

9 September 2021

Strategic Assessment Team
Consumer Data Right Division
The Treasury Langton
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PARKES ACT 2600

By email: data@treasury.gov.au

Dear Director,

Treasury Consultation: Consumer Data Right Strategic Assessment

The FSC welcomes the opportunity to provide high-level comment on Treasury's Consultation Paper *Implementation of an economy-wide Consumer Data Right Strategic Assessment*.

General comment

The FSC¹ recognises this significant and economy-wide reform driven by the Government for how the Consumer Data Right (CDR) can best empower consumers (individuals and businesses) by virtue of how their data is shared with accredited and trusted third parties and the parameters by which they consent for this to be done. Within the context of the financial services sector which is the industry in which our members operate across and within, the FSC has a strong understanding of how rolling out the CDR could be considered within the broader context of legislative, regulatory, and industry-led initiatives across the financial services landscape.

In financial services, we see consumers facing practical issues when moving between different services and welcome the CDR's intention to enable a more seamless consumer-led experience. In our view, the true value unleashed by a CDR framework will centre on the ability for individuals to own, manage and share personal data. A well-designed CDR framework involving deep consultation with key industry stakeholders will enable consumers to use data, both personal and product, in their interactions with the array of products and services available within the Australian economy.

We are also aware of a number of frameworks already under development by Government that either relate

¹ The FSC is a leading peak body which sets mandatory Standards and develops policy for more than 100 member companies in one of Australia's largest industry sectors, financial services. Our Full Members represent Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks and licensed trustee companies. Our Supporting Members represent the professional services firms such as ICT, consulting, accounting, legal, recruitment, actuarial and research houses.

The financial services industry is responsible for investing \$3 trillion on behalf of more than 15.6 million Australians. The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Securities Exchange, and is the fourth largest pool of managed funds in the world.

to the CDR or to the digital identity of consumers more broadly. The Trusted Digital Identity Framework is an example of this along with a broader focus on reforms to the digital economy and regulatory improvements to better enable the use of technology or technology-neutral legal and regulatory application. Overlapping regulatory regimes relating to the CDR long-term are likely to impede efficiencies otherwise derived from the uptake of this technology. Ensuring data that is comparable is also important deriving the benefits of the CDR long-term.

Superannuation sector

We note the Strategic Assessment has identified the Superannuation sector as a potential future sector that could be suitable for the CDR. The FSC has long supported the expansion of the CDR to superannuation building on the success of the implementation of SuperStream and to enable consumers to make informed choices and more easily switch between superannuation funds.

The CDR could also be an effective tool for supporting the implementation of the Government's proposed Retirement Income Covenant, particularly as there would be significant data available on retiree's draw down and consumption patterns in retirement and the different types of products that would suit individuals with different circumstances in retirement (eg. marital status, home ownership).

Given there is already substantial data collected in relation to superannuation products and transactions it will be important to:

- agree the types of superannuation data that will be useful to consumers and should be included in an Open Super framework;
- establish what data already exists, and ensure that an Open Super framework does not duplicate existing data collection activities; and
- ensure the Open super regime is sufficiently compatible with existing data standards.

A significant amount of product-level data is currently collected and published by APRA, with a new data collection process for choice superannuation products currently being developed. The ATO also collects account and transaction data, much of which is made available directly to consumers through MyGov. Wherever appropriate, this existing data should be used to facilitate Open Super.

The risk of duplicated data collection should be avoided if the development of Open Super is not properly considered in the context of both consumer needs and existing data. This will increase the cost of implementation without delivering any benefit to superannuation fund members.

Life insurance sector

We note the Strategic Assessment has not yet identified the Life insurance sector as a potential future sector that could be suitable for the CDR. We agree with this assessment. In our view, while the potential benefits of applying the CDR to the life insurance industry are significant, the nature of life insurance data and the industry's digital readiness mean that the CDR would best be implemented over the medium-term time horizon.

As noted earlier, consumers are required to share their health, lifestyle, occupational and financial data with their life insurer and are individually underwritten to determine the specific terms of the cover that will apply for the term of their policy. This is a complex risk assessment process based for how these factors interact and also how this risk sits relative to the broader risk pool of other lives insured. The health data of an individual is understandably highly sensitive and requires careful consideration of whether and how this

information should be shared with the intention of optimising consumer, commercial and economic outcomes.

It is important to bear in mind that the life insurance industry is currently undergoing significant legislative and regulatory change as it works to implement and embed the reform arising from the Banking and Financial Services Royal Commission. There are also other significant drivers of change occurring, for example the implementation of International Financial Reporting Standard (IFRS 17).

Datasets for consideration

The FSC has identified two readily available datasets and some illustrative use cases that could be contemplated in Australia's future CDR framework.

ATO data

Tailoring Income protection policies to the customer's actual income: Currently, the purchase of an income protection policy, which is a specific type of life insurance product, relies on the consumer providing their health, lifestyle, occupational and financial data for underwriting at outset. There is no easy way for the consumer to adjust their level of cover based on their changing circumstances. As the level of cover on income protection policies are on an indemnity basis, that is the claim benefit is based on the earnings of the life insured at the time of claim, it is often only if and when the policy owner makes a claim on their income protection policy that the life insurer knows the current earnings of the life insured.

By enabling consumers the choice to share the personal income data they lodge to the ATO as part of their tax returns with their life insurer, the life insurer would be able to tailor the level of cover provided and the corresponding premium based on the consumer's current income. If a consumer makes a claim, this process can be expedited as proof of income can be immediately verified by the life insurer which results in a consumer being paid out on their claim quicker. Ensuring the level of cover is continuously tailored the consumer's changing personal circumstances will help address existing prudential concerns around the ongoing sustainability of income protection policies, reduce administration costs once the data flow is established and enable consumers to optimise their level of insurance coverage.

Banking Mortgage data

Getting the right insurance is vital for customers and their family and addressing Australia's underinsurance problem. However, suitably addressing a person's holistic life insurance needs is a difficult problem to solve as point in time financial advice is expensive and the personal circumstances of a person changes constantly based on significant life events. Enabling consumer's the option to share their banking data with life insurers and for life insurers to share data on their products and services with consumers would enable a real-time exchange of information and marketplace where consumers have access to a diverse range of life insurance products that can protect their financial wellbeing. As it stands however this exchange of information is limited to bespoke and separately negotiated distribution agreements between banks and life insurers.

The role of banks or non-banking lenders can become that of a marketplace enabling different providers to offer services on their platform to their customers. Giving the customers the right to decide on the data usage will lead to additional competition and cost reduction of Life Insurance policies. This would also allow life insurers to develop more innovative life insurance products, for example products that automatically varies level of cover and premium based on how the consumer's net asset position moves over time without the need for consumers to contact insurers to reduce cover, or cancel cover when the mortgage no longer exists.

More broadly, this integrated and life cycle journey approach would address the significant and complex

problem of underinsurance in the Australian community. As customers age and experience significant life events that materially affect their financial position, a CDR would empower them to consider and make decisions that respond to how their life insurance needs change with them. These significant life events include a first/new job, a new mortgage, starting a family, a potential divorce, becoming an empty nester and retirement.

Timing

A significant pipeline of reform is currently underway in the areas of life insurance, superannuation and financial advice. We agree with the approach outlined in the Strategic Assessment that the implementation of the CDR should be viewed in the context of these reforms as a rushed implementation timetable would create undue risks. Integrating the iterative learnings from experiences of Open Banking, energy sector and telecommunications sectors are critical to the development, implementation and success of a sequenced rollout to other sectors within the financial services industry.

The FSC would welcome the opportunity to meet with Treasury further to talk to points in this submission or other matters. For more information or should you have any questions please do not hesitate to contact me.

Yours faithfully,

Zach Castles
Policy Manager (Advice)