

9 April 2018

Via email: [data@treasury.gov.au](mailto:data@treasury.gov.au)

## REVIEW INTO OPEN BANKING IN AUSTRALIA: COMMON LEDGER SUBMISSION

Common Ledger welcomes and applauds Scott Farrell's report into Open Banking in Australia.

Common Ledger's mission is to secure the future of the small business (**SME**) by leveraging the power of Open Accounting Data. The report accurately quotes the Interim Report of the Financial System Inquiry in Chapter 3 stating that "information asymmetries are particularly acute for small businesses" and "are the most significant structural factor contributing to the higher cost and lower availability of credit for SMEs and can be a barrier to competition in SME lending". A Macquarie Bank 2015 report identified a \$60 billion lending shortfall for SMEs in Australia<sup>1</sup>. The Australian Small Business and Family Enterprise Ombudsman Kate Carnell has also stated "There is no competition, the big four banks have 80 per cent plus of the SME lending market and they mostly don't lend except if it is secured against property and that means access to capital is very difficult for many SMEs."<sup>2</sup>

Open Banking, as part of the Consumer Data Right, "aims to share this value [of customer banking data] with customers by giving them greater access to, and control over, their banking data". Common Ledger agrees will go some way to reducing the information asymmetries outlined above. Banking data alone should provide consumers access to some financial products and services that better suit their needs.

Open Banking and PSD2 in the United Kingdom has included SMEs with annual turnover of up to £25 million in its definition of "consumer"<sup>3</sup>. Scott Farrell's report calls for similar definitions and inclusions. The 'persona data' equivalent of businesses is accounting data - not limited to bank transactions but including debits, credits, profits, tax, assets and liabilities. Common Ledger believes this information should be included in Open Banking and the wider Consumer Data Right. This will encourage competition and allow greater and more efficient access to products which use accounting data as a mission critical input, for example, business credit, business insurance, industry benchmarking and other valuable financial services. A standout example of this in the UK is iwoca, who has developed credit underwriting algorithms that draw data on small businesses' underlying cash flows from merchant platforms among other sources - including accounting data. Experiencing "triple-digit growth", they are outpacing banks in the UK where credit volumes to SMEs remain muted, or even declining, according to a BDRC report<sup>4</sup>.

Chapter 3 of the Farrell report states: "it would seem unfair if banks were required to provide their customers' data to data recipients [...] but those data recipients were not required to reciprocate in any way, merely because they were not banks and therefore did not hold 'banking' data. An Open Banking system in which all eligible entities participate fully — both as data holders and data recipients — is likely to be more vibrant and dynamic than one in which non-ADI participants are solely recipients of data, and ADIs are exclusively transmitters of data."

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<sup>1</sup> <https://www.rfigroup.com/rfi-group/news/key-battleground-banks>

<sup>2</sup> <https://www.smh.com.au/business/small-business/heat-on-big-four-as-new-bank-launches-with-sme-focus-20180326-p4z69k.html>

<sup>3</sup> Retail banking market investigation - Final Report. (2018). Competition and Markets Authority, p.89. Available at: <https://assets.publishing.service.gov.uk/media/57ac9667e5274a0f6c00007a/retail-banking-market-investigation-full-final-report.pdf>

<sup>4</sup> <https://www.euromoney.com/article/b17c1cfty3pffn/iwocas-growth-shows-sme-hunger-for-credit-as-banks-withdraw>

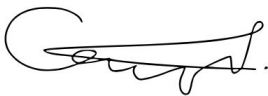
The report goes on to state: “This concern for balancing obligations of participants has led the Review to the conclusion that, in principle, any non-ADI entity that participates in Open Banking as a recipient of data should also be obliged to provide *equivalent* data in response to a direction from a customer.” As above, Common Ledger believes this equivalent data is accounting data. This source data is owned by the SME. Applying for credit is a painful, laborious process involving manual data exports and paper forms - when accounting data freely flows both ways between banks and small businesses, a new reality will be realised. One where SMEs have greater access to services enabling choice, access to competition and the products that best suit their needs to allow them to grow and thrive. Common Ledger understands this problem intimately from the perspective of the business owner, the banker and the accountant, and has been the first to build the Accounting Data Plumbing infrastructure to facilitate the flow of normalised accounting data between these three parties.

Open Banking including Open Accounting Data will create powerful, lasting benefits for SMEs in Australia and worldwide. Common Ledger recommends that;

- a) Accounting Data should be included in the initial tranche of Open Banking legislation; or
- b) Accounting Data should be included in the next tranche of Open Banking and wider Consumer Data Right legislation

Banks, fintechs and other providers will be able to use Open Accounting Data to build better products and services and give customers choice and the best offering for them. Cash flow is the lifeblood of any business, and useful yet underutilised credit products like invoice finance will be revolutionised, encouraging competition and driving efficiency through up-to-date, automated feeds of accounting data to credit providers. Common Ledger’s mission is to facilitate this movement of accounting data and secure the future of the small business thus playing a key role in closing the \$60 billion SME lending shortfall in Australia.

Yours sincerely  
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*Common Ledger is a fast growing fintech company providing Open Accounting Data Plumbing to Australian financial services firms. Common Ledger believes that data is most valuable when it can be used by multiple parties for a range of purposes. Assuming privacy, safety and security, data wants to be free!*

*Common Ledger will be successful as a company because we identified the ‘open data’ trend for business accounting data before anyone else, and have built the infrastructure first. We will be the global domain experts in both accounting data and its transmission between systems and parties across a range of mission-critical use cases. Common Ledger will win business because it is trusted by customers and the market alike - preserving neutrality in the eco-system (“The Switzerland Model”).*

*Common Ledger’s head office is in Wellington, New Zealand, with an Australian office in Melbourne, and is powered by a team of 15 Open Accounting Data and financial services experts. It has raised early stage capital from some of Australasia’s top fintech investors, proved out its core thesis that the world needs Open Accounting Data Plumbing, and is now growing strongly in New Zealand and Australia and looking to the UK, Canada and the USA.*

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