Xero Submission

CDR rules: consent and operational enhancement amendments

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Secretariat
Statutory Review of the Consumer Data Right
The Treasury
Langton Crescent
PARKES ACT 2600

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To the Secretariat

XERO SUBMISSION REGARDING CDR RULES: CONSENT AND OPERATIONAL AMENDMENTS

Xero welcomes the opportunity to provide feedback on Treasury's proposed amendments to the Consumer Data Right (CDR) rules. As a global platform serving 4.2 million small businesses—including 1.77 million in Australia—Xero is committed to supporting small businesses by streamlining their access to data, enabling real-time insights, and driving growth through the CDR.

We appreciate the Treasury's efforts to improve the CDR framework. While we support the direction of the amendments, our submission highlights a few critical areas for further consideration:

- **Digital onboarding**: Xero supports fully digitalising the onboarding process for business consumers, as this is key to improving uptake and reducing barriers to participation.
- **Unintended consequences and information overload**: We recommend simplifying the presentation of information on supporting parties and direct marketing consents, as well as reconsidering the proposed requirements around the deletion and de-identification of redundant data—to avoid overwhelming consumers and encourage higher engagement.

Additionally, we raise concerns about the current treatment of derived data, which creates unnecessary barriers to efficient data sharing and limits the broader potential of CDR for small businesses.

Xero acknowledges this submission may be made public. For further information, please contact Maureena van der Lem, Head of Government Experience for Xero, APAC Region, at maureena.vanderlem@xero.com.

Yours sincerely,

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1. Introduction

1.1. About Xero

Xero is a global small business platform with 4.2 million subscribers, including 1.77 million in Australia. We offer a comprehensive suite of tools, including accounting, payroll, workforce management, and project management, all aimed at helping small businesses run efficiently. Xero connects to an extensive ecosystem of apps and financial institutions, enabling small businesses to streamline their operations and manage finances effectively.

As a key player in the data ecosystem, Xero has long supported the Consumer Data Right (CDR) regime, which we believe presents significant opportunities for small businesses to access higher fidelity data with improved product coverage compared to existing bank feeds. However, while we support open banking, we need the regime to be workable for both Xero and our customers, ensuring that complexities and costs do not outweigh the benefits before we are able to join.

While we intend to join the CDR regime, there are still a few key areas that need to be addressed to ensure it can scale and function optimally for our 1.77 million Australian subscribers. Our vision is that, in time, all small businesses can seamlessly share their banking data through a robust and economy-wide system, allowing them to focus more on growing their business rather than administrative tasks like managing payments or applying for loans. With access to real-time insights, Xero aims to save businesses time and provide them with the tools they need to make informed decisions efficiently.

We acknowledge the Treasury's ongoing efforts to simplify the CDR regime and align it with practical operational needs. Xero welcomed the operational enhancements introduced in late 2023, particularly the introduction of the Business Consumer Disclosure Consent (BCDC). This was a crucial step towards making CDR more viable for Xero and small businesses, and we remain committed to supporting the development of a workable open banking framework.

1.1. Why we need a workable open banking regime

Xero’s position is clear: open banking and the broader CDR framework are essential to enabling small businesses to fully utilise their data, ultimately improving efficiency, saving time, and offering real-time insights into cash flow and business performance. By integrating banking data directly into Xero’s platform, we help small businesses reduce administrative overheads and focus on growth.

However, to be effective for Xero and its customers, the CDR regime must address several important factors:

- **Scalability and API capacity:** With 1.77 million subscribers in Australia, Xero needs assurance that the system has the capacity to handle both current and future volumes of data. Seamless API functionality is critical to managing data at scale and ensuring a smooth customer experience as we grow.
- **Data quality:** Accurate, real-time data is essential for small businesses. The integrity of the banking data accessed through CDR directly impacts the insights we provide, and the decisions small business owners make from those insights. Maintaining high data quality is crucial for delivering value to our customers.
- **Derived data:** The current treatment of derived data under the CDR framework poses challenges for Xero and our customers. Derived data—new information wholly or partly created from or based on CDR data—is treated as CDR data, imposing restrictions on its use and sharing with unaccredited third parties. Recognising Privacy Act protections, derived data creates unnecessary barriers for small businesses that want to share valuable financial insights, such as accounting data, with their advisers, lenders and other service providers. Addressing this issue is essential for enabling seamless data flows and maximising the utility of the CDR for small businesses.

In contrast, the UK's Open Banking regime relies on GDPR to protect downstream data transfers, rather than using CDR-derived data rules. As of January 2024, over 10 million UK users and 18% of UK small businesses regularly utilise open banking. Xero has played a key role in this success, enabling around 10% of all UK Open Banking participation as of 2022. In the UK, open banking is seen as a secure tool that helps small businesses manage their finances more effectively—making them more resilient, productive, and profitable. By providing businesses with access to up-to-date financial data, they can better forecast, apply for credit, and speed up payments. Open banking payments in the UK reached a record 14.5 million in January 2024, with 8% being variable recurring payments and 92% being single immediate payments.

Australia's CDR can learn from this international example to better support small businesses in accessing and using their data in practical, scalable ways.

1.2. High-level overview of Xero's submission

As a member of FinTech Australia, Xero echoes many of the points raised in their submission, and aligns with their broader position on simplifying the regime.

Xero's focus for this consultation response focuses primarily on two key areas that are most relevant to our business and small business customers:

- **Regulated digital onboarding requirement**: As a cloud-based provider, Xero supports the proposal in section 2.1 of the consultation paper, which aims to streamline the process for appointing nominated representatives through digital onboarding. We believe this approach is essential for driving small business participation in the CDR scheme. However, we recommend taking it further by fully digitalising the onboarding process, reducing the implementation period, and allowing 'view access' consumers to seamlessly share CDR data. These enhancements would significantly improve efficiency, security, and engagement across the CDR system.
- **Unintended consequences and information overload:** While we support improving transparency, Xero does not support the current proposals in sections 1.6, 1.7, and 1.8 of the consultation paper. We recommend simplifying the presentation of supporting parties, direct marketing consents, and the requirements around the deletion and de-identification of redundant data. This will prevent small business consumers being overwhelmed and encourage higher engagement by offering further details if desired, rather than overloading them upfront.

2. Regulated digital onboarding requirement

2.1. Overview

Xero supports the proposed changes set out in section 2.1 of the consultation paper, which aim to enable and streamline the process for business consumers to appoint nominated representatives via an online system. This will significantly increase the uptake of the CDR by business consumers, overcoming current barriers that hinder participation and impose costs on Accredited Data Recipients (ADRs). A fully digitalised onboarding process is crucial to achieving the intended outcomes of the CDR.

We recommend reducing the implementation period, expanding the process to be entirely digital, and allowing consumers with 'view access' to seamlessly share CDR data. These changes will lead to increased efficiency, reduced costs, enhanced security, and greater participation in the CDR ecosystem for both banks and businesses.

2.2. Outcome, opportunity, and efficiency

The proposed shift to a fully digital process for appointing nominated representatives presents a significant opportunity to modernise the way businesses interact with the CDR framework. For small businesses, this digital approach reduces friction and simplifies the process of sharing their data, likely leading to higher engagement and broader adoption of the CDR. This in turn will drive innovation and competition within the financial services sector.

For banks and other ADHs, moving to a digital onboarding process brings substantial efficiency gains, including the elimination of manual paperwork, reduced processing time, minimised errors, and lower administrative costs. Importantly, a more streamlined and efficient process is likely to improve customer satisfaction, as businesses experience faster, more reliable onboarding. Additionally, the digital process enhances security and traceability, reducing the risk of fraud and improving compliance with regulatory requirements.

2.3. Additional recommendations

Xero notes that the proposed 12-month implementation period for these revised obligations on data holders is unnecessarily long. We suggest that this period be reduced to expedite the realisation of the benefits for both small business consumers and the broader economy. Given the rapid pace of technological adoption and the pressing need for businesses to access real-time data, a shorter implementation timeline would better serve the interests of all stakeholders.

Further, Xero recommends that the entire onboarding process be digitalised, not just the appointment of nominated representatives. By fully digitalising the process, it can be ensured that once a representative is appointed, there is no delay in allowing them to start sharing data. This streamlines the overall experience for small businesses, reducing the time and effort required to participate in the CDR framework and enabling them to access the benefits of data sharing more quickly.

We believe that a fully digital onboarding process offers significant benefits without introducing additional risks for data holders. Digitalisation enhances security by providing secure authentication methods and automated audit trails, which reduce the potential for fraud and ensure compliance with regulatory standards. Additionally, it allows for real-time updates and immediate confirmation of appointments, which further reduces delays and enhances the user experience.

Moreover, digitalisation removes the inefficiencies associated with paper-based processes, such as manual errors, processing delays, and higher administrative costs. For data holders, offering a solely online appointment process can lead to operational efficiencies, reduced overheads, and a better alignment with modern, customer-centric service expectations.

A further enhancement we recommend is allowing consumers with ‘view access’ in their online banking portals to automatically share CDR data. This poses no additional risk since these individuals already have the capability to download and store data outside the banks’ platforms. Incorporating this functionality would streamline the process further and encourage more widespread adoption of the CDR among small business users.

2.4. Impact of not proceeding with the proposed change

Should the proposed digitalisation not proceed, the continuation of paper-based processes will likely perpetuate the inefficiencies and barriers to CDR adoption that currently exist. Small businesses may continue to face difficulties in appointing representatives, leading to slower uptake of the CDR and limiting the potential benefits of data sharing. For banks, maintaining outdated manual processes will result in continued higher operational costs, slower processing times, and potential dissatisfaction among customers seeking a more modern, efficient service.

3. Avoiding unintended consequences and information overload

3.1. Overview

Xero does not support the proposed changes in sections 1.6 and 1.8 of the consultation paper, which require data recipients to provide all information about supporting parties at the time of consent or full details of marketing activities at the point of direct marketing consent. Both requirements risk overwhelming consumers with excessive information, potentially reducing engagement and participation in the CDR regime.

Instead, we recommend managing this information through a CDR Policy or similar approach, allowing consumers to access further details if desired. This streamlined approach would increase efficiency, driving higher participation in the CDR ecosystem.

Additionally, Xero is concerned about the proposal in section 1.7, which requires the deletion of redundant data by default unless consumers provide explicit consent for de-identification. This could lead to the unnecessary deletion of valuable data, as consumers may not see a strong incentive to opt in. De-identified data is essential for supporting product improvements, research, and security. Imposing such strict requirements for de-identification may limit its use, affecting businesses' ability to innovate and deliver enhanced services.

3.2. Outcome and opportunity

Providing consumers with excessive information at the point of consent, particularly regarding supporting parties, risks overwhelming them and could deter participation in data sharing. Xero believes that managing this information through a CDR Policy—similar to how privacy policies operate—would ensure transparency without overburdening consumers. For example, businesses could disclose: 'We may share your CDR data with an outsourced service provider (OSP). For further details, click here.' This approach allows consumers to access more detailed information about supporting parties if they wish, while simplifying the initial consent process.

For direct marketing consent, Xero suggests that instead of presenting all marketing activities upfront, businesses should provide a simple statement directing consumers to learn more: 'For more information on how your data may be used for direct marketing, click here.' This ensures transparency without overwhelming consumers at the point of consent.

Similarly, regarding redundant data and de-identification, Xero recommends a streamlined approach. Instead of requiring explicit consumer consent as the default for de-identification, ADRs could be permitted to refer consumers to their CDR policy, where they retain the option to either delete or de-identify redundant CDR data (depending on the circumstances), following established privacy practices. This would simplify the process for consumers, while ensuring that de-identified data can still be used safely for purposes such as innovation, fraud prevention, and other essential activities, while aligning with ongoing discussions around privacy reform in Australia.

By reducing the cognitive load on consumers, this streamlined approach is likely to drive higher participation rates in the CDR framework. It also allows businesses to present the required information in a clear and structured way, making it easier for consumers to understand and engage with the system.

3.3. Efficiency and benefits

This approach offers efficiency benefits for both consumers and data recipients by allowing businesses to comply with regulatory requirements while maintaining a consumer-friendly experience. This reduces friction for consumers, improving their experience and encouraging greater engagement with the CDR regime.

For businesses, simplifying the consent process and reducing information overload provides the opportunity to build trust with consumers. By offering clear, accessible information without overwhelming them at the initial consent stage, businesses can promote better adoption of digital tools and data-sharing services, ultimately contributing to increased participation in the CDR ecosystem.

3.4. Impact of not proceeding

If these changes are not implemented, the CDR regime may face lower participation rates as consumers become deterred by overly complex consent processes. The higher threshold for de-identification consent could result in data being unnecessarily deleted, limiting opportunities for innovation and the development of consumer-centric products. Information overload could result in higher rates of consent withdrawal. Additionally, businesses may face increased compliance costs due to more complex consent management, and the broader objective of the CDR—promoting data-driven innovation and competition—could be diminished as a result of lost data insights and missed opportunities for service enhancements.