

TransferWise response to “Review into open banking in Australia – Issues Paper”

21 September 2017

Introduction

We welcome the opportunity to respond to the “Review into open banking in Australia – Issues Paper”. We look forward to being engaged in the consultation process as the terms of open banking in Australia develop.

TransferWise is an international money transfer platform. Launched in 2011, it is one of the UK’s most successful fintech startups having raised \$117m in funding from investors such as Andreessen Horowitz, Virgin’s Sir Richard Branson and Xavier Niel. TransferWise was named a World Economic Forum Tech Pioneer in 2015.

Co-founded by Taavet Hinrikus and Kristo Käärman, the company was created out of frustration with the high fees charged by banks on international money transfer. TransferWise uses the the mid-market rate - making it up to 8 times cheaper on average to send money abroad than a bank. Customers are transferring more than A\$1.637 billion every month with TransferWise, saving more than A\$2.455m every day by using TransferWise rather than other providers.

TransferWise Responses

1. What are the likely benefits and costs of Open Banking?

Open Banking can deliver significant improvements in competition, innovation and consumer well-being.

If implemented correctly, it can create more competitive, transparent financial markets for consumers to assess products and services, as well as spur innovation that creates more products and services for consumers.

To give an example of potential benefits: the use of non-transparent pricing methods is common place in the international money transfer industry. A recent study conducted by Capital Economics found that Australians paid \$3.1 billion in exchange rate mark-ups and overseas card charges in 2016. Many of these markups are not transparently disclosed to customers and are rarely shown to the consumer as a fee.

Banks make it difficult for consumers to establish the real costs and charges for an international money transfer and often do not transparently disclose the exchange rate mark-up they apply to international transfers.

A YouGov survey (conducted in June 2016 amongst consumers in the UK and Europe) found that 54% of consumers are confident that they always know how much a FX transaction will cost them. Yet when given a typical FX pricing structure, which only includes the exchange rate offered by providers and the up front fee, only 29% of those who regularly send money abroad correctly identified how much they were being charged. A staggering 52% were misled into thinking the transaction would be free when told the provider would be charging '0% commission' or 'no fees'.

A lack of competition is one of the reasons these pricing methods - which make it extremely difficult for consumers to establish the real price of an international money transfer - have flourished.

Continuing with the example of international money transfer industry, open banking could deliver three key benefits.

1. Making it easier for consumers to transact with providers that are cheaper, better, faster than their banks

In this envisaged world of open banking, the sharing of customer and pricing data via a system of open APIs (such as FX pricing, customers' international money transfers, and more) could make it easier for consumers to accurately compare providers.

Such a system would quite clearly afford consumers more choice for their financial products. Via a central repository of that data, comparison sites, or banks displaying competitor information, consumers would be able to compare costs on a huge variety of financial products.

If taken one step further, such APIs could and should allow competitors access to their banking systems, rather than just sending data. Customers could in fact transact with competitors via their primary, traditional banking account.

Not only would this be very convenient, it would also force competitive pressure on interchange fees in the payments sector and increase consumer access to more competitive financial services as a whole.

2. Increased competition bringing new offerings to market

Providing more accurate and easier-to-understand information for consumers could incentivise existing banks and currency brokers to bring new offerings to market and spur creation of new startup businesses. In a sector that has been historically non-transparent and expensive for consumers, this would be a massive improvement on the status quo.

In such a system, the provision by banks of accurate pricing information (both current and historical) is elemental to a properly functioning open data framework.

For a customer who frequently sends money abroad, such historical pricing information is crucial to making a properly-informed choice amongst competitors.

When using their existing bank, a customer can compare historical pricing information. It is critical that an open data framework compels other banks to provide comparable data (historical, current, and future data) so that accurate comparisons are possible.

The provision of this data is especially important to enable more competition in international money transfers as most consumers don't understand the pricing of international money transfer (referenced in the above statistics from a 2016 YouGov survey).

Accurate pricing data (both current and historical) would reduce such inefficiencies and non-transparent practices by banks and currency brokers and allow consumers to make much more informed purchasing decisions, while also ensuring existing providers are compelled to bring more competitive offerings to market.

3. *“Known Unknowns”*

The final likely benefit from open banking is more difficult to quantify. It lies in the innovation explosion that is likely when banks unleash this massive wealth of customer data to their customers, industry, and developers around the world who can create new solutions banks (and perhaps even current fintech startups) would and could never think of. This is undeniably sure to happen, but its' form is less predictable - a “known unknown”.

The best example of this is the provision of open data by [Transport for London](#) (TfL).

TfL has been making key data openly available to developers since 2010. There are now over 360 apps that use TfL data. Citymapper is arguably the most well-known example. It launched in 2012 with London as the first city covered by its route-finding app and is now in nearly 40 cities worldwide.

Global experience clearly shows that releasing data to customers and developers will improve competition between existing players, improve consumer welfare, and unleash a huge wave of innovation in Australia's financial services sector.

The costs of implementing such a change to existing infrastructure are far outweighed by these positive effects.

2. What data should be shared, and between whom?

The free flow of data is essential for open banking to deliver a positive impact for consumers and the economy.

As expressed above, pricing information such as the fees and charges that banks hold for all their products is an important element to deliver on the promise of open banking.

Additionally, access to customer data is the most basic step required to leverage benefits from open banking and associated APIs.

As the EU has recognised in its approach to open APIs through PSD2, the logical end-goal is to enable seamless transacting between bank accounts and other financial services. This will stimulate true price comparison and competition.

With truly open APIs, a specialist payment company can move your funds on your behalf from your bank account, into another bank account. This should of course be subject to regulation, to ensure safety and security of customer funds and data.

In another example, banks can and should share customer data - such as the sender BSB and account number - to enable quicker and cheaper electronic funds transfers. Currently, Australian banks share some sender bank account details, but do not share these additional details as they deem them to be personal data (despite the fact that the recipient of such data is regulated and licensed to receive it).

Banks currently exclude such information given they have no incentive to change this industry-wide practice. Making sender account data visible would create more reliable customer information, improve efficiency of fraud prevention and anti-money laundering, enhance tracability of funds flows and reduce reconciliation issues that become more prominent as account identifiers - which could soon be mobile phone numbers, emails, ABNs, or more - proliferate.

Given that banks already hold this data in real time, the costs of implementation to deliver it to an external source would not be prohibitive.

Making sure that this type of data is shared between banks would also ensure Australia is working to similar global standards set by the UK and EU. This harmonisation would also make it easier to share data across jurisdictions and ensure that Australian entities are well-equipped to compete offshore.

3. How should data be shared?

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

As mentioned above, customer and pricing data should be shared via truly open APIs. Again, as exemplified through PSD2 in Europe, the logical end-goal is to enable seamless interactions and transactions between bank accounts and other financial services. This will stimulate true price comparison and competition.

Security and API standards already met by most financial services institutions are sufficient to ensure data is shared at speed and well protected.

Anonymising portions of customer data and sharing in line with existing industry best practices and regulations for security and data protection will ensure customer data is secure and private.

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

Access to banks' APIs needs to be controlled in order to ensure security of customer data.

The model in Europe provides for licensing under an existing regulatory framework, the Payment Services Directive. We would propose that a similar approach is taken in Australia, in the interests of efficiency and clarity.

The existing AFSL regime provides a ready-made framework for this: a new activity could be created specifically for the purpose of accessing bank APIs for the purpose of making payments. Existing AFSL licensees would simply need to apply for the appropriate Variation to gain the required permission. Banks would only provide access to their APIs for this purpose if the applicant had the required AFSL permission.

6. Implementation

With regards to implementation, the most critical factor is to ensure the framework is implemented quickly enough to keep pace with innovation currently happening in financial services.

ENDS

Contact:

Nicholas Lembo, TransferWise Communications

nicholas.lembo@transferwise.com