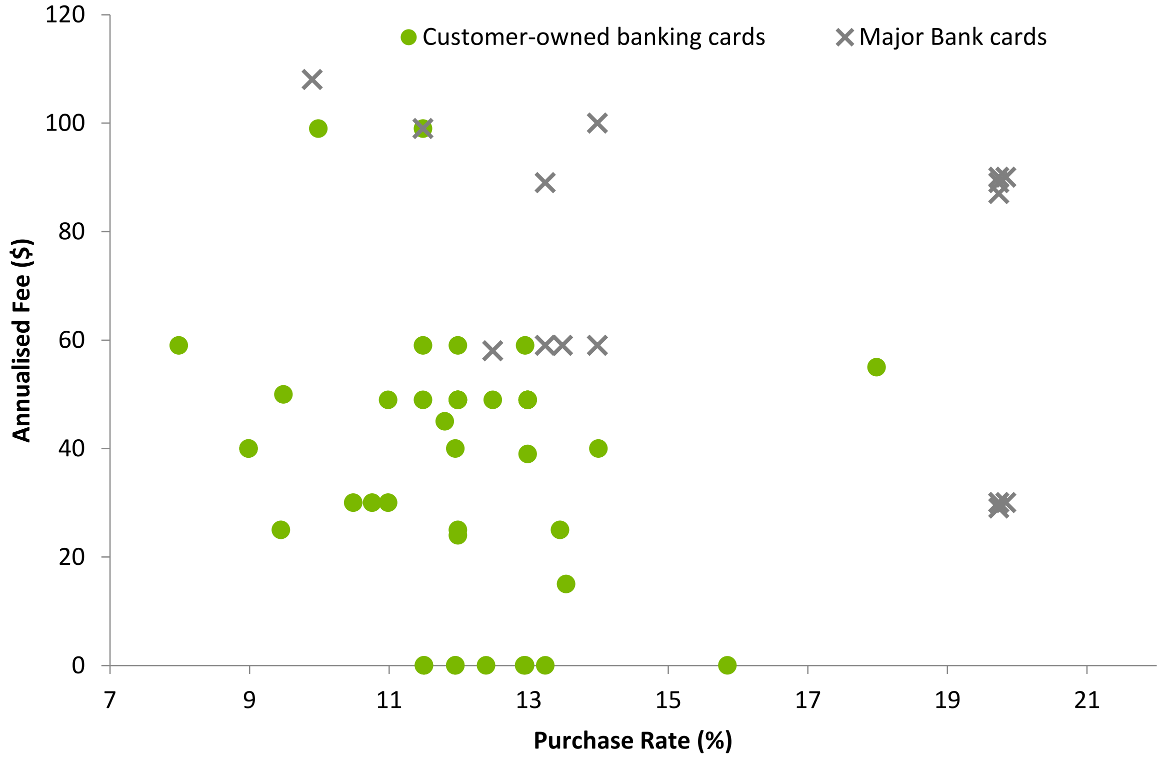


Source: COBA estimates based on CANSTAR data for open, non-package 80% LVR home loan of $400,000 at 13 Sep 2017 – note excludes loans that list a single interest rate for both P+I and IO loans

Credit cards

Customer-owned institutions provide very competitive low rate and low fee credit card options. Chart 4 shows that there are a multitude of customer-owned banking cards that provide lower rates, lower fees or both.

Chart 4: Customer-owned banking contribution to credit card diversity



Source: Based on CANSTAR data for non-rewards credit cards with interest free days at 13 Sep 2017

This combination of lower fees, lower interest and similar features make them highly competitive alternatives to the credit cards offered by the major banks.

Comparison websites have recognised the value and features provided by our sector's products with our sector receiving:

- 12 5-star and 17 4-star ratings in the CANSTAR Low Rate Credit Cards category[28]
- 11 5-star and 8 4-star ratings in the CANSTAR Low Fee Credit Cards category
- 8 of 12 awards for Mozo Expert's Choice Best Low Rate Credit Cards[29]
- 6 of 10 awards for Mozo Expert's Choice Best No Annual Fee Credit Card
- both Money Magazine 2017 Cheapest Credit Card awards for banks and non-banks[30]

Personal loans

Our sector's personal loans have highly competitive rates and fees. Customer-owned institutions provide personal loans for the same purposes as other banks—paying off debt, cars and travel. Some institutions now also provide special loans for 'green' purposes e.g. to purchase solar panels and undertake environmentally friendly improvements. Similar to our sector's other products, customer owned banking personal loans have received strong endorsement:

[28] CANSTAR Credit Card Star Ratings, May 2017
[29] https://mozo.com.au/expertschoice/best-credit-cards
[30] http://moneymag.com.au/best-best-2017-cheapest-credit-cards/

- 11 five-star and 8 four-star ratings for the CANSTAR secured personal loans category
- 9 five-star and 17 four-star ratings for the CANSTAR unsecured personal loans category
- 23 five-star and 45 four-star ratings for the CANSTAR car loans category
- 8 of 13 awards for Mozo Expert's Choice Best New Car Loans[31]
- 12 of 13 awards for Mozo Expert's Choice Best Used Car Loans
- all 4 of 4 awards for Mozo Expert's Choice Best Secured Personal Loans
- 8 of 11 awards for Mozo Expert's Choice Best Unsecured Personal Loans

Table 3: Personal loans comparison

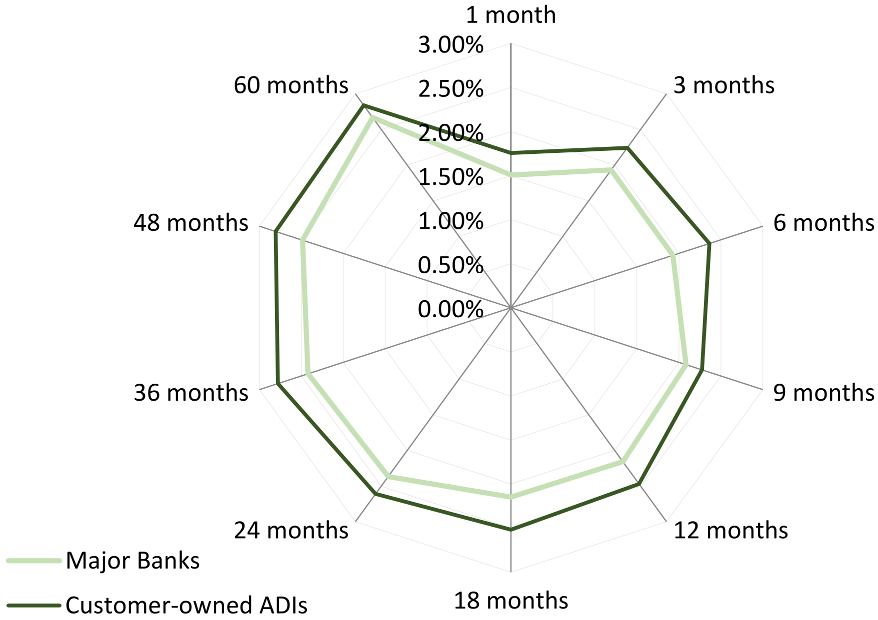
	Minimum Rate	Average Annual Rate (inc. fees)[32]
Major Banks	15.2%	18.3%
Customer-owned ADIs	12.4%	13.7%

Source: COBA estimates based on CANSTAR data at 13 Sep 2017 for unsecured variable rate personal loan of $10,000, excludes personal loans for specific purposes (i.e. funerals and green loans)

Term deposits

Our sector provides very competitive rates on term deposits and holds than $40 billion in term deposits, as at July 2017. This reflects the importance of deposits to our funding model and our model's ethos to return value to members. Chart 5 shows the relative pricing of our term deposits compared to the major banks.

Chart 5: Term deposit average rate comparison[33]



Source: COBA estimates based on CANSTAR term deposit rates for a $10,000 deposit at 13 Sep 2017

[31] https://mozo.com.au/expertschoice/best-personal-loans
[32] CANSTAR calculates this based on a $10,000 loan over 3 years.
[33] Based on CANSTAR term deposit rates for a $10,000 deposit at 13 Sep 2017

High levels of customer satisfaction

The customer owned banking sector has for many years consistently recorded market leading levels of customer satisfaction.

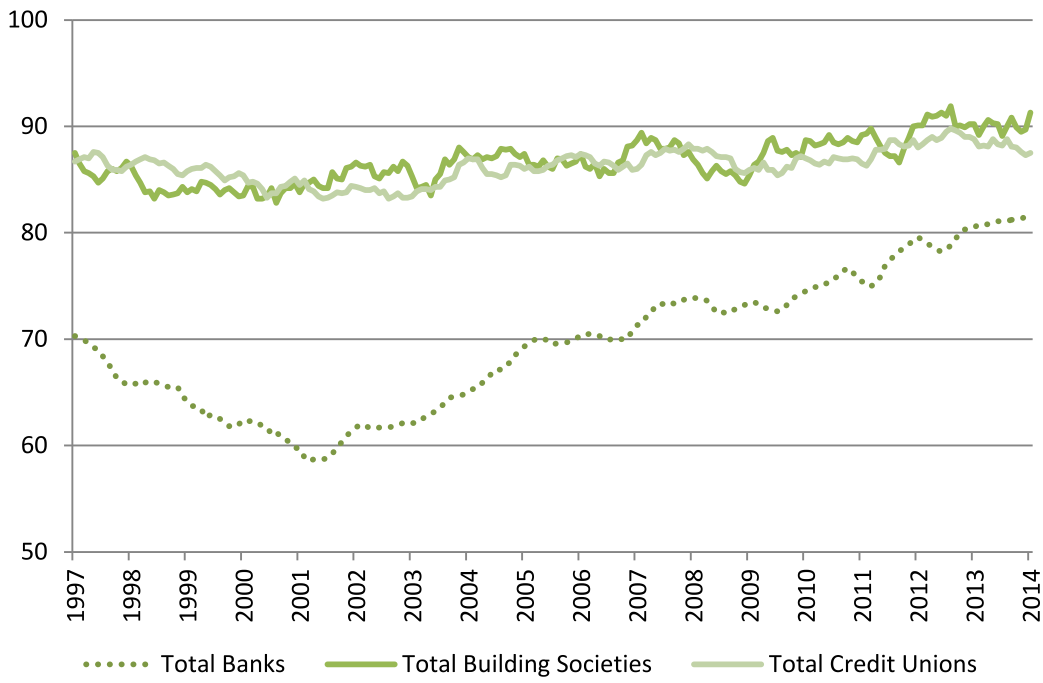
For the last five years, a customer owned banking institution has won Roy Morgan's Bank of the Year Customer Satisfaction award (Victoria Teachers Mutual Bank in 2012 & 2013, P&N Bank in 2014, Teachers Mutual Bank in 2015 and Greater Bank in 2016) beating their major bank and regional bank rivals.

Customer owned banking institutions have also won Canstar Blue's Most Satisfied Customers Challenger Bank award (non-major bank) five times (Heritage Bank in 2012, 2014 & 2016, Police Bank in 2013 and Teachers Mutual Bank in 2015).[34]

According to Roy Morgan Research[35], mutual sector customer satisfaction was 90.1% in July 2017 compared to 79.2% for the major banks. Our strong focus on customer relationships is shown by mutual sector customer satisfaction increasing to 93.6% when we are a customer's main financial institution (MFI). This compares to 81.3% for the major banks. Customer owned institutions hold seven of the top eight highest individual MFI customer satisfaction ratings.[36]

This customer satisfaction gap isn't a fleeting result. Chart 6 shows that the gap in customer satisfaction between our sector and total banks has existed since at least 1997. Mutual banks have similar satisfaction levels to credit unions and building societies.

Chart 6: Customer owned banking satisfaction



Source: Roy Morgan Research, Customer Satisfaction: Consumer Banking in Australia Monthly Report, Australians 14+, 6 month average

34 Note Canstar Blue does not have an 'all bank' category.
35 Roy Morgan Research, Customer Satisfaction: Consumer Banking in Australia, Monthly Report July 2017
36 These seven institutions include four mutual banks, two credit unions and one building society.

Location of customer-owned banking institutions
Customer-owned banking institutions have a proud history of serving both metropolitan and regional communities. The head offices of eight of the 10 largest customer-owned banking institutions are outside Sydney and Melbourne and are important economic and social contributors to their communities. Customer owned banking institutions are well-represented in regional and rural communities across Australia.

Table 4: Head office locations of ten largest COBA members

Institution	Location	Total Employment[37]
CUA	Brisbane	1034
Heritage Bank	Toowoomba	798
People's Choice Credit Union	Adelaide	935
Greater Bank	Newcastle	627
Teachers Mutual Bank	Sydney	468
IMB Bank	Wollongong	442
Beyond Bank Australia	Adelaide	510
Bank Australia	Melbourne	338
P&N Bank	Perth	298
Victoria Teachers Mutual Bank	Melbourne	206

Most customer-owned banking institutions are partners in the rediATM network, giving them access to a national network of more than 3,000 ATMs.[38]

Our sector has more than 900 branches widely spread throughout Australia, with half in NSW reflecting the geographic spread of our institutions. To operate outside of these branch networks, some COBA members utilise brokers.

Table 5: Customer-owned banking sector locations[39]

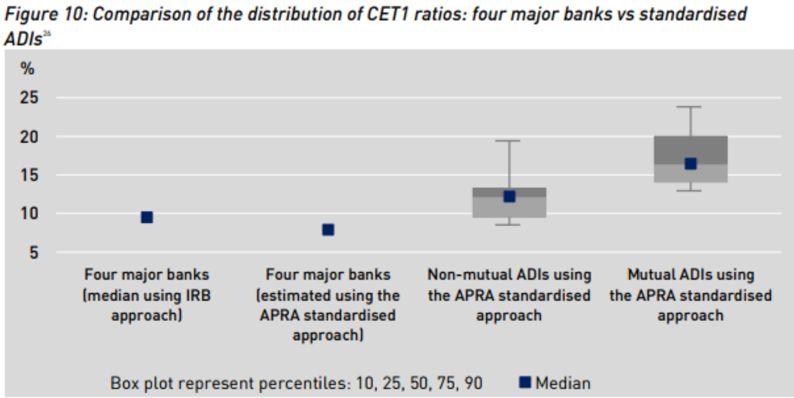
		NSW	QLD	VIC	SA	WA	ACT	NT	TAS	Total
Total Branches	no.	466	177	117	66	41	27	26	12	932
Head Office	no.	40	12	18	5	1	0	1	2	79

Prudentially sound nature of the customer-owned banking sector
The customer-owned model is inherently sustainable and stable. Credit unions, building societies and mutual banks have much higher capital adequacy ratios than the major banks, with this gap further increasing when estimated under a 'like for like' standardised approach (Chart 7). Almost all the regulatory capital held by the sector is in the highest quality form of regulatory capital: Common Equity Tier 1 capital.

Capital represents an ability to absorb losses without becoming insolvent. However, while the sector is highly capitalised, individual mutual ADIs (like all other ADIs) need access to timely regulatory capital options to ensure that they can take advantage of opportunities in the market.

[37] Based on KPMG Mutual Industry Review 2016 data. This figure is total employment by the institution, including branches.
[38] http://www.rediatm.com.au/about-us
[39] Based APRA ADI Points of Presence 2016 and internal COBA data

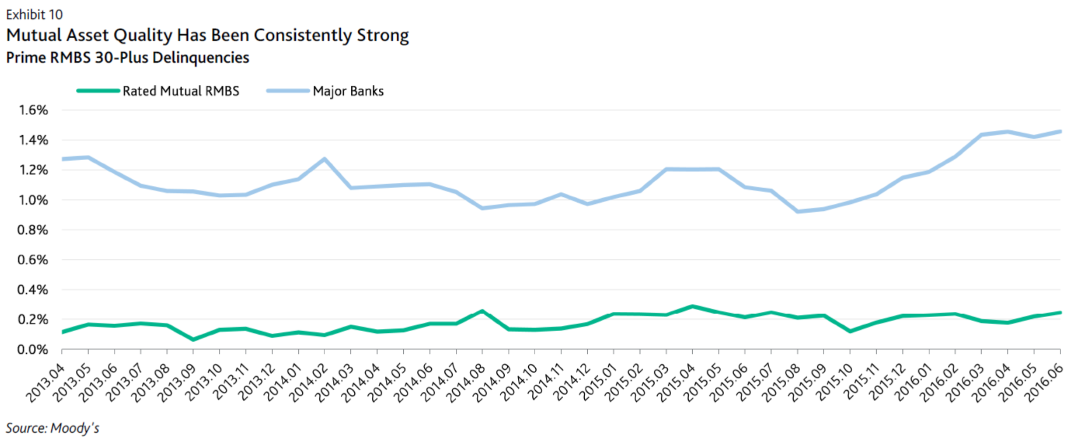
Chart 7: Customer-owned banking sector capital adequacy



Source: APRA 2017 Information Paper: Strengthening banking system resilience, p. 30

Customer-owned institutions have relatively conservative lending standards. This is noted by Moody's which states that the "delinquency performance of mutual home loans has been consistently lower than that of the major banks, which testifies to the more conservative underwriting practices of mutual institutions."[40] Similarly, KPMG notes that a fall in provisions in 2016 reflects the "high quality of the mutuals loan portfolios."[41] This is due to the different incentives faced by the customer-owned banking institution—losses are absorbed by members' funds (i.e. retained earnings held to benefit members) which leads to more conservative lending practices in order to protect member value.

Chart 8: Customer-owned banking sector asset quality



Source: Moody's Mutual Outlook 2017, p. 10

Use of aggregation models to reach economies of scale

The customer-owned banking sector uses aggregation models to gain access to economies of scale and to larger networks and systems. The sector generally does this through service providers originally set up by credit unions and building societies. They allow customer-owned institutions to lower costs to provide economical access to services that they would not otherwise be able to access on an individual basis. Regulatory frameworks that enable aggregation are critical to the sector's ability to compete with the major banks. In addition, the customer-owned sector utilises broader partnerships to provide services members. For example, more than 50 of our members have a referral relationship with Bridges Financial Services to provide their customers with access to financial planning advice.

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40 Moody's Mutual Outlook 2017, p. 9
41 KPMG Mutuals Industry Review 2016, p. 7

Examples of these aggregation models include Cuscal, Indue, ASL, Data Action and TAS. Cuscal, Indue and ASL are also all ADIs subject to regulation by APRA.

Cuscal is Australia's leading provider of end-to-end payments solutions and has over 100 clients from a range of industries. It also provides various transactional banking services. Cuscal's predecessor (Credit Union Services Corporation) was founded by credit unions in 1992 to provide a diverse range of services to the credit union sector. Cuscal remains largely owned by credit unions and mutual banks and its services allows clients to compete with the largest banks in Australia. Cuscal is a founding member in the New Payments Platform (NPP) and can provide Android Pay, Samsung Pay and Apple Pay access to its clients' customers.

Indue was also established by credit unions and to provide a range of wholesale payment solutions and card products to its credit union customers. Its growing customer base now includes: mutual banks, mortgage originators, NGOs, gift card providers and government. Indue's core payment products include direct entry, BPAY, chequing, ATMs and EFTPOS. Indue is also founding member in the NPP.

ASL (Australian Settlements Limited) was formed in 1993 as a mutual organisation by building societies to provide settlement services and allow them to participate in the various financial sector clearing streams. Through the aggregation of members' transactions ASL is able to significantly reduce transaction costs associated with settling cheque, direct entry, scheme card, BPAY and other financial transactions. ASL is also a founding member in the NPP.

Data Action was founded in 1986 as a cooperative by a group of credit unions. Data Action is an Adelaide-based technology services company that is unique in the market as a provider of both software solutions and hosted services. The majority of Data Action's clients are credit unions and mutual banks. Data Action deals with over 1 million banking customers and $25 billion in client assets.

TAS (Transaction Solutions) was established in 1989 by a group of credit unions to provide them with the information technology services needed to run their operations. Today, TAS services over 50 per cent of the customer owned banking sector by providing hosted services for critical applications such as core banking systems, collaboration platforms, websites and unified communications.

Customer-owned banks and financial technology

KPMG mLabs: The KPMG mLabs program was designed by KPMG to customer owned banking institutions and their members gain access to 14 leading fintech innovators. Hosted in KPMG's Sydney Office and fintech hub Stone & Chalk, the 12 week program provided the unique opportunity for fintechs to work with a number of like-minded mutuals to co-create products and apply new ways of thinking to their businesses.

Seven Australian mutual banks and credit unions participated in this program— Beyond Bank, CUA, Greater Bank, Heritage Bank, IMB Bank, Police Bank, and Teachers Mutual Bank. KPMG identified 18 qualified collaboration opportunities between the fintech and mutuals with 10 already happening as a result of this program.

Society One: Society One is a digital 'marketplace' lender that predominately provides consumer loans. Society One matches investors who would like to loan money with borrowers who receive different interest rates depending on their credit profile. Since 2012, Society One has connected more than $300 million in loans to customers. It now has ten mutual banks and credit unions among its 200 investor funders.

Amongst these funders, a number of customer-owned banks have also taken equity stakes in Society One: Beyond Bank, G&C Mutual Bank, Regional Australia Bank and Unity Bank. Society One's innovative product has won wider recognition winning the 2017 Innovative Retail Banking Product of the Year as well as Best Digital Offering award in 2016.[42]

Broad access to a multitude of digital wallet solutions: Many COBA members provide access to the full range of digital wallet solutions – Apple Pay[43], Android Pay[44] and Samsung Pay[45] through their partnership with Cuscal. Only one major bank, ANZ, provides a comparable digital wallet offering. Digital wallets allow customers to use their compatible Apple, Android or Samsung devices to pay anywhere where a contactless credit or debit card is accepted.

In addition, some COBA members have developed their own digital wallet solutions through their internet banking applications.

[42] Australian Retail Banking Awards
[43] Apple Pay participating banks and card issuers in Asia-Pacific, https://support.apple.com/en-au/HT206638
[44] Android Pay Participating Banks, https://www.android.com/intl/en_au/pay/participating-banks/
[45] Samsung Pay Banking Partners, http://www.samsung.com/au/apps/samsungpay/banking-partners/

Largest COBA members by assets

List of COBA members

Australian Military Bank	**Macquarie Credit Union**
B&E Personal Banking	**Maleny Credit Union**
Bank Australia	**MOVE**
Beyond Bank Australia	**My Credit Union**
Big Sky Building Society	**MyLife MyFinance**
Broken Hill Community Credit Union	**Nexus Mutual**
Cairns Penny Savings & Loans	**Northern Inland Credit Union**
CAPE Credit Union	**Nova Credit Union**
Central Coast Credit Union	**Orange Credit Union**
Central Murray Credit Union	**P&N Bank**
Central West Credit Union	**People's Choice Credit Union**
Coastline Credit Union	**Police Bank**
Community Alliance Credit Union	**Police Credit Union**
Community First Credit Union	**Pulse Credit Union**
Credit Union SA	**QBANK**
CUA	**Queensland Country Credit Union**
Dnister Ukrainian Credit Co-Operative	**Queenslanders Credit Union**
Family First Credit Union	**RACQ Bank**
FCCS	**Regional Australia Bank**
Fire Service Credit Union	**Select Encompass**
Firefighters Credit Union	**South West Slopes Credit Union**
First Choice Credit Union	**Southern Cross Credit Union**
First Option Credit Union	**South-West Credit Union Co-Operative**
G&C Mutual Bank	**Sydney Credit Union**
Gateway Credit Union	**Summerland Credit Union**
Goulburn Murray Credit Union	**Teachers Mutual Bank**
Greater Bank	**The Capricornian**
Heritage Bank	**The Mac**
Heritage Isle Credit Union	**The Mutual**
Holiday Coast Credit Union	**Traditional Credit Union**
Horizon Credit Union	**Transport Mutual Credit Union**
Hume Bank	**Unity Bank**
Hunter United Credit Union	**Victoria Teachers Mutual Bank**
IMB Bank	**Warwick Credit Union**
Laboratories Credit Union	**WAW Credit Union**
Lysaght Credit Union	**Woolworths Employees Credit Union**

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The Essential Report: Special Report

25 October 2016

The Essential Report

Date:	25/10/2016
Prepared By:	Essential Research
Data Supplied by:	your source

Essential Media Communications is a member of the Association of Market and Social Research Organisations

Our researchers are members of the Australian Market and Social Research Society.

Essential. RESEARCH

About this poll

This report summarises the results of a weekly omnibus conducted by Essential Research with data provided by Your Source. The survey was conducted online from the 19th to 24th October 2016 and is based on 1001 respondents.

This report covers attitudes to banking, and consumer data.

The methodology used to carry out this research is described in the appendix on page 13.

Note that due to rounding, not all tables necessarily total 100% and subtotals may also vary.

Ownership of consumer banking data

Q Do you believe your consumer banking data (including transaction account balances, payments and purchases, and credit card or home loan data) belongs to the you the consumer or the banking institution?

	Total	Male	Female	Under 35	35-54	55+
Consumer	64%	61%	67%	53%	64%	77%
Bank institution	19%	20%	18%	25%	18%	12%
Not sure	17%	19%	16%	22%	18%	11%

The majority of Australians (64%) believe that their consumer banking data should belong to them, the consumer.

Just under one in five (19%) believe it should belong to their banking institution while 17% are ‘not sure’.

Females (67%) were only slightly more likely to select ‘consumer’ than males (61%).

The older the respondent the more likely they were to think that consumer banking data should belong to them as the consumer; 77% of those aged 55+ selected this compared to 64% of those aged 35-54 and 53% of those aged under 35.

Consumer rights to control access to bank account data

Q Do you agree or disagree that consumers should have the right to control access to bank account data about themselves?

	Total	Male	Female	Under 35	35-54	55+
TOTAL Agree	**88%**	**88%**	**88%**	**81%**	**89%**	**93%**
TOTAL Disagree	**4%**	**5%**	**3%**	**7%**	**2%**	**2%**
Strongly agree	50%	50%	50%	40%	56%	52%
Agree	38%	38%	38%	41%	33%	41%
Disagree	2%	3%	2%	4%	1%	2%
Strongly disagree	2%	2%	1%	3%	1%	0%
Not sure	9%	8%	10%	12%	9%	4%

A very large majority (88%) of Australians agree that consumers should have the right to control access to bank account data about themselves.

Just 4% disagree with this, and 9% are not sure.

There were no significant differences based on gender. However, the older the respondent the more likely they were to agree; 93% of those aged 55+ agree that consumers should have the right to control access to bank account data about themselves, compared to 89% of those aged 35-54 and 81% of those aged under 35.

Interest in Open API

Q The term ‘Open API’ allow customers to authorise the sharing of their account data held by their financial institution with a third party, including new Fintech (financial technology) providers who are offering a range of apps and new products and services.

If security and privacy provisions were met would you be interested in having access to your data and be able to provide it to other financial institutions and Fintechs to see if you could get a better deal?

	Total	Male	Female	Under 35	35-54	55+
TOTAL Interested	**42%**	**46%**	**40%**	**49%**	**44%**	**32%**
Yes, very interested	12%	14%	11%	12%	14%	10%
Yes, somewhat interested	30%	32%	29%	37%	30%	22%
No, not interested	37%	37%	38%	28%	34%	53%
Not sure	20%	18%	23%	23%	22%	14%

Less than half (42%) of Australians indicated that they were interested in having access to their data and being able to provide it to other financial institutions to see if they could get a better deal.

Just 12% said they were ‘very interested’ in this.

37% said that they were not interested, while 20% are ‘not sure’.

Males (46%) were slightly more likely than females (40%) to be interested.

Reversing the trend, younger respondents were more likely to be interested in this; 49% of those aged under 35, compared to 44% of those aged 35-54 and just 32% of those aged 55+ indicated that they were interested.

Support for Open Banking

Q In the UK retail banking sector, Open Banking will enable personal customers and small businesses to share their data securely with other banks and with third parties like Fintechs, enabling them to manage their accounts with multiple providers through a single digital 'app' and to compare products on the basis of their own requirements.

Would you support such an idea being introduced in Australia?

	Total	Male	Female	Under 35	35-54	55+
TOTAL Support	**40%**	**42%**	**36%**	**48%**	**39%**	**28%**
TOTAL Oppose	**26%**	**29%**	**24%**	**21%**	**24%**	**37%**
Strongly support	10%	11%	8%	11%	11%	6%
Support	30%	31%	28%	37%	28%	22%
Oppose	15%	15%	15%	15%	10%	23%
Strongly oppose	11%	14%	9%	6%	14%	14%
Not sure	34%	28%	39%	31%	36%	35%

Under half (40%) support the idea of 'Open Banking'. 26% are opposed to it, while a significant proportion (34%) are 'not sure'. This indicates that respondents require more or simplified information before deciding their opinion on this.

Males (42%) were again more likely than females (36%) to support the idea of 'Open Banking'. This was due to females being far more likely to select 'not sure' (39% compared to 28% of males).

As with interest in Open API, younger respondents were more likely to support the idea of 'Open Banking'; 48% of under 35's support this idea, compared to 39% of those aged 35-54 and 28% of those aged 55+.

Agreement with statements about Open API

Q Do you agree or disagree with the following statements about an Open API system in Australia?

(Reminder: The term ‘Open API’ allow customers to authorise the sharing of their account data held by their financial institution with a third party, including new Fintech (financial technology) providers who are offering a range of apps and new products and services.)

	TOTAL Agree	TOTAL Disagree	Strongly Agree	Agree	Disagree	Strongly Disagree	Not Sure
It would be beneficial to be able to get other financial providers to check if I have the best banking products for my specific circumstances	**51%**	**23%**	10%	41%	16%	7%	25%
I would like the benefit of having more information about my transaction history and where my money goes	**66%**	**16%**	18%	48%	11%	5%	18%
Greater access to my financial data would allow me to better and more accurately compare products from different institutions based on my patterns of use	**62%**	**17%**	14%	48%	12%	5%	21%
More competition and more choice for consumers like me in the Australian retail banking market would be a good thing	**70%**	**10%**	22%	48%	7%	3%	20%
If I open up my data to other institutions, my own institution would probably work harder to try and keep me	**57%**	**17%**	15%	42%	13%	4%	26%
I’m more likely to try new apps which will tailor services, information and advice to consumers individual needs	**42%**	**31%**	10%	32%	20%	11%	27%
I’m more likely to consider alternatives to the big four banks if they offer Open API, because I will be able to have access to my data and have it looked at	**49%**	**23%**	13%	36%	16%	7%	29%

Comments

‘*More competition and more choice for consumers like me in the Australian retail banking market would be a good thing*’ was the statement with the highest level of agreement (70%).

This was followed by:

- I would like the benefit of having more information about my transaction history and where my money goes (66%)
- Greater access to my financial data would allow me to better and more accurately compare products from different institutions based on my patterns of use (62%)
- If I open up my data to other institutions, my own institution would probably work harder to try and keep me (57%)
- It would be beneficial to be able to get other financial providers to check if I have the best banking products for my specific circumstances (51%)

All these statements were agreed with by more than half the Australian population.

There was less agreement with the following statements:

↓ I’m more likely to consider alternatives to the big four banks if they offer Open API, because I will be able to have access to my data and have it looked at (49%)

↓ I’m more likely to try new apps which will tailor services, information and advice to consumers individual needs (42%)

Interest in performance measures

Q Would you be interested in having access to performance measures such as customer satisfaction so that you are able to compare the performance of banking institutions?

	Total	Male	Female	Under 35	35-54	55+
TOTAL Interested	**67%**	**70%**	**65%**	**72%**	**67%**	**64%**
Yes, very interested	22%	23%	21%	21%	25%	19%
Yes, somewhat interested	45%	47%	44%	51%	42%	45%
No, not interested	19%	20%	18%	14%	18%	27%
Not sure	14%	10%	18%	15%	16%	8%

Just over two thirds of Australians (67%) indicated that they are interested in having access to performance measures so they are able to compare the performance of banking institutions.

22% of these said they were very interested.

Less than one in five (19%) said they were not interested and 14% are ‘not sure’.

Males (70%) were slightly more likely than females (65%) to be interested; females (18%) were more likely than males (10%) to select ‘not sure’.

Younger respondents were also slightly more likely to be interested; 72% of those aged under 35 were interested compared to 67% of those aged 35-54 and 64% of those aged 55+.

Support for publishing quality of service information

Q The UK will soon require banks to publish trustworthy and objective information on quality of service on their websites and in branches, so that customers can see how their own bank shapes up.

Whether a personal customer or small business is willing to recommend their bank to friends, family and colleagues will be a core measure. Would you support a similar system being established in Australia?

	Total	Male	Female	Under 35	35-54	55+
TOTAL Support	**69%**	**68%**	**68%**	**69%**	**68%**	**67%**
TOTAL Oppose	**9%**	**10%**	**6%**	**11%**	**7%**	**9%**
Strongly support	20%	19%	20%	19%	23%	15%
Support	49%	49%	48%	50%	45%	52%
Oppose	7%	8%	5%	9%	5%	7%
Strongly oppose	2%	2%	1%	2%	2%	2%
Not sure	23%	21%	26%	20%	26%	24%

69% of Australians support the publishing of quality of service information by Australian banking institutions. Just 9% oppose this, and 23% are ‘not sure’.

There were no significant differences between the genders, or amongst the various age groups.

Ranking of importance of information sources

Q When comparing mortgage, credit card, or transaction account products, what source of information and advice do you most rely on to make decisions that ensure you are getting the best deal? Please rank only those you use, and rank in order of most important to least important (i.e. 1 = most important).

			"TOTAL TOP 3"				
	Rank 1	Total Top 3	Male	Female	Under 35	35-54	55+
From your existing provider	24%	55%	51%	58%	56%	50%	62%
From comparison websites	41%	74%	66%	78%	74%	77%	70%
From brokers	8%	30%	34%	31%	32%	33%	23%
From advertising	3%	25%	19%	26%	24%	27%	23%
From news coverage of banking issues	5%	37%	32%	26%	28%	38%	48%
From family or friends	16%	50%	70%	57%	61%	48%	40%
Other	3%	6%	3%	3%	3%	7%	9%
None of these	-	23%	20%	25%	23%	21%	25%

The most commonly selected important sources of information were 'comparison websites' (41% first choice) and their 'existing provider' (24%).

This list was similar when the 'top three' choices were combined; 74% selected comparison websites, 55% their existing provider and 50% 'family or friends'.

Males were the only group more likely to select something other than 'comparison websites', with 70% selecting 'family or friends' and 66% 'comparison websites'.

Appendix: Methodology, margin of error and professional standards

The data gathered for this report is gathered from a weekly online omnibus conducted by Your Source. Essential Research has been utilizing the Your Source online panel to conduct research on a week-by-week basis since November 2007.

Each week, the team at Essential Media Communications discusses issues that are topical and a series of questions are devised to put to the Australian public. Some questions are repeated regularly (such as political preference and leadership approval), while others are unique to each week and reflect media and social issues that are present at the time.

Your Source has a self-managed consumer online panel of over 100,000 members. The majority of panel members have been recruited using off line methodologies, effectively ruling out concerns associated with online self-selection.

Your Source has validation methods in place that prevent panelist over use and ensure member authenticity. Your Source randomly selects 18+ males and females (with the aim of targeting 50/50 males/females) from its Australia wide panel. An invitation is sent out to approximately 7000 – 8000 of their panel members.

The response rate varies each week, but usually delivers 1000+ interviews. In theory, with a sample of this size, there is 95 per cent certainty that the results are within 3 percentage points of what they would be if the entire population had been polled. However, this assumes random sampling, which, because of non-response and less than 100% population coverage cannot be achieved in practice. Furthermore, there are other possible sources of error in all polls including question wording and question order, interviewer bias (for telephone and face-to-face polls), response errors and weighting. The best guide to a poll's accuracy is to look at the record of the polling company - how have they performed at previous elections or other occasions where their estimates can be compared with known population figures. In the last poll before the 2016 election, the Essential Report estimates of first preference votes averaged less than 1% difference from the election results and the two-party preferred difference was only 0.1%.

The Your Source online omnibus is live from the Wednesday night of each week and closed on the following Sunday. Incentives are offered to participants in the form of points. Essential Research uses the Statistical Package for the Social Sciences (SPSS) software to analyse the data. The data is weighted against Australian Bureau of Statistics (ABS) data.

All Essential Research and senior Your Source staff hold Australian Market and Social Research Society (AMSRS) membership and are bound by professional codes of behaviour. Your Source is an Australian social and market research company specializing in recruitment, field research, data gathering and data analysis. Essential Research is a member of the Association Market and Social Research Organisations (AMSRO). Your Source holds Interviewer Quality Control Australia (IQCA) accreditation, Association Market and Social Research Organisations (AMSRO) membership and World Association of Opinion and Marketing Research Professionals (ESOMAR) membership.