

Open banking: switch or stick?

Insights into customer switching
behaviour and trust

October 2019

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Summary

“Our sector has had a golden period for 20 plus years and we don’t think that’s going to continue. It is going to be harder... This is not the time for an incumbent mindset, nor the time to continue what has worked in the past.”

Shayne Elliott, CEO, Australia and New Zealand Banking Group¹

From February 2020 customers will be able to instruct their bank to share their account and transaction information with accredited third parties.

What might encourage customers to consider other alternatives for their banking products and services than their current provider? What will this mean for the banks? What will it mean for challengers? And what opportunities will it provide for non-banks?

Opening up bank data carries an inherent threat of commoditisation for incumbent banks and will require a fundamental rethink of the traditional banking business model of incumbents.²

Access to customer data will reduce barriers to entry and enable new entrants to be more competitive. New players in financial services can leverage the insights provided by a customer’s transaction data to create new tailored propositions for currently unmet needs. Customers will be able to more easily switch between providers.

Customers may see their primary relationship being with an organisation that aggregates all of their accounts, which could be a challenger bank, a fintech or a technology company (increasingly referred to as techfins).

Incumbent banks could lose the primary banking relationship if customers increasingly choose to manage their finances via a third-party interface.³ If a bank loses its primary relationship with the customer, it risks being relegated to product manufacturer or a payment infrastructure utility.

To help organisations understand how customers could react to the introduction of open banking we have undertaken a survey of 2007 retail bank customers.

In this survey report we explore the role trust plays when consumers look at alternative providers for their banking services. And how trust influences people’s willingness to share information. We look at the process customers go through in gathering information on alternative providers of banking products and services.

We asked people what factors caused them to switch banks, either by replacing an existing product or obtaining an additional product from a new provider. Using this data we identified which people would be more likely to participate in data sharing under open banking. And we asked people who are intending to change bank, what benefits they value. Based on this and overseas experience we explore which customer propositions would be more likely to persuade people to share their data.



The 'big five'

Among the findings from our survey, the 'big five' are:



1. Trustworthiness is key

Trustworthiness is critical for any organisation seeking to participate in open banking. However, despite all the comments that people don't trust banks, people do trust banks to keep their money safe (prudential trust) and to keep information about them and their financial transactions secure (information trust). What they don't trust is that banks have their best interests at heart – **relationship trust**.

Banks need to re-think their traditional approach to building trust, move beyond a regulatory compliance framework and consider their social license to handle information. Banks will need to build relationship trust by being ethical and keeping their promises, and put in place processes and controls to ensure they can measure and manage this. Challengers will need to clearly communicate their trustworthiness on prudential trust and information trust. Being an APRA regulated entity is not enough. Think about how customers experience your trustworthiness, your 'TrustCX'. Because if you are not trustworthy, customers will be less likely to share their data with you in the first place.



2. Privacy – willingness to share

In embracing open banking, organisations need to ensure information is secure throughout the open banking lifecycle, they need to provide customers with transparency over how it's used and shared based on express and informed consent, and clearly communicate the value created for the customer if they share their information.

As we move towards an open data economy and regulatory and customer expectations grow, organisations should review the robustness of their privacy management framework to support both open banking and privacy-related processes for other personal information collected and handled.



3. Engage – gathering information

Most people are satisfied with the current provider of their banking products. As a result most people do not actively seek information about other offerings. For those that do gather information, most do not end up changing their provider. But when data recipients are accredited, people's willingness to share data triples.

If consumers are going to take advantage of the benefits of open banking, and open data as the Consumer Data Right is applied to other sectors of the economy, or make informed choices about banking products, they will need to understand the differences in financial value between different products – they will need to be financially literate, financially capable, and financially conscious.





4. Switching – know your customers

About 20% of customers have changed the provider of at least one of their banking products in the last three years.

There can be many triggers which cause people to switch providers. Retaining existing customers, or winning new customers starts with trustworthiness, followed by delivering a compelling proposition that provides value and then delivering it in a way that provides quality customer service. Customers who switch providers of their financial services products are more likely to be better educated and have a higher income. They're also more likely to be tech-savvy and Millennials (Gen Y).

Switching is not difficult for most products. It is not as difficult as people perceive. Once someone has switched, they also realise it's not as difficult as they might have thought.

Warning: Retention is cheaper than acquisition. Incumbents should be mindful that it costs a lot more – five to 25 times more – to gain a customer than to keep one, providing they are profitable customers.⁴

Challengers should make the switching process as easy as possible, and then let people, particularly influencers, know how easy it has been.

Opportunity: But one third of people still experience pain points, particularly for switching mortgage providers. There is still an opportunity for organisations to simplify the process to remove pain points and assist customers in switching to their organisation.



5. It's all about value

Many factors are important when people choose a banking provider. What's important to people differs across banking products. And it differs across generations.

While better value is most important, many other product features and services also influence customers' choices such as the ability to consolidate finances, better customer service, and more convenient banking. All banks, incumbents and challengers, and also potential non-bank competitors, need to see open banking as an opportunity. This requires focusing on developing propositions that solve customers' problems in a way that delivers value to the customer.

Being able to create a clear, differentiated proposition that delivers value to customers, and is difficult for the incumbent to quickly copy, will be critical for any challenger. Communication of benefits will be important. The clincher is knowing to which group to target this proposition. Focus on groups who are actively searching for information and seeking recommendations – Millennials (Gen Y) and post-Millennials (Gen Z).

Open banking presents opportunities for organisations to form unique partnerships to provide defensible competitive advantage.



The survey

Deloitte conducted a survey of Australian banking consumers. The survey was undertaken online by Dynata during May 2019, and was completed by 2007 people.

This sample was designed to be nationally representative of Australians aged 18 years and older (excluding Australians who did not own any financial products). Separate quotas over product type were also used to maintain sufficient sample sizes for analysis within each cohort.

It contained 28 questions where we explored:

Trust – what organisations do people trust with their money and with their information?

Willingness to share information – how does trust impact people’s willingness to share their information? And how is peoples’ willingness to share information influenced by the potential benefits they could realise?

Gathering information – how do people gather information about alternative banking products and providers? What parties most influence people?

Past switching – how many people changed providers of their banking products in the last three years? And which factors triggered their decisions to switch?

Future switching intent – what customer propositions would entice people to share information for those intending to change providers in the next 12 months?

We looked at five groups of customers based on age groups:

Builders – those aged 75 or over

Boomers – those aged 55 to 74

Gen X – those aged 35 to 54

Millennials (Gen Y) – those aged 25 to 34

Post Millennials (Gen Z) – those aged 18 to 24.

In some cases our categorisation does not completely align with other usages of these terms.

Gender			
Male		905	45%
Female		1102	55%
Age group and generation			
Post-Millennials (Gen Z)	18–24	100	5%
Millennials (Gen Y)	25–34	352	18%
Gen X	35–54	772	38%
Boomers	55–74	665	33%
Builders	75 or over	118	6%
Education			
less than Year 10		39	2%
Year 10 / School certificate		231	12%
Year 12 / Higher school certificate		322	16%
Certificate I-IV		603	30%
Bachelors degree		596	30%
Masters degree or PhD		216	11%
Household income			
Negative or nil income		16	1%
\$1–\$15,599		41	2%
\$15,600–\$25,999		127	6%
\$26,000–\$41,599		278	14%
\$41,600–\$64,999		307	15%
\$65,000–\$90,999		367	18%
\$91,000–\$155,999		568	28%
\$156,000 or more		303	15%



Getting ready for open banking



Getting ready for open banking

“Many banking customers cannot make the right decisions about choosing accounts or services... because they cannot access the information needed to be a smart customer... Open banking will make it easier to be a smart customer. Open banking therefore has the potential to radically change the competition landscape.”

Alasdair Smith, UK Competition and Markets Authority Inquiry Chair⁵

The Farrell Review into open banking led with the headline: giving customers choice, convenience and confidence.

Through open banking customers will discover that they own and control their own data. They will realise that their data has value, and by sharing it with confidence, they can have greater choice on where they bank and how to realise the benefits of new and better products and services as they are offered.

With the Consumer Data Right (CDR) legislation now enacted⁶ and the rules and standards finalised, organisations should be thinking about what the introduction of open banking means for their relationship with their customers.

Focusing on the customer

Over the last 12 months, many organisations have focused on what is needed to meet their compliance obligations as a data holder. Some have also considered the compliance obligations they need to meet to become an accredited data recipient. But the CDR is all about creating benefits for customers and reaffirming their custodianship over their personal information. So it is important for organisations to be thinking about what value they will create for customers.

There was a similar evolution in the United Kingdom. The nine largest banks in the UK, as determined by the Competition and Markets Authority (CMA) as part of the UK's open banking initiative (the CMA9) initially focused on meeting their compliance obligations. It was only after open banking had started that they began to look at providing customers with propositions that delivered new benefits.



A report on the implementation of open banking in the UK⁷ highlighted the limitations that resulted from the UK restricting open banking to current accounts and other payment accounts – mortgage accounts and savings accounts were excluded – and requiring only the CMA9 banks to comply.

It recommended that the UK's open banking initiative be expanded to include a broader range of banking and financial services products, to cover all banks and be extended to other financial service providers; and indeed other sectors of the economy.

Fortunately Australia's implementation of open banking has avoided these pitfalls.

Open banking in Australia applies to all banks and any other non-bank organisations participating in open banking as accredited data recipients, and a broad range of banking products are included.

As set out in the Timeline in Figure 1, information on a customer's transaction accounts, savings accounts, debit and credit cards and term deposits will be shareable by the big four banks from 1 February 2020 and by all banks from 1 February 2021.

Information on home loans and personal loans will be shareable by the big four banks from 1 July 2020 and by all banks from 1 July 2021. Information on all other relevant products, including overdrafts, investment loans and leases, will be shareable by the big four banks from 1 February 2021 and by all banks from 1 February 2022.

Phase 1 products include:

transaction accounts, savings accounts, debit and credit cards, and term deposits.

Phase 2 products include:

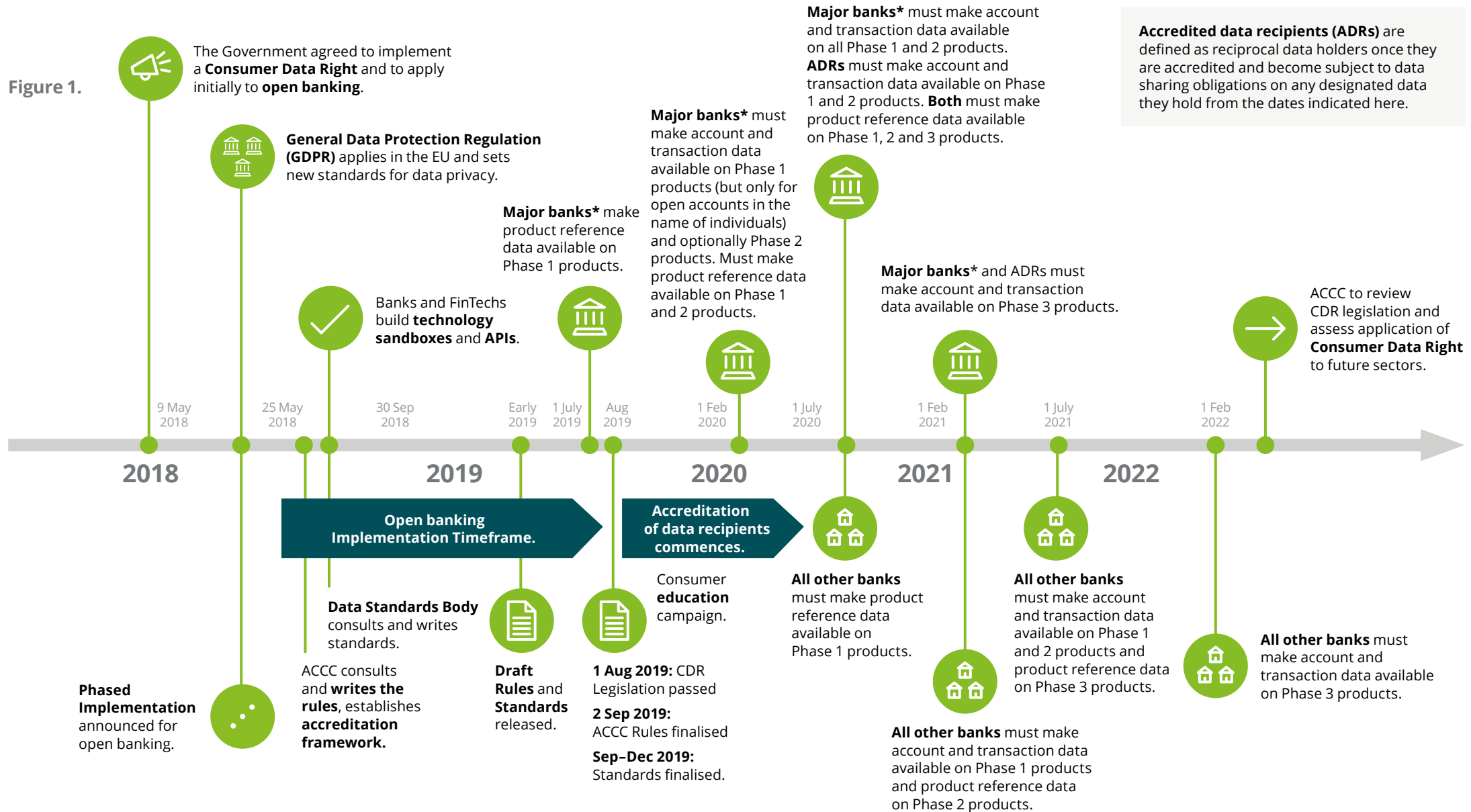
home loans, personal loans and mortgage offset accounts.

Phase 3 products include:

lines of credit (personal and business), overdrafts (personal and business), consumer leases, asset finance (including leases), business finance, investment loans, cash management accounts, farm management accounts, pensioner deeming accounts, retirement savings accounts, trust accounts and foreign currency accounts.



Figure 1.



*Major banks include ANZ, CBA, NAB, and Westpac excluding their sub-brands i.e. Bank of Melbourne, St George, Bankwest etc.

This timeline is a simplified view of the ACCC Phasing table. Data holders and potential accredited data recipients should consult the phasing table to ascertain the products, account types and data types detail relating to each time period.



Customers will be able to choose who to bank with, based on the products and services that provide the best value for them. For organisations, the ability to communicate the benefits available to customers and the value they deliver to customers will be key.

The framework for open banking, the Consumer Data Right, has been designed to be extended to other sectors with energy and telecommunications already identified. Insurance, superannuation and health insurance have also been flagged as potential sectors for the CDR.

But how will customers react when open banking begins and they can choose to share their data?

In the survey we explored the process customers follow when choosing a financial services provider: the role trust plays when consumers look at alternative providers; how trust influences people's willingness to share information; the factors that prompted people to change the provider of their banking products; and what factors most motivate people who are intending to change provider.

We also looked at the decision to purchase a new product or replace an existing product: How do customers gather information when considering banking alternatives? And who influences their decision?



Trustworthiness is key

Who do I trust?



A climate of distrust

When considering the role that trust plays in the emerging open data economy it is useful to consider the broader global socio-political context in which data sharing will commence.

Many people find the sheer velocity of change overwhelming. As a result they feel increasingly vulnerable, as citizens, employees, and inevitably, as consumers. It is this general sense of vulnerability – a belief that the system is no longer working for them – that plays a significant part in creating and sustaining a climate of public distrust towards institutions.

Trust used to be given by default, and was only lost through poor corporate actions. That is no longer true. Many corporate entities are distrusted as a default condition, not for what they do, but what they represent in a rapidly changing world. When they behave badly, the reputation and regulatory fallout of such behaviour is greatly amplified. As a result, retaining (or regaining) consumer trust is largely dependent on an organisation ensuring it is **trustworthy**, in part by ensuring greater customer centricity in the provision of its products and services.

Trust is important. It drives loyalty, and is a foundational element when consumers are considering whether to change their financial service provider. If organisations are not trusted, they are unlikely to be considered as alternative service providers. In a report published in July 2018, Deloitte found that 42% of customers said their trust in the banking industry had deteriorated in the last 12 months.⁸ This was confirmed in the inaugural Deloitte *Trust Index – Banking* published in October 2018.⁹ Both reports were undertaken prior to the full revelations from the Hayne Royal Commission into Misconduct in Financial Services.

Following the Hayne Royal Commission much has been written about trust in banks and financial service providers.

Overall, people are more willing to share their information with organisations that they also trust with their money. This presents a challenge for the open banking ecosystem, as our research shows that less than half of people say that they trust organisations to keep either their money or their information safe.

Although trust is a broad and complex concept there are three dimensions to trust that stand out:

- 1. Prudential trust** – do I trust an entity to keep my money safe?
- 2. Information trust** – do I trust an entity to keep information about me and my transactions secure?
- 3. Relationship trust** – do I trust that an entity has my best interests at heart?



Prudential Trust

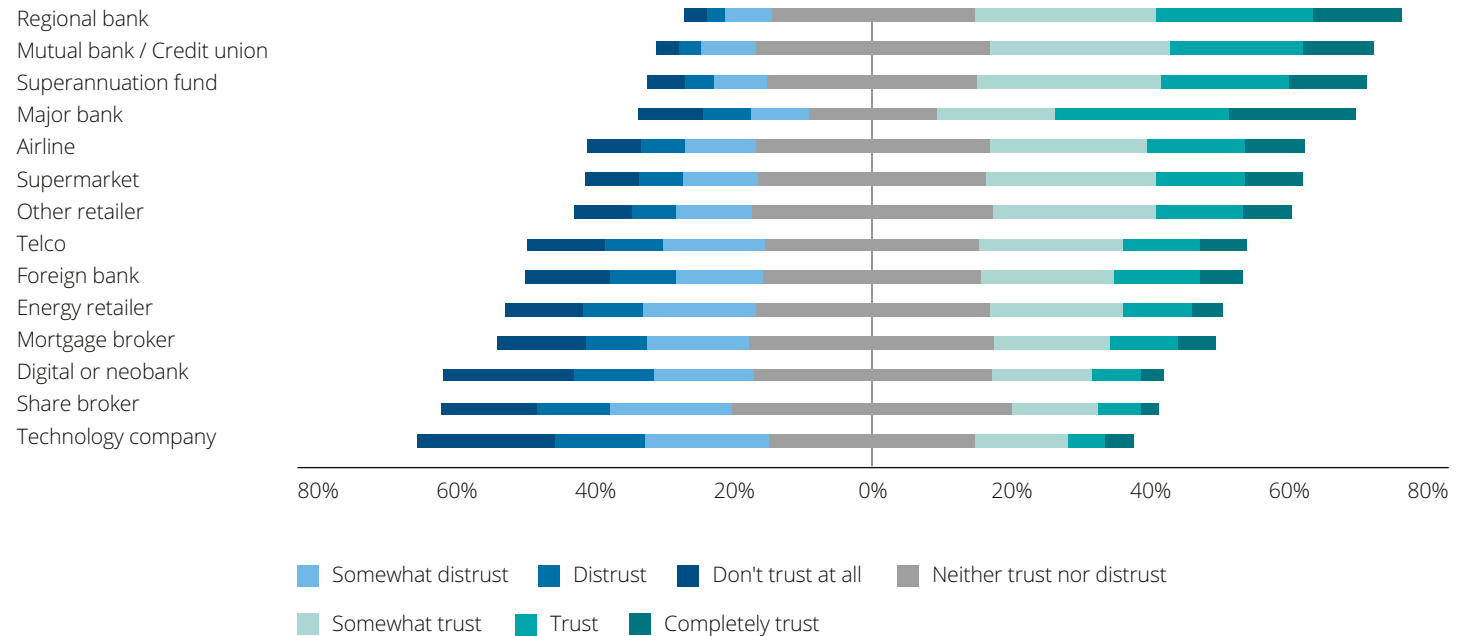
We asked people how much they trusted a range of organisations to keep their money safe.¹⁰

Two things stand out.

Firstly Australians are not very trusting. Less than half of those surveyed trusted or completely trusted any of the organisations to keep their money safe, including any of the regulated and supervised entities.

However when we look at *relative* levels of trust, we trust the four major banks more than we trust any of the other types of organisations to keep our money safe. Forty-two per cent (42%) of people trust major banks to keep their money safe, with 28–34% trusting regional banks, mutual banks, and superannuation funds.

Figure 2. Prudential Trust



We also looked at the net prudential trust score – the difference between those who trust and those who distrust organisations.¹¹

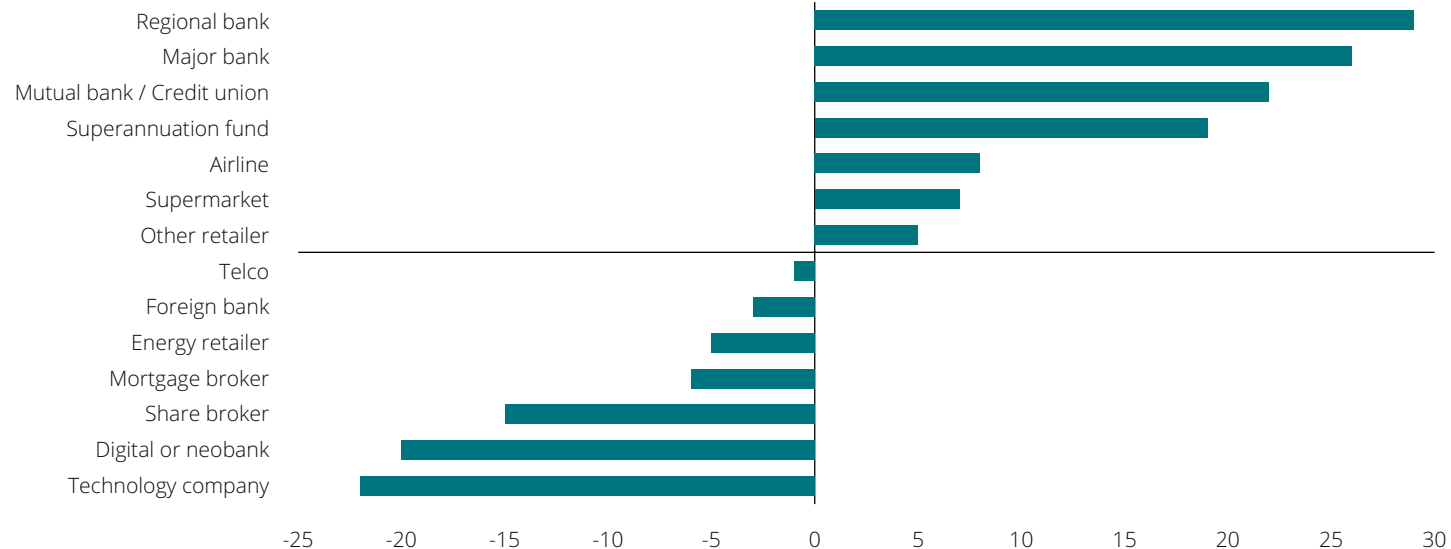
Regional banks have the highest net prudential trust score. Not surprisingly the major banks, mutual banks and **superannuation funds** also had a high net prudential trust score with between 20% and 30% more people trusting them to keep their money safe than distrusting them.

Digital banks, despite being regulated and supervised like other banks, were trusted by only 10% of people, and distrusted by 29%.

Technology companies, often seen as the source of potential competition for banks, have the lowest net prudential trust score. They were trusted by only 9% of people, and distrusted by 32%.

Interestingly **airlines** and **supermarkets** also had positive net prudential trust scores suggesting that there is an opportunity for companies in these industries to consider broadening the range of financial products and services they provide.

Figure 3. Net trust score



Note: The net prudential trust score was calculated as the difference between the 'Trust' scores ((6) and (7)) and the 'Distrust' scores ((1) and (2)). Scores of (3), (4) and (5) are treated as neutral.



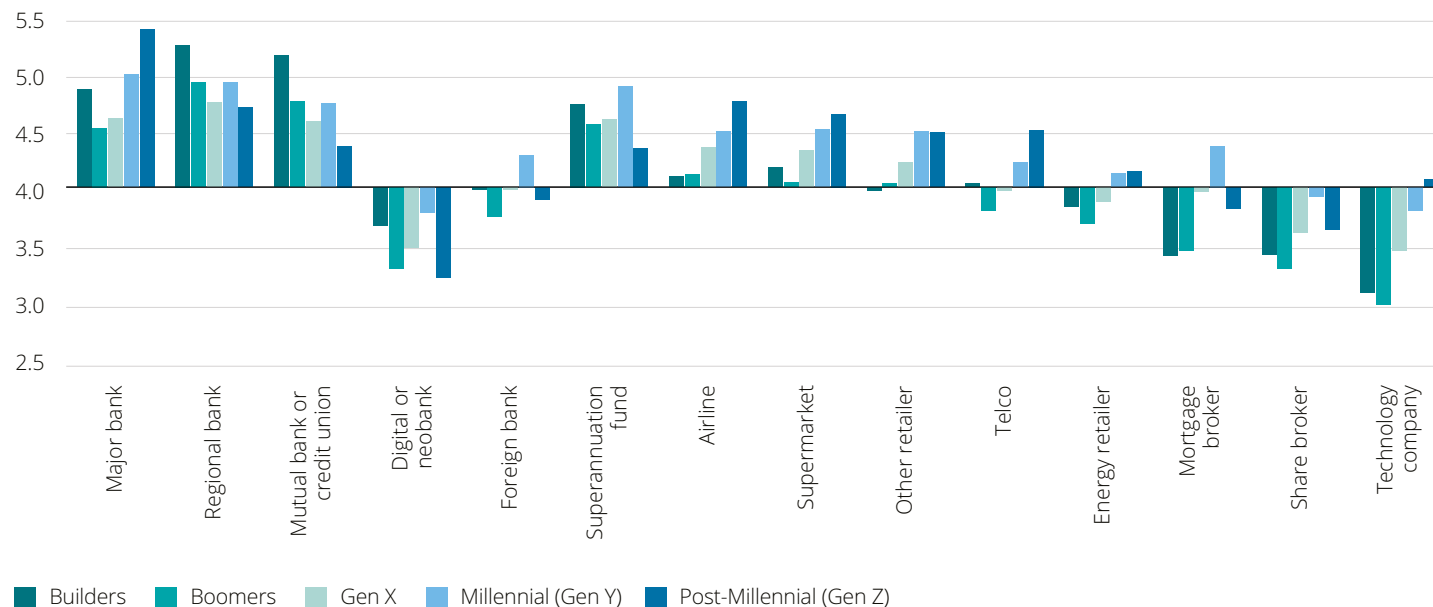
Levels of prudential trust vary across different age groups. The chart below looks at variations in average levels of trust and distrust by different demographic groups across types of organisation, where four is the midpoint ('Neither trust nor distrust').

Prudential trust in the major banks increases (in general) as you get younger. Boomers and Builders had the lowest level of prudential trust in the major banks. Yet, despite the revelations from the Royal Commission, prudential trust in the major banks increases as you get younger, with the highest level of trust from post-Millennials (Gen Z).

However the opposite is true for regional banks and mutual banks. Prudential trust in these traditional competitors of the major banks **decreases** (in general) as you get younger. Compared to other generations Millennials (Gen Y) and post-Millennials (Gen Z) have higher levels of prudential trust in non-banking organisations including airlines, supermarkets, telecommunication companies and other retailers.

Although technology companies were not trusted to keep people's money safe, Millennials (Gen Y) and post-Millennials (Gen Z) had lower levels of distrust in technology companies compared to other generations.

Figure 4. Prudential trust (by demographic)



Almost all generations had higher levels of prudential trust in superannuation funds, with post-Millennials' lower levels of trust likely to reflect their limited experiences with superannuation – they don't know much about what they haven't really experienced.

However all generations distrusted digital banks' ability to keep their money safe, Millennials (Gen Y) were the least distrusting. Notwithstanding this, digital bank offerings are appealing to some customer cohorts. Our survey reveals over a third (34%) of current digital bank customers are Boomers and Builders and 25% are Millennial (Gen Y). Bendigo Bank reported that their 'next-gen' digital bank subsidiary, Up, attracted 138,000 new customers in FY19 of which more than 80% were Millennials (Gen Y).^{12,13}



Information trust

Trusting organisations to keep your money safe is one thing. But for open banking to be successful, people need to trust organisations to keep information about them and their transactions secure. At its epicentre people need to believe that the organisation they select will treat their privacy seriously.

In a digital economy individuals are demanding transparency and accountability in how entities collect, handle and use their personal information. This includes going beyond the 'black-letter' law, to being able to challenge information handling practices through an ethical lens – and avoid 'creepy' behaviours.

Open banking is being implemented in an environment in which privacy is gaining greater local and global attention, with an increase in the number of data breaches reported and disclosed to privacy regulators, and an increase in the number of individuals affected.

In Australia, 2017 and 2018 were the two worst years for data breaches.¹⁴ As a result of the mandatory reporting regime, data breach notification is reaching new heights with a 712% increase in notifications, since it came into law in February 2018.¹⁵ Globally, the number of reported data breaches in 2019 is up 54%.¹⁶

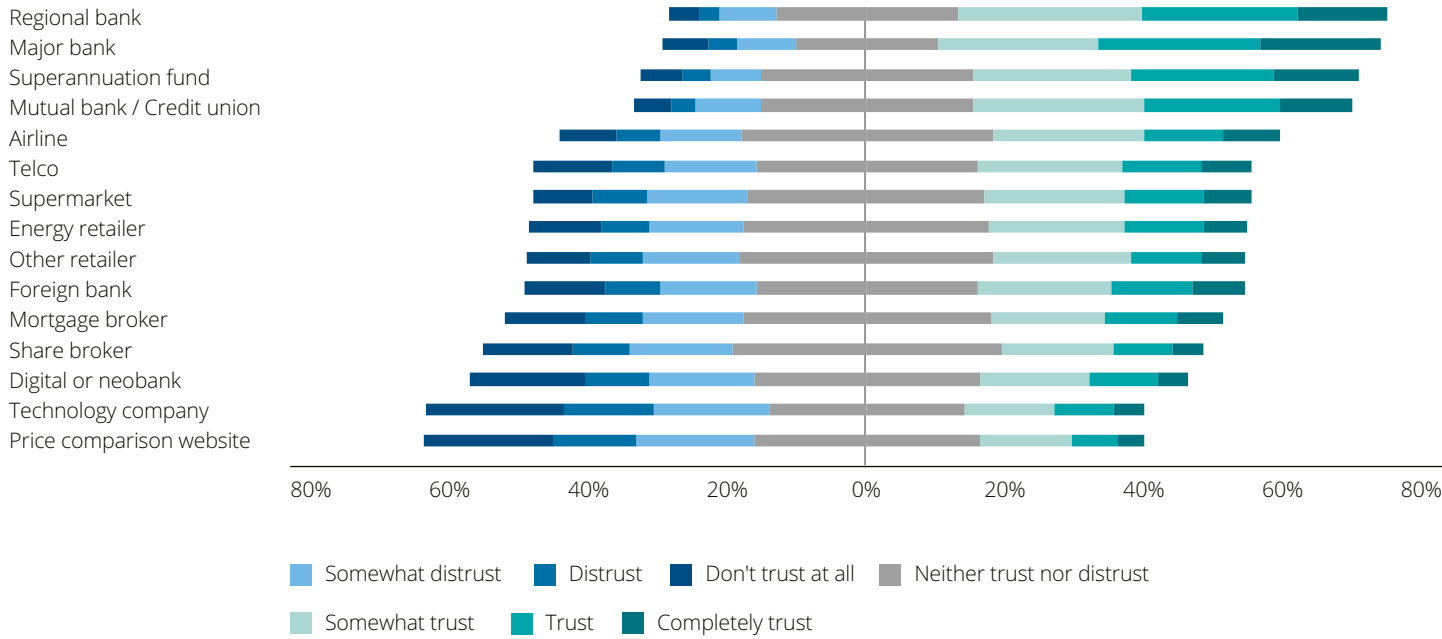
The global privacy regulatory landscape is also becoming increasingly strict, prompted by the introduction of the European Union's General Data Protection Regulation (GDPR). The GDPR impacts Australian businesses operating in the EU or whose customers (and other stakeholders) are domiciled in the EU. The GDPR has influenced the development of stricter privacy laws in other parts of the world, including California, Thailand, and New Zealand.

Increasingly there are reports of organisations, and partners in organisations' ecosystems, collecting and storing location and other data of consumers. Usually this is occurring without a user's knowledge, let alone express, informed consent.¹⁷

In its report on digital platforms, the ACCC noted that "The existing Australian regulatory framework for the collection, use and disclosure of user data and personal information does not effectively deter certain data practices that exploit the information asymmetries and bargaining power imbalances between digital platforms and consumers".¹⁸



Figure 5. Information trust



We asked people how much they trusted a range of organisations to keep information about them and their transactions secure.¹⁹

The results were similar to those for prudential trust. Again less than half of those surveyed trusted or completely trusted any of the organisations to keep information about them and their transactions secure.

Consumers are more trusting of traditional financial institutions to handle their personal information and transaction data, including regional and major banks, superannuation funds, and mutual banks and credit unions. Meanwhile, digital and neobanks, and technology companies have some of the highest levels of distrust when it comes to information security and privacy.



As with prudential trust, levels of information trust also vary across different age groups. Figure 6 looks at average levels of trust and distrust by different demographic groups across types of organisation where 4 is the midpoint ('neither trust nor distrust')²⁰

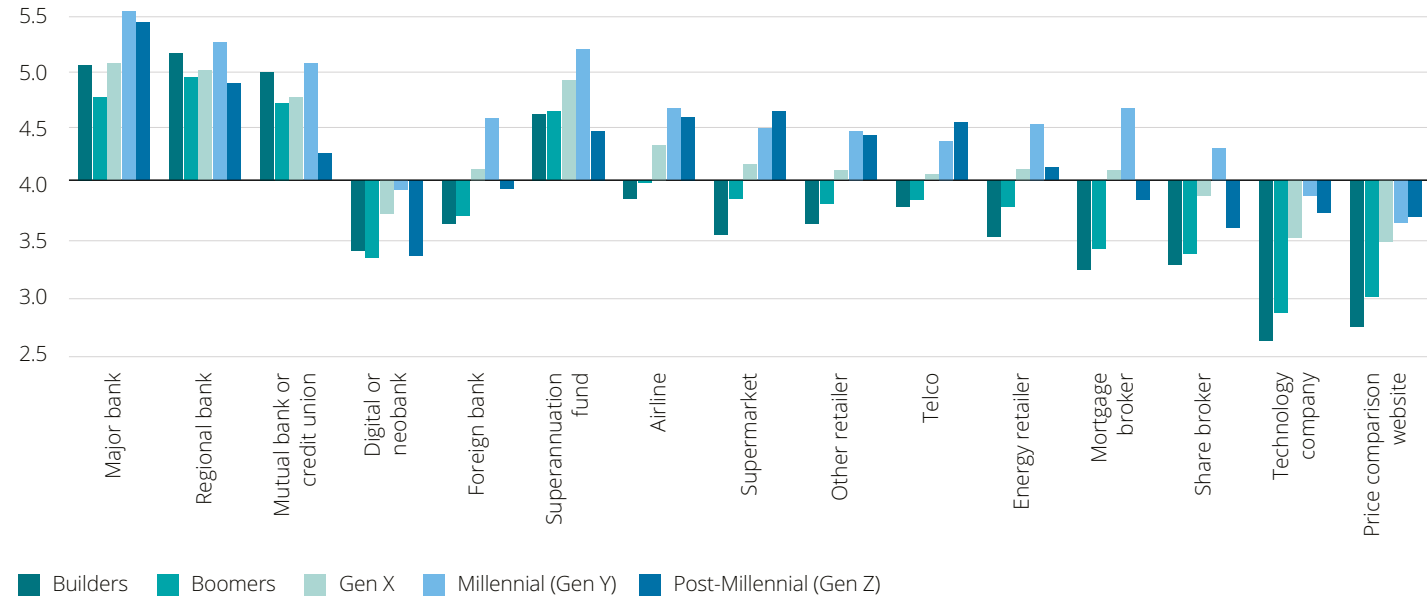
Information trust is highest for the major banks and increases (in general) as you get younger. Similar to the result for prudential trust, major banks had the highest level of information trust from Millennials (Gen Y) and post-Millennials (Gen Z).

Gen X and Millennials (Gen Y) both had higher levels of information trust in superannuation funds.

Millennials (Gen Y) and post-Millennials (Gen Z) had higher levels of information trust in non-banking organisations including airlines, supermarkets, telecommunication companies and other retailers, mirroring their prudential trust in these organisations.

Although technology companies and price comparison websites were not trusted to keep people's information secure, Millennials (Gen Y) and post-Millennials (Gen Z) had lower levels of distrust compared to other generations.

Figure 6. Information trust (by demographic)



In addition to distrusting digital banks' ability to keep their money safe, all generations also distrusted digital banks' ability to keep their information secure, although this was not as pronounced for Millennials (Gen Y) and Gen X.

People's attitude to technology also had an impact on information trust. Respondents who stated that 'keeping up with new technology is extremely important' generally hold higher perceptions of information (and prudential) trust than those that considered 'keeping up with new technology is extremely unimportant'.



Relationship trust

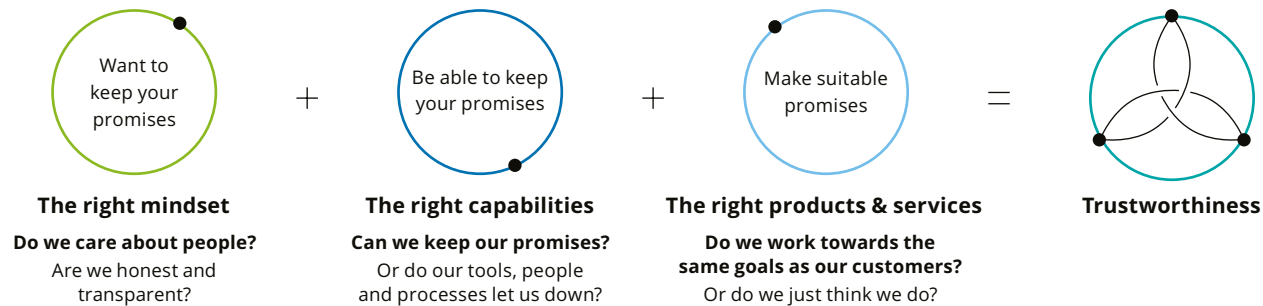
In a climate where levels of distrust have increased, it is important for banks to understand the underlying conditions that make an organisation trustworthy, and measure and manage for trust in a practical and actionable manner.²¹

This third component of trust, relationship trust, was considered in earlier surveys undertaken by Deloitte. In Deloitte's *Trust Index – Banking* we specifically asked people how much they believed that financial institutions had their best interests at heart.²² The conclusion from this inaugural *Trust Index* was that relationship trust is the result of promises kept. That is, that trustworthy organisations are able to keep the promises they make to customers.

The interplay between trust and trustworthiness is deliberate. In a climate of distrust, many organisations that are worthy of being trusted, are not trusted – not necessarily because of what they do, but often for what they represent in a world undergoing rapid and fundamental change. This was most obvious in the higher number of people trusting 'my bank' to keep its promises (49%) compared to those trusting 'all banks' to keep their promises (26%).

As a result, efforts to capture customer trust must be married with efforts to be trustworthy. Customer trust may be difficult to fully control, but building a trustworthy organisation is within the remit of all executive leadership teams.

Figure 7. 'The trust equation'



Deloitte's *Trust Index – Banking* highlighted three components that organisations need to get right:

- 1. The right mindset** – organisations understand the promises they make to customers and want to keep them. Customers are far more likely to question the ethics of the organisation than its products and services. This is a key element in building a trustworthy culture.
- 2. The right capabilities** – organisations need to be able to keep their promises; they need to have the right people, systems and processes to identify and deliver on the promises they make.
- 3. The right products and services** – organisations need to make suitable promises, as reflected in the products and services they offer.



Deloitte's *Trust Index* found that banking consumers do not believe that banks:

- Keep their promises
- Are ethical – do what is good, right and fair
- Take responsibility for the mistakes they make
- Have the interest of their customers at heart²³
- Look for new ways to provide better services to their customers.

Banking consumers have a somewhat more positive view of their own bank. Notwithstanding this, they still do not believe or they very strongly doubt that their bank:

- Can be relied upon to do what it says it will do
- Is open and honest with them
- Keeps their private details secure
- Empowers them to select products and services that meet their needs
- Deals with complaints in an effective manner
- Makes it clear from the start what they expect
- Helps them understand terms and conditions of products.

Because of these factors, most banking consumers (64%) do not believe that their bank has their best interests at heart. Deloitte's *Trust Index* found that only 20% of banking customers believe that their bank acts ethically. This is clearly of major concern.

The open banking survey highlighted that lack of relationship trust (concerns about ethics and mindset) was one of the top four reasons why people changed banks (see Figure 36).

“When an industry so dependent on market confidence and trust combines with this climate of public examination, anything that even slightly transgresses the highest standards of transparency and fairness will undoubtedly be punished.”

Mark Jones, CEO, SocietyOne²⁴



Case study – Monzo

Monzo is a challenger bank in the UK which has experienced considerable success in building a community of loyal customers. The digital bank's biggest growth driver has been its customer base. According to the company, 80% of new customer growth comes from referrals or word-of-mouth.

Key to building trust with customers has been a strong emphasis on transparency and honesty. Monzo publishes a dedicated 'Transparency Dashboard' on its website that gives customers access to information about itself.

In the Monzo community, customers are invited to vote on features they want the company to build. The product roadmap showcases when the delivery of certain features will be available. Pricing of new financial products are discussed openly in the forum to gather feedback and insights, before launch.



Community

Our amazing community of users suggests features...



Investment ethics

We believe the best way we can give you confidence in...



Annual report

Transparency is not just about documents being...



Product

We fundamentally believe that as a company, we do better...



Internal transparency

We put in place policies and practices that bring...



Crowdfunding

We're incredibly lucky to be supported by our wonderful...



Diversity

Diverse teams make better decisions and we're...



Progression

We're building a world class engineering team at Monzo...



System status

At any time, you can visit our public status page which...



Whistleblowing

If you become aware of any risk, malpractice or...



Fill this in

What else should we be making transparent? This...



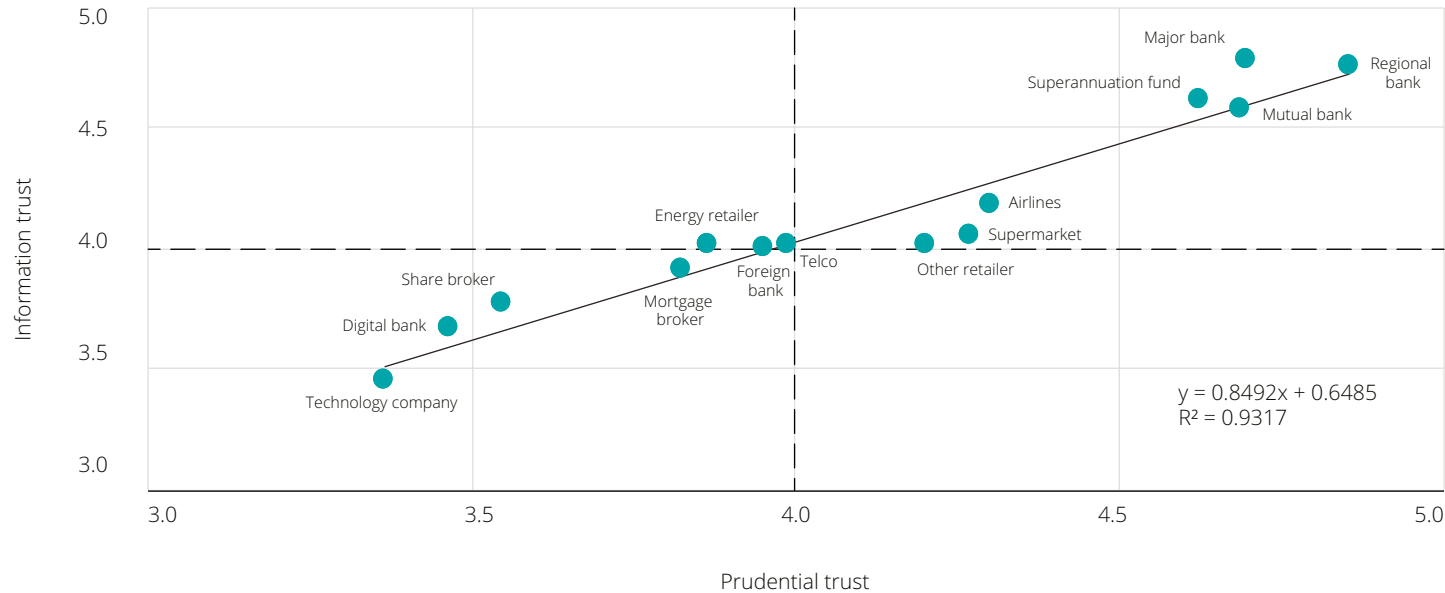
Pillar 3

These are our pillar 3 disclosures. We publish...

Source: <https://monzo.com/transparency>



Figure 8. Trust – all people



The results fall into four broad groups:

1. Organisations that are **regulated**
2. Organisations that are potential **challengers**
3. Organisations to which survey participants were **indifferent**
4. Organisations that survey participants **distrusted**.

What does this mean for potential competitors?

For the **Consumer Data Right** to work effectively people will need to trust their bank (the data holder), the party receiving the data (the accredited data recipient) and the government accreditation process. When trust is missing from any one of these players, people are less willing to share data.²⁵

There is a strong correlation in banking between prudential trust and information trust with consumers. In short, if we trust organisations to keep our money safe, we also trust them to keep information about us and our transactions secure.

All organisations need to take the same level of care with information about people and their money as they take with their money itself. If they don't, they risk losing their customers' trust.

The figure above looks at the average trust level. Based on our survey, '4' is the midpoint of our sliding scale, where people neither trust nor distrust an organisation.²⁶



Regulated organisations

We trust most regulated financial institutions with our money and our information.²⁷ Most data recipients that are APRA-regulated – major banks, regional banks and mutual banks, as well as superannuation funds – are already trusted. Their challenge will be to overcome consumer behavioural biases and inertia.

Potential challengers

We generally trust airlines, supermarkets and other retailers with our money and our information. Potential challengers that wish to participate in open banking can consider leveraging the existing prudential and information trust levels, providing products and services in areas they are trusted for, and building up their relationship trust for adjacent financial services.

Clear communication of the value that the data recipient will provide, matched with a perception by the consumer that the product or service is valuable to them, will be important in building a trusted relationship. The CDR accreditation process, including the visible Trust mark during the data sharing process, will also contribute to building trust.²⁸

Organisations to which we are indifferent

We neither trust nor distrust telecommunication companies, and energy retailers, the two sectors to which the CDR will be extended. Organisations in these sectors should consider the extent to which they are vulnerable to disruption as energy data and telecommunication data become sharable by consumers under the CDR.

However this indifference also applies to regulated foreign banks and mortgage brokers.

It is possible that the lower level of trust in foreign banks results from most people's lack of familiarity with them. Foreign banks seeking to use open banking to expand their presence in Australia should focus their communications on customer segments to which their proposition delivers particular value.

Mortgage brokers were not unscathed by the Hayne Royal Commission. To build consumers' trust levels mortgage brokers should focus on clear communication of the value that they provide.

Distrusted organisations

We distrust technology companies, which are often seen as potential disruptive competitors for the banks. While Australian retail banking customers have stronger emotional ties with their favourite brands in the technology industry than with their primary bank,²⁹ this emotional tie has not translated into trusting technology companies with our money or with information about our transactions. Technology companies had the highest net distrust score – a net 20% of people distrusted technology companies to keep their money safe or information about them secure.

We also distrust digital banks with our money and our information, despite the fact that they are also regulated financial institutions.

If organisations that are distrusted, as well as those to which people are indifferent, want to receive customer account and transaction data under open banking, they will need to identify 'believers' who particularly value the benefits that these organisations provide.



Towards trustworthiness

The starting point for building trust, and trustworthiness, is an ethical mindset.

Deloitte's *Trust Index* found that consumers' perceptions of a bank's ethics – wanting to keep promises – was the number one driver in building trust and trustworthiness.

In addition, being demonstrably honest and respectful in engaging with customers, as human beings – another ethical consideration – also contributes to rebuilding trust. Many banks are now seeking to communicate that they care about people.

Having the right products and services which help consumers achieve goals that are important to them is also important in building trustworthiness.

This needs to be supported by systems, processes and policies that enable them to deliver on the promises they make.

With the right culture and processes which enable organisations to keep the promises they make, organisations can focus on the quality of the service they deliver. The change from a product-centric mindset to a customer-centric one will require consistent customer service standards.

Banking consumers are not yet convinced that banks are getting this right.

The ACCC noted that the future of the digital economy relies on trust, by both consumers and business users.³⁰ The same can be said for open banking.

“If... you don't have systems in place to check if you can deliver what you said you'd deliver, that is not a side issue. It's a core issue.”

Rod Sims, ACCC Chairman³¹



What is TrustCX?

TrustCX is the way customers experience an organisation's trustworthiness. It's a set of tools, services and trust drivers to measure, interpret and improve moments that matter.

TrustCX predicts and delivers interventions as they are needed, and transforms cultures through real-time insight, meaningful engagement, and empowered organisational structures.

TrustCX is focused on outcomes. It measures customer needs, experience, and operational processes along the customer end-to-end journey in a way that understands their social, environmental, psychological and physical needs. And in return improves performance, engagement, cost, and social well-being.

TrustCX starts with the customer and their journey. It uses insights to target interventions that improve the overall experience.

Employees see their customers as *humans* and have a better understanding of where their role is in the customer's journey, and how their work can influence the overall outcome.

Contextual journeys

- Clear linkage of front-end experience and back end delivery
- Context to data.



Journeys

Voice of all citizens

- Voice across 100 languages
- Web and mobile analytics
- Social media sentiment and reputational monitoring.

Level 1 Measurement



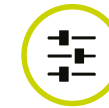
Voice



Web and mobile



Social media



Surveys

Better performance

- Evolution of ecosystem performance
- Resource allocation, investment decisions and ROI
- Customer service alignment and ease
- Intuitive and predictive actions.

Level 2 Operational data



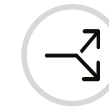
System performance



Volume and cost



Efficiencies



Workflows

Cultural transformation

- Real time data to support real-time performance enhancement
- Insights to drive better policy and outcomes
- Products, services and engagement.

Level 3 Organisational performance (Trust drivers – as a service)



Real-time training



Empowered Op model



Citizen-centric policy



KPIs that drive value and behaviour



Privacy

Willingness to share



It starts with trust built on privacy

To date, successful financial institutions have competed on the basis of value (price) and customer experience. Another pillar is emerging as a vital characteristic of winning institutions: privacy and security.³² This is particularly important in the emerging world of open banking and data-sharing.

Knowing that an institution will safely store and manage data is critical to garnering trust.³³ To become trusted, and trustworthy, organisations need to create a balanced data ecosystem for their customers, where the exchange of customer data balances security, transparency and the fair exchange of value.³⁴ This was highlighted in Deloitte's Privacy Index 2019.

Consumers' willingness to share data under open banking is dependent on the level of **information trust**, driven by consumers' confidence that an organisation will keep shared information *secure, transparency* on how information will be used and shared, and the *value* and *benefits* that are offered in exchange for the information that is shared. And how clearly this is communicated to consumers.

Information trust will also impact consumer willingness to continue to engage with an organisation. A recent bill amending the CDR legislation creates a specific requirement that the consumer data rules include an obligation on accredited data recipients to delete CDR data in response to a request from a CDR consumer. This will reinforce the importance for organisations of ensuring that information trust is maintained.³⁵

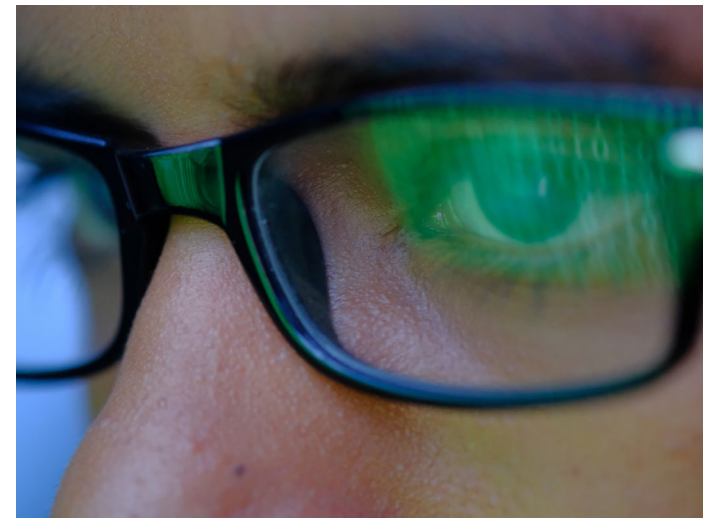
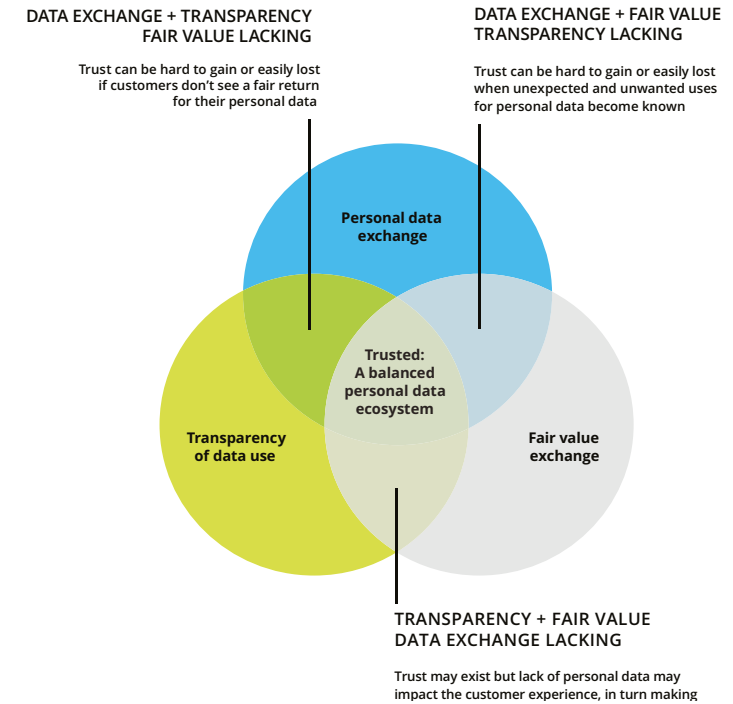
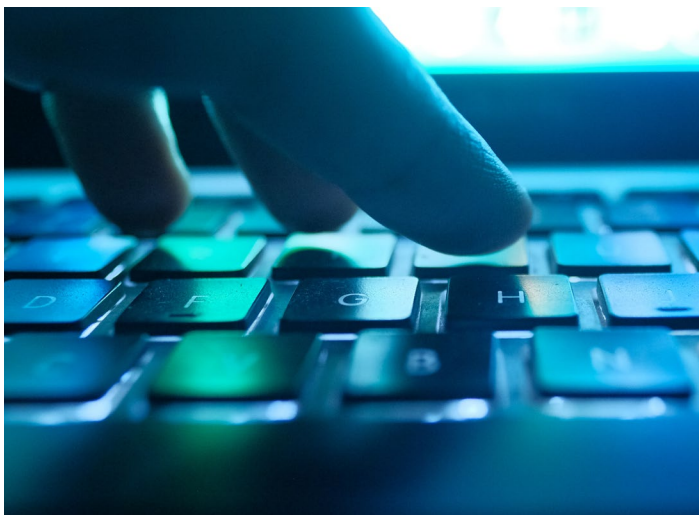


Figure 9. Finding the right privacy balance





Organisations seeking to encourage customers to participate in open banking and share their data need to be able to answer two questions:

1. Will consumers trust my ability to keep information about them and their transactions secure, and ensure their privacy?
2. Are the benefits that I offer consumers sufficiently valuable to them to encourage them to share their information?

We noted earlier that Australians are not very trusting, with more than half of those surveyed saying they did not trust **any** organisations to keep their money or their information safe (see Figure 2 and Figure 5). This reflects a growing awareness of and concern with privacy.

In a survey undertaken by Deloitte in 2018 (before the Royal Commission) we found that 29% of customers were less willing to share personal information than six months previously.³⁶ There's nothing in the last 12 months that would suggest that this position has improved.

People's willingness to share information increases as their trust that an organisation will keep information about them and their transactions secure increases. Deloitte's Privacy Index found that 65% of participants said trust in a brand was essential when deciding whether to provide access to personal information, or allow permissions.³⁷

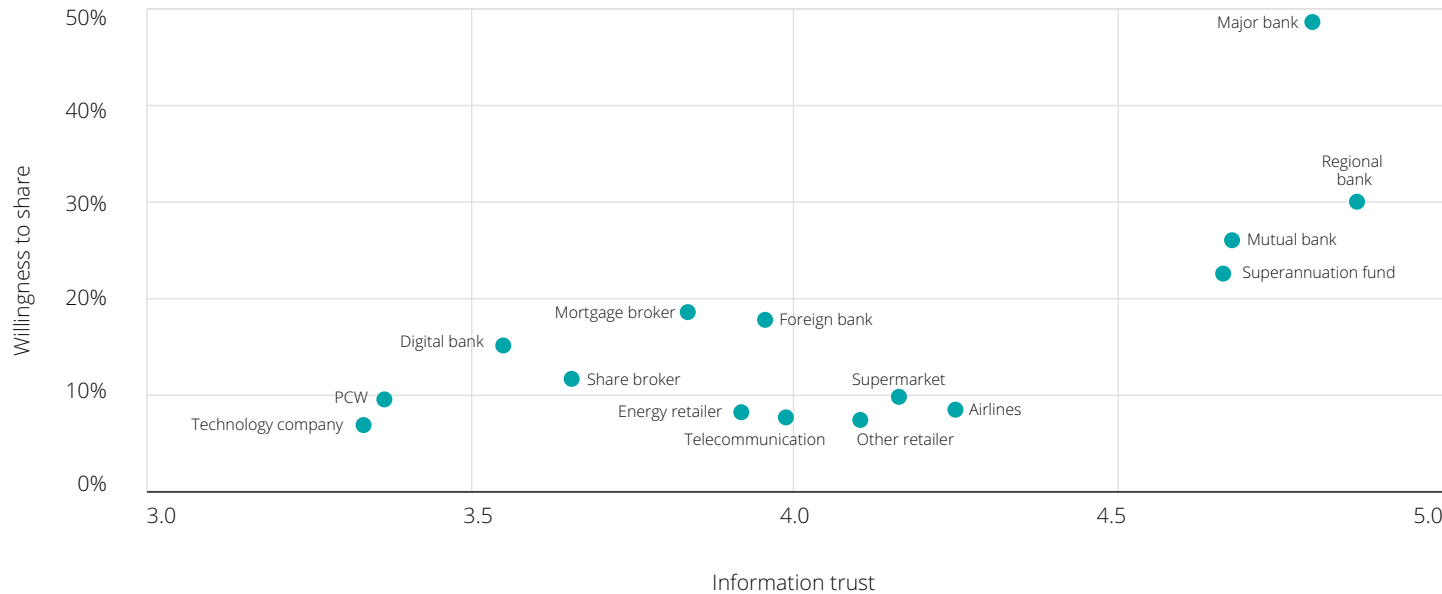
We asked people whether they would be willing to share information about their banking transactions with various types of organisations and then compared their responses with their level of information trust in these organisations.

About a third of consumers (31%) were not willing to share information about their banking transactions with any organisation irrespective of the potential benefits. A further one-fifth of people (18%) were unsure whether they would be willing to share their information.³⁸

However a small majority (51%) were willing to share information about their banking transactions with organisations that they trust if they received a benefit.³⁹



Figure 10. Trust and willingness to share



People who were willing to share information identified a range of organisations with which they were willing to share their data. However less than half of people were willing to share information about their banking transactions with any one type of organisation, including banks.

People are more willing to share their banking transaction information with organisations in which they have a higher level of information trust, particularly traditional financial institutions, including major banks, regional banks, mutual banks (including credit unions), and superannuation funds. Interestingly people are particularly willing to share their banking transaction information with major banks (48%). This may reflect greater confidence in the privacy frameworks and information security of the major banks compared with other organisations.

Technology companies and digital and neo banks are likely to face a greater challenge convincing consumers to share information. They will need to start by gaining consumers' trust and confidence in their ability to collect and handle customers' personal information and transaction data securely. Transparent and accountable privacy measures will be important in achieving this.



Is willingness to share information a generational issue?

Consumers' willingness to share customer and transaction information varies across generations. As you get older you are less willing to share information. This applies to both established major banks as well as digital and neobanks and foreign banks. The exceptions are mutual banks, and to a lesser extent, regional banks.

Millennials (Gen Y) and post-Millennials (Gen Z) are more willing to share information with digital and neobanks as well as foreign banks. They are also significantly more willing to share information with major banks. This same trend applies to other categories of organisations including supermarkets, telecommunication providers, technology companies and price comparison websites.

However regional banks and mutual banks did not benefit from the increased willingness by Millennials (Gen Y) to share information. Boomers were the least willing to share their customer and transaction data across most categories of banks, as well as other organisation types. Builders (those over 75) were more willing to share their information with major banks and mutual banks. The unwillingness to share their information with **any** organisation, irrespective of the potential benefits, was most prevalent in Builders (47%) and least prevalent with post-Millennials (Gen Z) (15%).

Figure 11. Willingness to share information (by demographic)

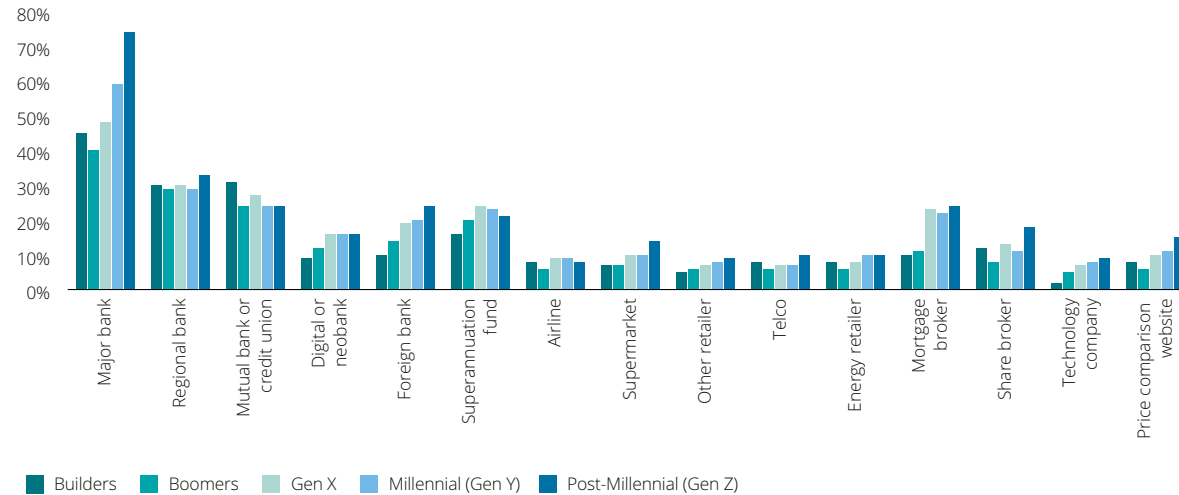
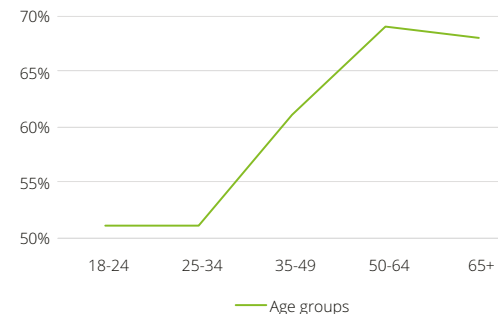


Figure 12. Importance of privacy by age group



This outcome aligns to Deloitte's Privacy Index which found that the importance of privacy to consumers increases with consumers' age.⁴⁰

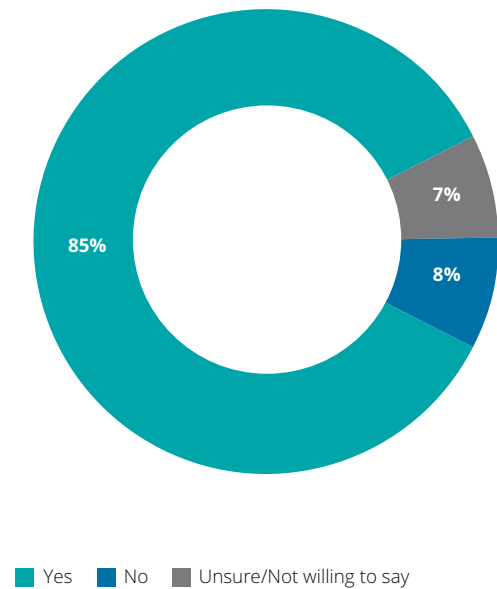
Source: Deloitte Australian Privacy Index 2019



Screen-scraping

Currently some customers already share their data by providing their banking user ID and password to a third party, giving the third party access to their banking transaction data (as well as their money) in exchange for a service provided by the third party (a practice, prevalent in the USA, known as 'screen-scraping' or 'direct access'). This crude form of 'open banking' significantly increases the possibility of fraud and is one of the activities the CDR is trying to make redundant.

Figure 13. Screen-scraping

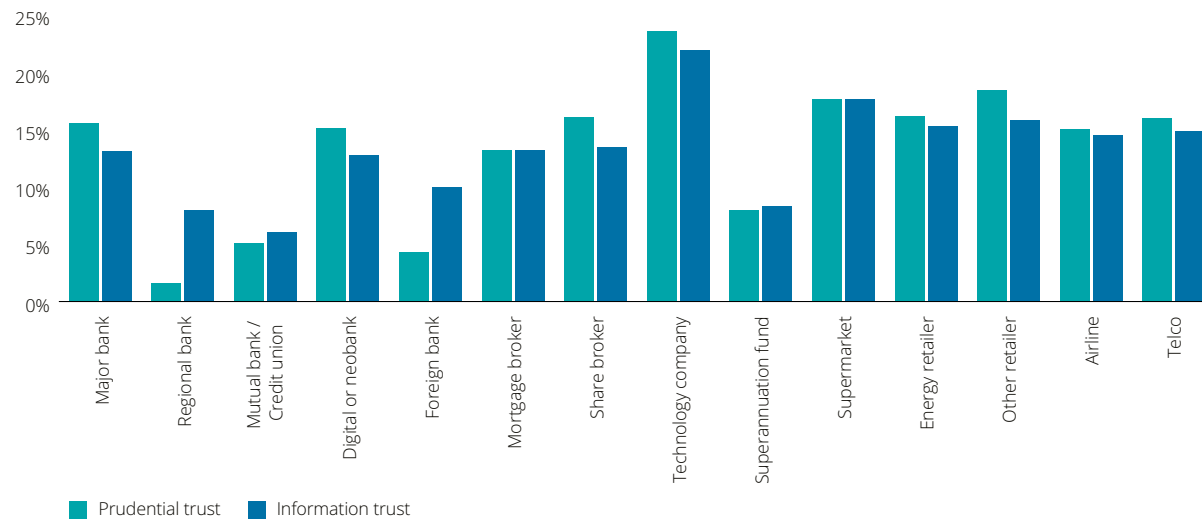


To assess consumers' willingness to share data, we asked people whether they had previously used screen scraping. Only 8% of survey respondents admitted to having used screen-scraping.

Screen scraping was more likely to have been used by post-Millennials (Gen Z) (22%) and Millennials (Gen Y) (16%) as they embrace the digital economy and the technology capabilities on offer. Unsurprisingly it was least likely to have been used by Builders and Boomers (3%).

Customers who had been willing to share data via screen-scraping had higher levels of prudential and information trust across all organisation types.

Figure 14. Incremental propensity to trust – screen-scrapers v non screen-scrapers



Australians believe ID fraud and theft (19%), data security breaches (17%) and risk to financial data (12%) are the biggest privacy risks facing the community.⁴¹

Screen-scraping increases risks in all of these areas. Third parties storing customers' user ID and password create a hacking risk.

The low level of participation in screen-scraping indicates a healthy reluctance to share user IDs and passwords and an appreciation of the privacy risks.



Does accreditation make a difference?

Customers are more willing to share information if the data recipient is accredited.

We asked people how they would feel about sharing their transaction data with another organisation or giving another organisation permission to access this data in exchange for better prices, discounts, special offers or more personalised experience. We also asked how they would feel about doing this if the other organisation had been accredited and authenticated by the government as secure.

Of the people who were unwilling to share data with an unaccredited organisation almost a fifth (19%) were prepared to share data if the receiving organisation was accredited and a further 12% moved from negative to neutral.

Sixteen percent of those surveyed were neutral about sharing data with another organisation to receive benefits. Of these a third were prepared to share data if the receiving organisation was accredited.

These results are consistent with work undertaken for Data61 which found that including a 'Trust Mark' on data sharing screens had a significant impact on improving trust.⁴²

However, surprisingly, a fifth of those who were originally willing to share data, were neutral or negative to sharing it with an organisation if it had been accredited and authenticated by the government as secure!

The process of accrediting third party data recipients resulted in an improved sentiment (from negative to neutral or positive, and from neutral to positive) from all generations.

Figure 15. Impact of accreditation on willingness to share data

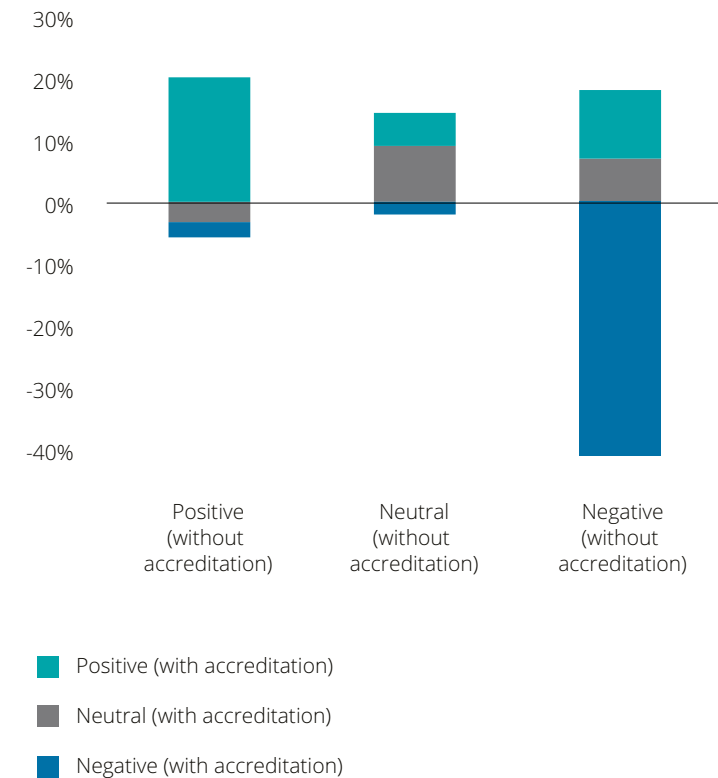
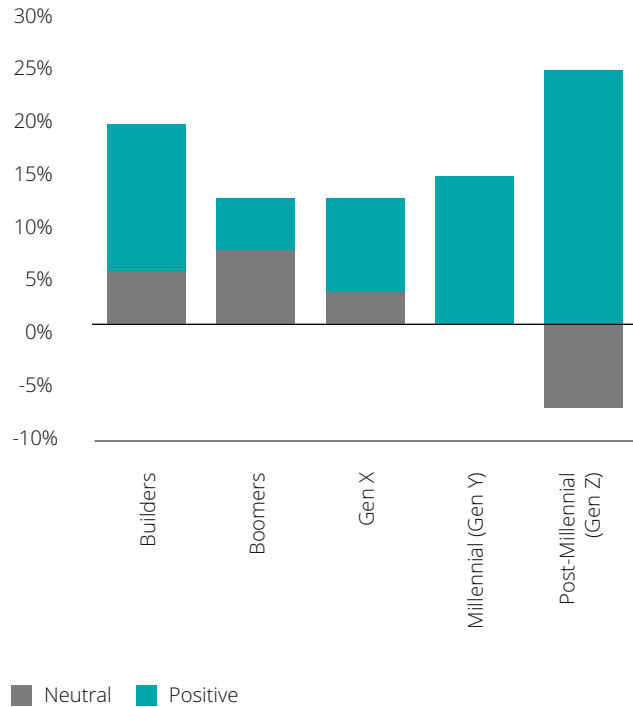
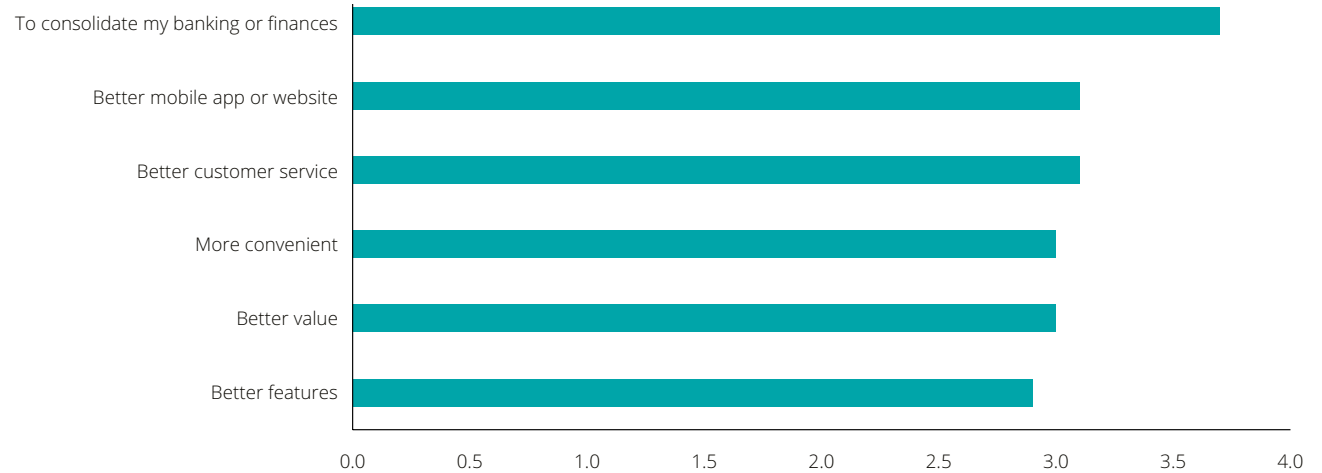


Figure 16. Accreditation and willingness to share data (by demographic)



The increase in positive sentiment was particularly strong for post-Millennials (Gen Z) (+24%) as well as Builders and Millennials (Gen Y) (+14%). Those willing to share data to receive benefits were three times more likely to share their data with 'an accredited third party' than with 'any' organisation. This suggests that there is potential for significant participation in open banking if the consumer education process and corporations clearly communicate the potential benefits.

Figure 17. The impact of accreditation on willingness to share information (likelihood to share with an accredited entity v any entity)



Regulated accreditation of data recipients will require organisations to meet stringent privacy and information security requirements. For some organisations, this will be more stringent than their current practices. But the process of accrediting open banking data recipients helps challenge industry and brand perceptions, and is an important factor in building trust, which in turn influences a consumer's willingness to share data.



Engage

Gathering information



Engage – gathering information

Ensuring that a critical mass of consumers has sufficient information to make informed decisions is necessary for a competitive outcome.⁴³ So we asked people how they went about gathering information when selecting the providers of their financial services products.

People undertake a range of information-gathering behaviours before deciding to change providers. They can look at the offerings of another bank, at reviews or go to a comparison web site. We classified these behaviours as 'search'. They can also ask someone for advice or receive a recommendation from someone they know. We classified these behaviours as receiving a 'recommendation.' And of course they may do both or neither.

Our survey respondents held 10,082 banking products, an average of 5 banking products per person. We looked at what people did across each of these banking product relationships.

So what did we find?

People are not actively gathering information on alternative banking products. For two-thirds of the banking product relationships, people had not undertaken any activity to gather information about other banking products or offerings in the last three years.

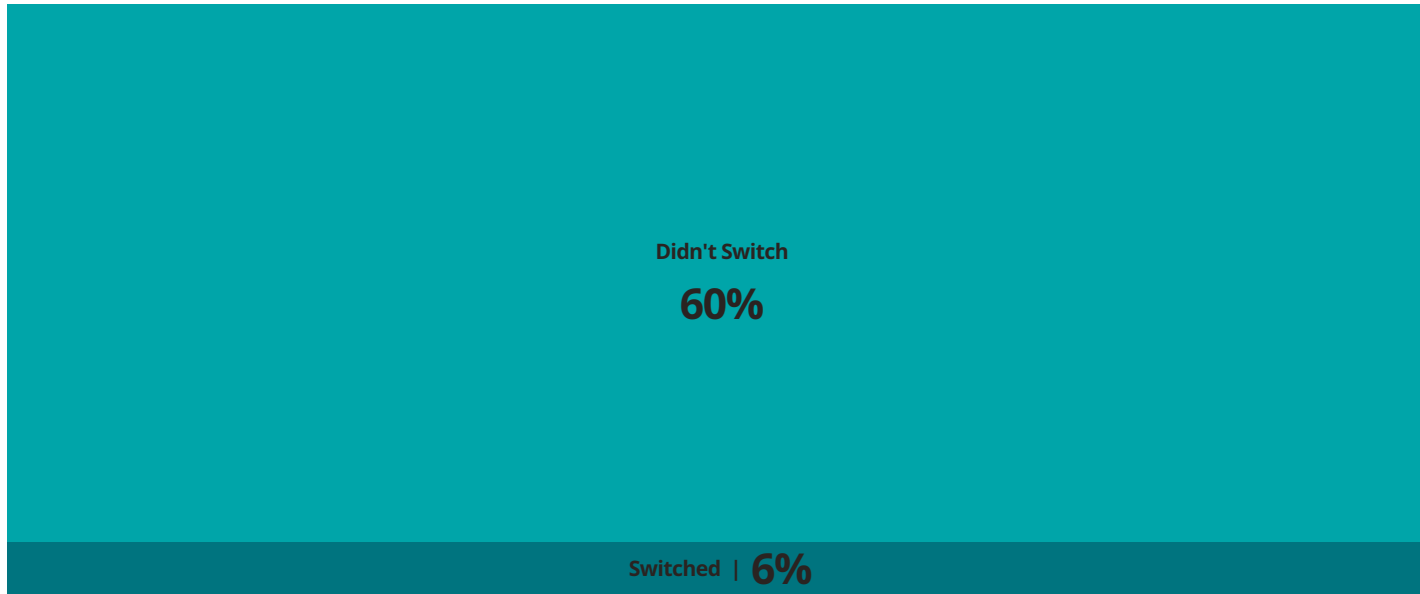
The majority of Australians are satisfied with their current banking products and providers, or at least not dissatisfied enough to gather information about other banking products or offerings (let alone to make a decision to change banks). In a separate survey we found that around four in five (79%) of transaction account holders are either 'satisfied' or 'very satisfied' with their existing provider. Similarly, three quarters of credit card holders and two thirds of mortgage owners reported being 'satisfied'. Conversely, only 5% to 9% of account holders said that they were dissatisfied with their account.⁴⁴

So we end up going in a circle. Because customers perceive that they are satisfied with their current banking product or provider, they do not gather information about other banking products or offerings. And because they have not gathered information, they are not aware of the benefits of these alternative financial services products from other providers, and so lack the information to re-assess their level of satisfaction with their current provider.



Figure 18. Customer information gathering journey

Haven't searched or received a recommendation



Search only

Recommendation only

Search and recommendation



Notwithstanding this, of those who had not gathered information about other banking products 9% (and 6% of the total consumers surveyed) **had** changed the provider of one of their banking products, despite not having gathered any information.



Search

For just over one fifth (21%) of the banking product relationships, people had searched for information, but had not asked anyone for advice or sought a recommendation.

They looked at price comparison websites, online reviews and sought additional information about product offerings from other banks. However only 10% of this group (2% of the total banking product relationships) changed their provider of even one of their banking products as a result of these searches.

Although not actively searching for information, most consumers are aware of other options. In a separate survey we found that around a quarter (24–27%) of all product owners had received advertising or other unsolicited material from other banks in the last 12 months.⁴⁵

Recommendation

Even fewer people, 8% of the banking product relationships, had asked someone for advice or received a recommendation, but had not sought other information.

Only 10% of this group (0.8% of the total banking product relationships) had changed the provider of one of their banking products as a result of the recommendation. We also asked people who or what had influenced their decision when they had last changed provider.

Search and recommendation

For just 5% of the banking product relationships consumers had both searched for information and asked someone for advice or sought a recommendation in the last three years.

This combination of activities made this group more actively involved in considering alternative financial products from alternative providers. It made them almost two-and-a-half times more likely to change providers.

Almost a quarter of this group (24% or 1.2% of the total banking product relationships) changed the provider of a banking product.



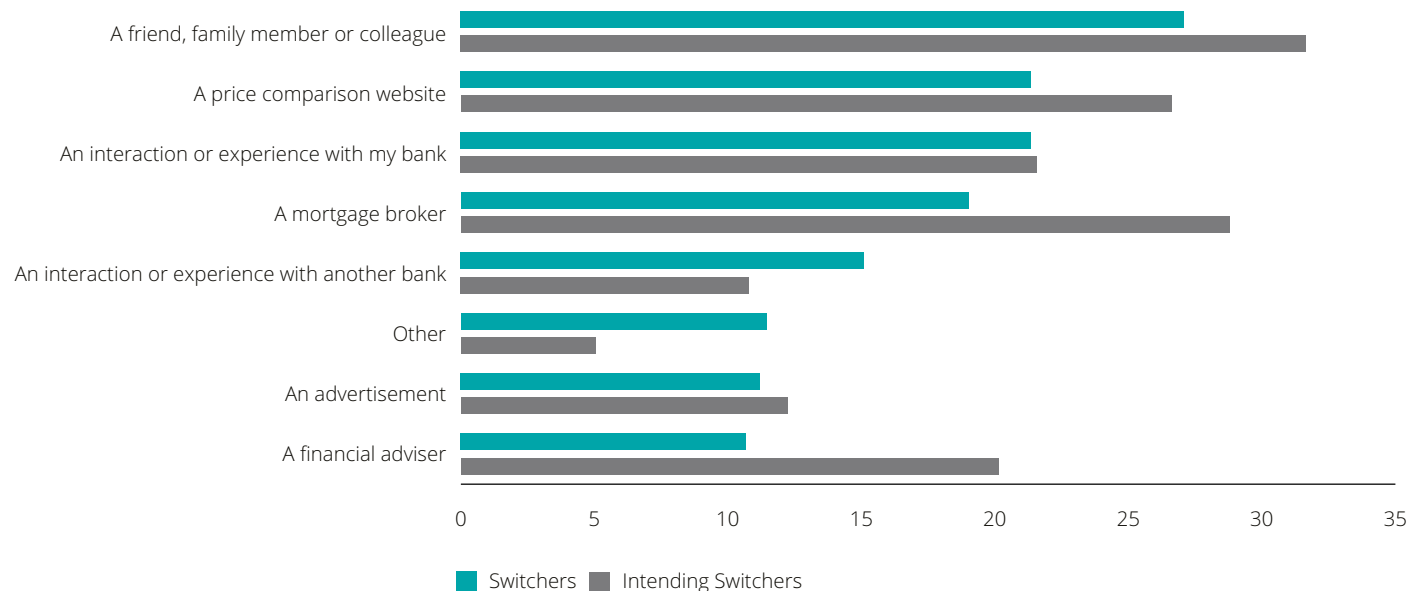
For those that switched, recommendations and advice from people they knew – friends, family and colleagues – had the most significant influence on their decision-making when they changed provider, as well as when gathering information for those intending to switch.

The role that ‘word of mouth’ plays in people’s decisions underscores the importance of service delivery. When this is underpinned by relationship trust – knowing what promises you have made, and having processes to ensure that you meet those promises – it cements that influence. Mortgage brokers and financial advisers were particularly influential for those intending to change providers in the next 12 months.

Price comparison websites, though not trusted if requesting personal information, were the second most influential factor in people’s switching decisions.

Direct experience of poor service was also a leading reason influencing people to change banks. This is amplified by any poor service experienced by family, friends and colleagues. Eighty-four percent of transaction account holders believe customer service is ‘very important’ or ‘important’ in their choice of banking provider.⁴⁶

Figure 19. Influencers



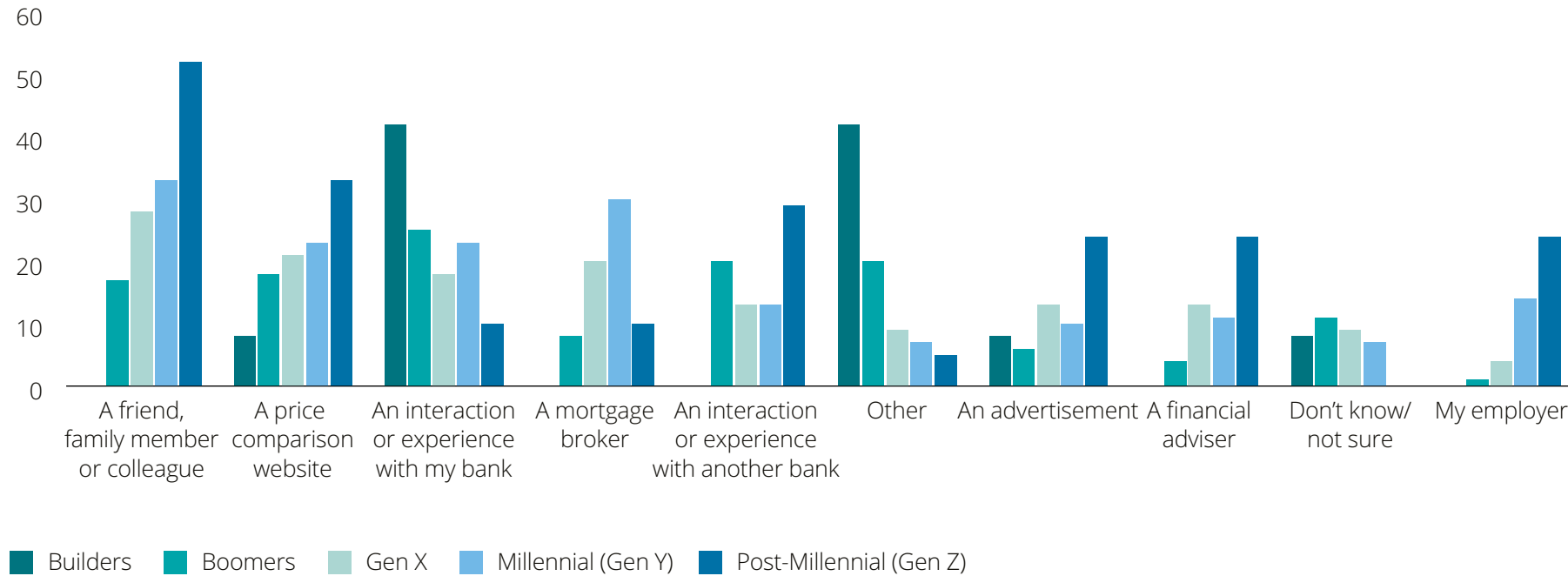
There were also a range of other influences. These included:

- A positive experience with another bank, particularly during a period of difficulty
- Maternity friendly lending policies
- Online blog comments on people’s experience with financial institutions
- Recommendations in a popular personal financial management book
- The revelations in the Royal Commission.





Figure 20. Influencers (by demographic)



The influence of friends, family and colleagues increased as people got younger, as did the role of price comparison websites. These were the two leading influences on switching decisions for post-Millennials (Gen Z).

Millennials (Gen Y), a demographic most likely to be taking out their first home loan, were the most influenced by mortgage brokers.

Comparison tools are effective influencers

In addition to enabling the secure transfer of customer account and transaction data, open banking requires banks to make product information available via APIs in a way that facilitates its digital use.

Comparator websites (also referred to as product comparison websites, price comparison websites and PCWs) use banking information to help reduce some of the behavioural barriers to searching and switching by making comparisons of often complex products easier, and helping consumers in their decision making process.

In our survey, comparator websites were one of the top three influencers of consumers' switching behaviour.

Comparator websites are almost twice as influential for people who changed their credit cards, personal loans and term deposits when compared to mortgages, transaction accounts and savings accounts.

However, while comparator websites are influential when helping people understand product information, most people do not yet trust them enough to provide them with their customer account and banking transaction information.

Most people use comparator websites for research rather than purchasing, with people's willingness to purchase via comparator websites 'held back by a lack of consumer trust in the motivations of, and benefits offered by, comparator websites'.⁴⁷ This is what we've referred to as relationship trust.

Rather than making recommendations based on what is best for the customer, some comparator sites' recommendations are based on the commission rate they receive, sales quotas and promotional or commercial arrangement with their service providers.⁴⁸

There is an opportunity for organisations to partner with comparator websites and aggregators, particularly 'end-to-end' sites, to improve customer acquisition. Banks could invest in open APIs which speed up customer acquisition and approval processes, such as credit assessment and responsible lending checks for credit cards and personal loans, for comparator sites which collect customer account and transaction information.

However, a word of caution: Organisations working with comparator websites should ensure that the business practices of the sites they partner with do not risk damaging the organisation's reputation.

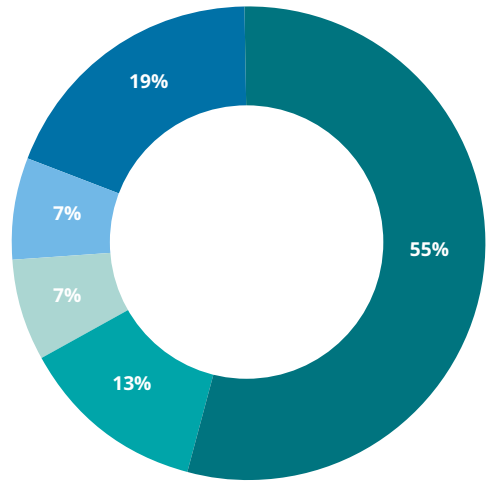


Factors impacting information gathering

Range of products

As we have noted, most people had not gathered any information about any of their banking products in the last three years. Of those who did gather information, about a quarter gathered information on all (19% of people surveyed) or most (7% of people surveyed) of the banking products that they held. And the remaining fifth gathered information on only some of their banking products.

Figure 21. Range of products for which information gathered



■ None
 ■ Up to a third
 ■ One-third to two-thirds
■ More than two-thirds
 ■ All

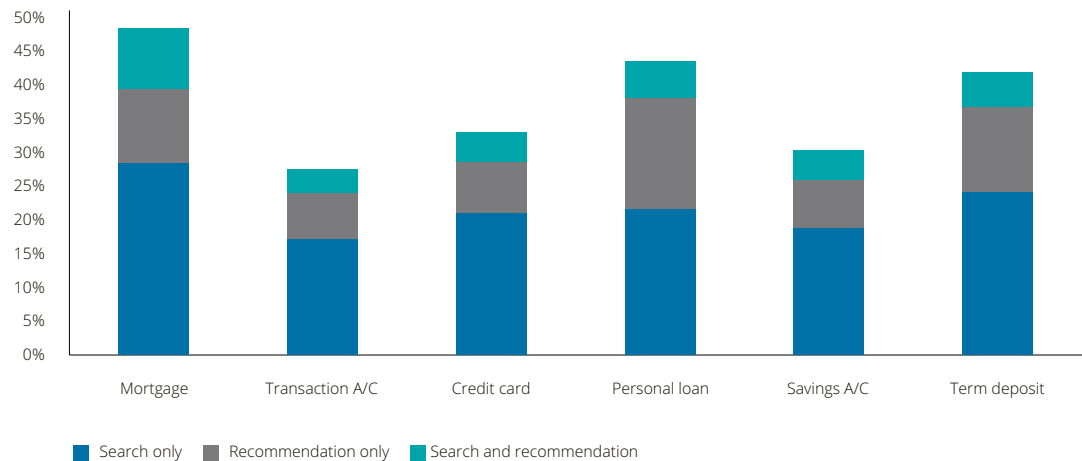
Reducing complexity

People are more likely to gather information on products which are more complex and which have a bigger financial impact.

Our survey found that customers are most likely to gather information when considering changing the provider of their mortgage, and least likely to gather information for transaction accounts and savings accounts.

Buying a home is typically the most significant financial commitment that people make, but mortgage features, mortgage pricing and the mortgage application process are complex. People use mortgage brokers to make the mortgage application process easier and to make it easier to get information about mortgage loans. Getting a better interest rate was the third reason given.

Figure 22. Information gathering (by product)



Age and information gathering

About half of post-Millennials (Gen Z) (53%) and Millennials (Gen Y) (48%) searched for information about banking products and/or received a recommendation about a banking product in the last three years. By contrast only 22% of Boomers and just 13% of Builders looked for information about banking products.

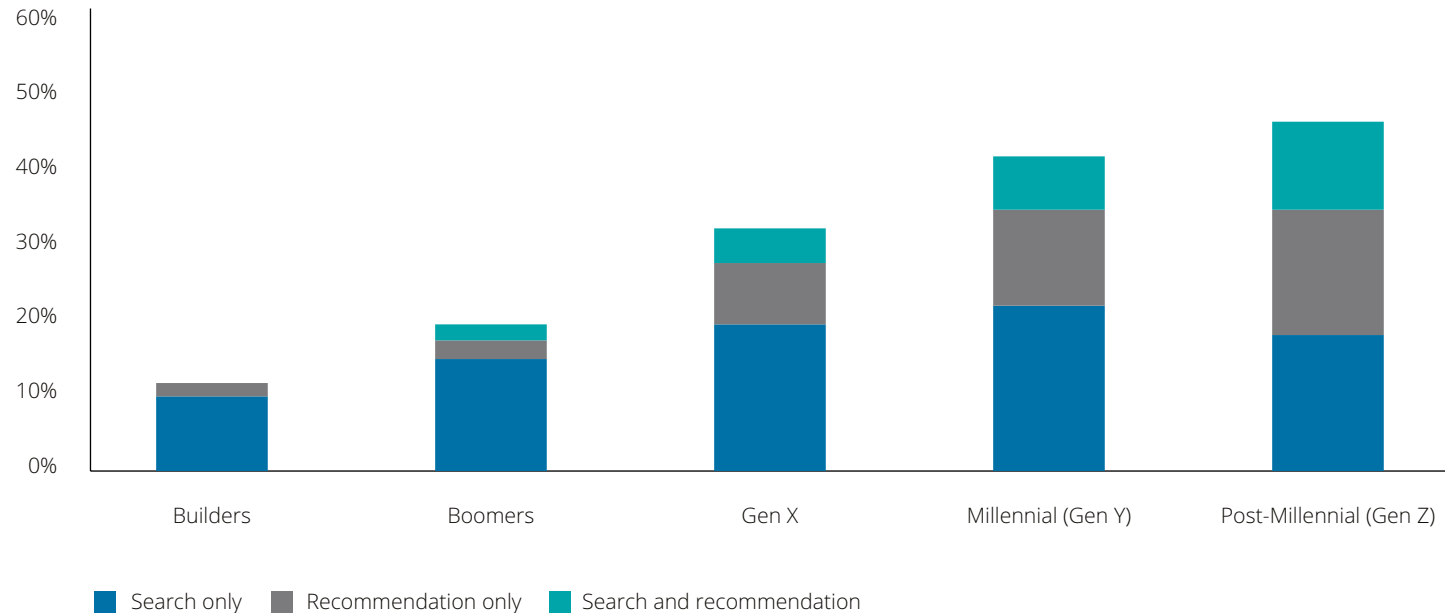
Boomers have a comparable number of financial products to Gen X and comparable account balances. But they are substantially less engaged in gathering information about alternative financial products and providers.

Builders have lower lending balances as they are more likely to have repaid, or substantially repaid, their loans, and will be more focused on wealth protection.

Both these generations are more likely to have established financial relationships.

Being satisfied with their current financial product (see section on [behavioural biases](#)), experiencing [decision-making paralysis](#), or the transaction costs associated with searching for and changing their provider being perceived as too high relative to the potential benefits, are just some of the reasons for not gathering any more information on their existing product relationships.

Figure 23. Information Gathering (by demographic)



Towards financial consciousness

Financial literacy

The fact that some consumers report that they are satisfied with a banking product despite not having changed provider or even gathered information, may not mean that their existing product is the best product for them. It may be because they are unaware of alternatives.

To be actively engaged in the competitive process by gathering information, or to make informed choices about financial products, and to be able to choose to change providers, consumers need to be able to understand the differences in financial value between different products. They need to be financially literate. However overall financial literacy in Australia is low.⁴⁹ In a recent study by Deloitte less than half of Australians met the basic threshold for financial literacy.⁵⁰

The purpose of financial literacy is to enable people to change their financial behaviours. However there is growing evidence that the link between financial literacy and positive financial behaviours is weak. Financial literacy it seems has only a marginal effect, at best, on financial behaviours.⁵¹

Financial capability

If financial literacy changes people's ability to understand, financial capability changes people's capacity to act.

ASIC is responsible for delivering programs to help Australians take control of their financial lives by improving their ability to make informed financial decisions. As part of its remit, ASIC is currently developing a National Financial Capability Research Roadmap which is due for release in late 2019.⁵²

If consumers are going to take advantage of the benefits of open banking, and open data as the CDR is applied to other sectors of the economy, it will be important for both government and industry to continue to build financial capability and financial literacy in Australia, and perhaps expand this to include data literacy.

But financial capability is not enough. As well as having the capacity to act, it is also important that people are willing to make decisions and take actions. And that they understand the consequences of those decisions. It is important that they are financially conscious. That's not to say financial literacy is not a useful measure, but there is a need for a broader measure and understanding of how conscious Australians are of their financial position and outcomes.

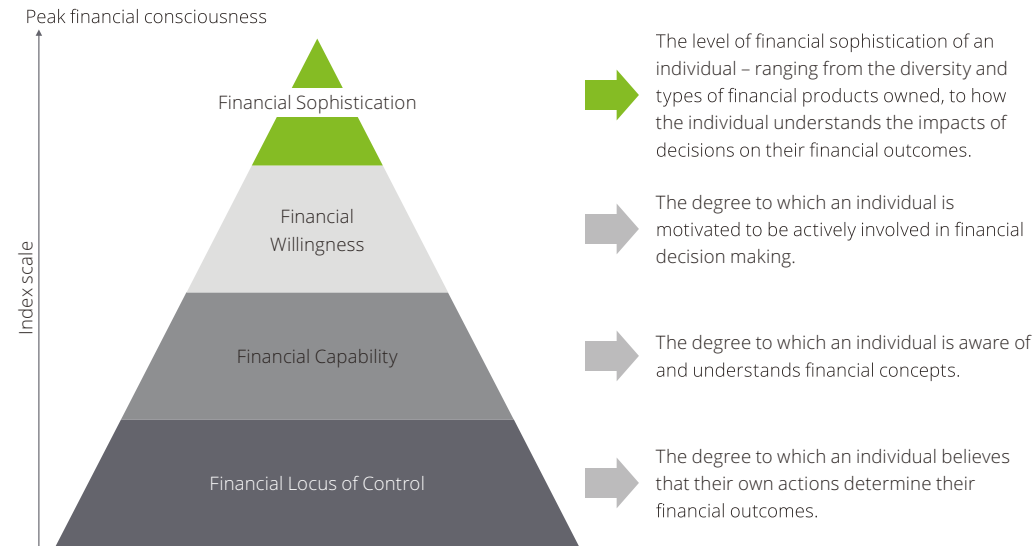


Financial consciousness

How do you feel about your financial position? Deloitte set out to answer this question by developing the Financial Consciousness Index (FCI) which measures the extent to which a person is not just financially literate and capable, but whether they are able to affect their own financial outcomes.⁵³ Financial Consciousness is comprised of four 'building blocks': the degree to which a person believes they have control over their financial outcomes, their financial capability to understand their finances, their financial willingness to be involved, and ultimately their financial sophistication (Figure 24).

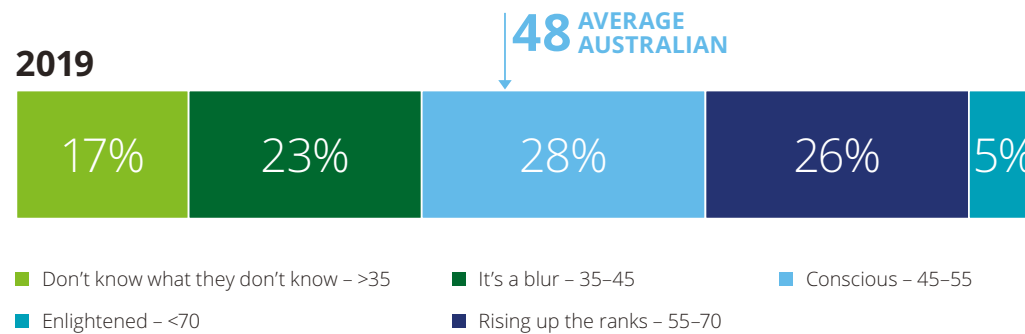
These building blocks are a measure of not only how people feel but also how they then act. Ultimately it is financial consciousness that influences whether a person searches for information, their ability to understand the information obtained, their willingness to act on this information, and the extent to which they are able to participate in sophisticated financial matters in a way that enables them to understand the potential benefits of their decisions, including a decision to change the provider of their banking products.

Figure 24. Financial Consciousness Building Blocks



Source: Deloitte Access Economics, Dollars and sense: Compare the Market's Financial Consciousness Index, 2019.

Figure 25. Where Australians sit on the Financial Consciousness Index



Note: may not sum to 100% due to rounding.

Source: Deloitte Access Economics, Dollars and sense: Compare the Market's Financial Consciousness Index, 2019.



Switching

Know your customers



Switching

The Productivity Commission's report in 2018 on Competition in the Australian Financial System noted that markets 'can be competitive and deliver beneficial outcomes even when they are dominated by large players, provided it is possible for... consumers to conveniently switch to alternative products or providers.'⁵⁴

The Productivity Commission highlighted that only one in three people had considered switching in the previous two years.⁵⁵ In its submission to the Productivity Commission, the ACCC noted that low rates of switching (combined with other factors) were an indicator that a market was not competitive.

While acknowledging that 'consumers' satisfaction with their own financial institutions was very high, the Productivity Commission's report also noted that 'barriers to switching can make loyal customers ripe for exploitation', for example through higher interest rates charged on mortgage loan customers.⁵⁶

Given that one of the goals of open banking is to increase competition, increasing switching, or more accurately, improving consumers' ability to switch, increases competitive pressure generally, and can result in better pricing or products and services that better meet a customer's needs.

Having searched for information, received a recommendation, or done nothing, consumers can take a number of actions:

- Change to a new product from a different provider, replacing their existing product and provider
- Acquire a new product from a different provider while also retaining their existing product⁵⁷
- Remain with the existing provider but change to a new product
- Remain with the existing provider but change the features of their existing product (for example, repayment terms on a mortgage, or limit on a credit card)

- Remain with the existing provider but negotiate a lower price of their existing product (for example, fees on transaction accounts or interest rate on a mortgage)
- Remain with the existing provider and their existing product with no changes.

We grouped these into three categories: consumers that

- **Change** the provider of their existing banking product;
- **Retain** their existing banking product but get a new product from a new provider, and
- **Remain** with their existing provider.



How often do people switch?

Australians' primary banking relationships are relatively stable. Of the customers surveyed, a fifth (19%) had changed the provider of at least one of their banking product relationships in the last three years. That means four-fifths (81%) had not changed the provider of any of their banking product relationships in the last three years.

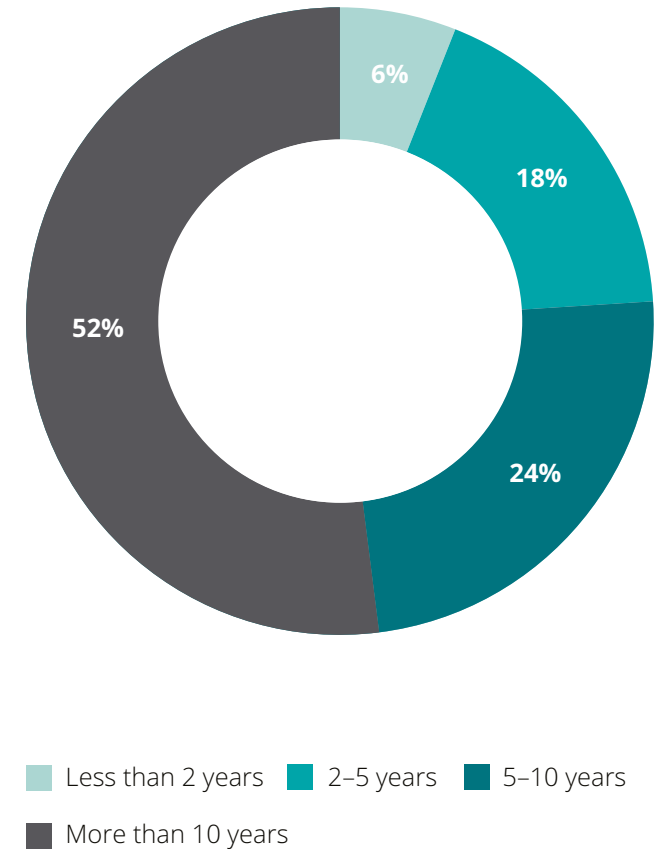
This is consistent with other Deloitte research which found that 79% of customers believed that their bank met most (41%) or all (33%) of their expectations or exceeded their expectations (5%).⁵⁸ Another Deloitte survey found that around 90% of people who recently got a mortgage thought that their mortgage was the best product to meet their needs.⁵⁹ Other research has concluded that 81% of consumers are very or fairly satisfied with their banks.⁶⁰

This finding is consistent with the results of Deloitte's digital banking consumer survey which found that the majority of Australians have been with their primary bank for over a decade, with 76% having had a relationship of over five years. Just 6% of consumers surveyed had a primary banking relationship that was less than two years old.⁶¹

Switching rates appear to have increased since the Royal Commission with 5% of respondents to a Yell survey stating that they already changed their bank as a result of the Royal Commission and a further 8% considering making a change.⁶²

However most people do not change the banking provider for **all** of their banking products. Although 19% of customers have changed the banking provider of at least one banking product, the switching rates for individual product relationships is lower.⁶³ People may change the provider for an existing banking product, or acquire a new banking product from a new provider, but they don't typically change **all** of their banking product relationships at the same time.

Figure 26. Bank relationship tenure

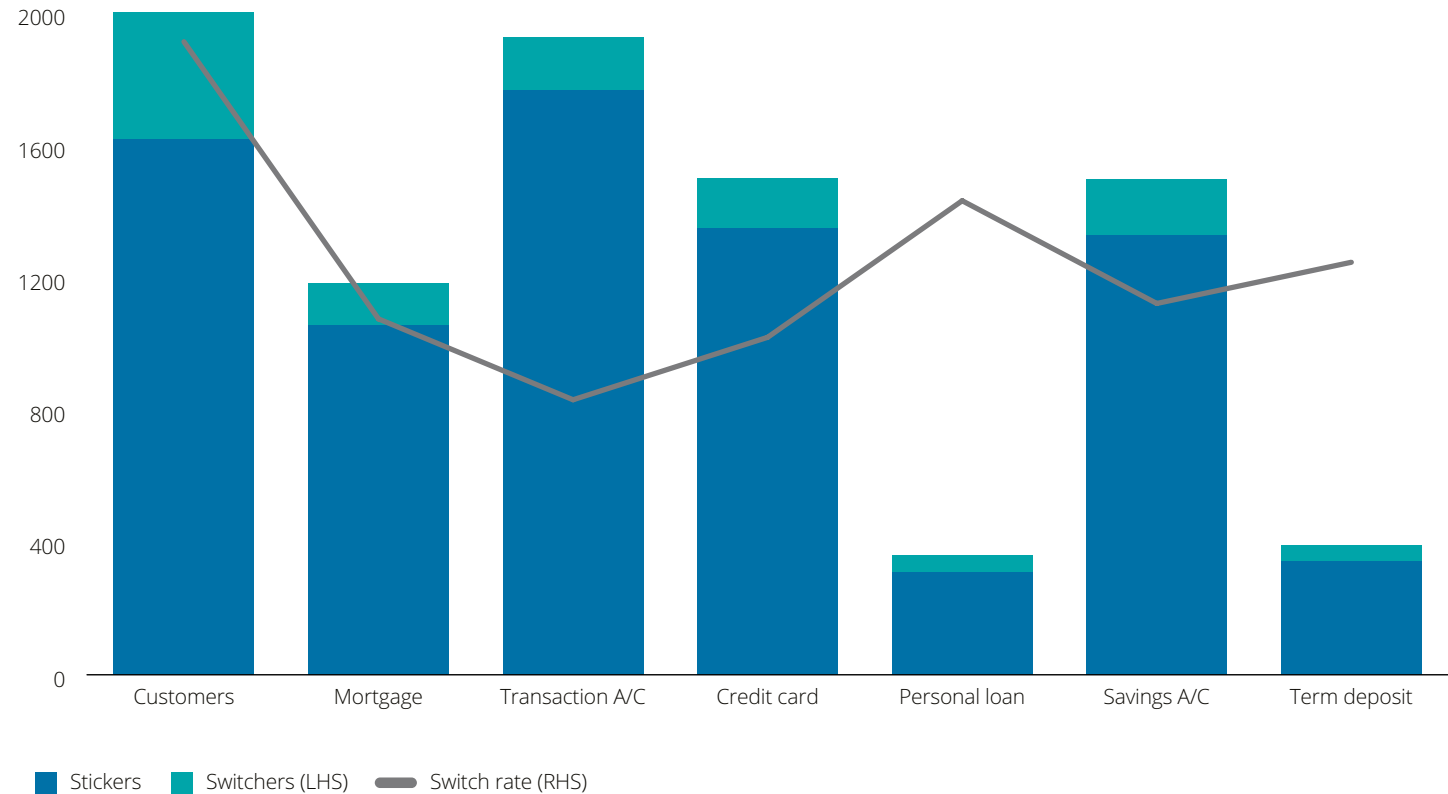


The overall product relationship switching rate is about 10%, varying between 8% for transaction accounts, the most numerous banking relationship but one for which there are a number of direct debits or direct credits that may need to be changed, and over 14% for personal loans, the least commonly owned banking product.⁶⁴

Our survey found switching rates for mortgages were 11%. Other surveys support these findings. A Choice survey in 2017 found that 17% of people with home loans with a non-big four bank had switched home loans in the last two years compared to 11% of people who had home loans with the big four.⁶⁵ The Productivity Commission's report concluded that switching was 'least likely' among those with a home loan with a major bank.⁶⁶

This presents another challenge for banks. When banks lose customers, they don't simply close their accounts. They tend to transfer their money out but leave the account open with a low balance. When this occurs the profit a bank earns from a customer can quickly turn into a loss.

Figure 27. Switching rates



Behavioural biases

We've highlighted that just 11% of people who gathered information on alternative products actually changed provider. Something happens along the way, even when the end result of making a choice to change would clearly be in their best interest. So what influences their decision-making process?

Research by Deloitte has highlighted three common hurdles:⁶⁷

- 1. Analysis paralysis:** "There are too many options, I just can't decide."
- 2. Facing an uncertain future:** "I know I should... but that can wait."
- 3. The impact of emotion on behaviour:** "I worry about failure, and I hate feeling dumb."

Analysis paralysis

Consumers freeze when too many choices are presented. The human brain simply isn't designed to process and compare the sheer amount of information it is often given. Decision paralysis brought on by the inability to choose between options is typically the result of cognitive overload and fatigue. This state of choice overload tends to reduce consumers' confidence in a decision they have made, and can prevent making one at all.

Uncertain futures

Consumers strongly prefer present payoffs to future rewards. Outcomes set in the distant future typically lack a sense of urgency in contrast with everyday needs, making it easy to defer decision-making to a tomorrow that never arrives. While the potential savings from a lower mortgage rate can be significant over 25 years, they may not create enough of a sense of urgency in people to offset the more immediate transaction costs of gathering information and switching now.

This uncertainty about the future is compounded when people have little exposure to, or practice with, making a decision. Cognitive research has shown that people often learn and make decisions using 'case-based reasoning' – solving problems by recalling previous situations and reusing that information.⁶⁸ With no personal experience, feedback, or a memory of past reference points, consumers feel ill-equipped to make the right call; even after gathering additional information to supplement their view, they are often left with the sneaking suspicion that important 'unknown unknowns' remain.⁶⁹ The behavioural tendency to explicitly or implicitly lean on anchors – trusted reference points – provides our brains with a place to start understanding what good looks like.

Without these anchors, and with only tenuous confidence in their own ability to choose wisely, consumers stall and do nothing – sometimes indefinitely – rather than commit to the wrong option.⁷⁰

The impact of emotion

When presented with an important choice, consumers are often overcome by fear of failure. Even consumers who do manage to overcome their aversion to dealing with stressful decision making worry about making a bad choice: They hate the idea of being forced to live with a sub-par option, but, just as importantly, they worry about looking silly or stupid for having chosen poorly.⁷¹

Organisations wanting to encourage people to share their information and change providers will need to help consumers overcome decision-making paralysis and commit to new actions. Organisations can leverage behavioural-design inspired models to help consumers overcome their decision-making paralysis, addressing: consumers' mind-sets in defining options, their perceived ability to make both confident and smart choices, and finally, ways in which they can be prompted to take action. Companies that deliberately design solutions that overcome consumers' inertia and indecisiveness can get more new customers in the door.⁷²



Introducing switchers: who are they?

We've called people who have changed the banking provider of at least one banking product in the last three years 'Switchers'. The rest of the population we've called 'Stickers'. We've also looked at those who intend to change their banking provider of at least one banking product in the next twelve months, calling them 'Intending Switchers'.

What do these groups look like?



A Switcher

Demographic

Age: Twice as likely to be Millennials (Gen Y)

Education: University educated

Employment: In full-time employment in a professional role

Income: Household income of \$91,000 or above

Behavioural

Attitude to technology: Believe keeping up with new technology is very or extremely important

Attitude to sharing data: More willing to share data with any type of bank.



A Sticker

Demographic

Age: Twice as likely to be Boomers or Builders

Education: High school education only

Employment: In a clerical or administrative role or retired

Income: Household income of less than \$65,000

Behavioural

Attitude to technology: Believe keeping up with new technology is unimportant or are neutral

Attitude to sharing data: Less willing to share data with any type of bank, particularly digital and neobanks and foreign banks.



Age

Millennials (Gen Y) and Gen X are at an age where people are actively engaged with their finances – saving for a house deposit, managing debt levels if they have a home mortgage, and managing their budgeting and spending for their transactions.⁷³

People undertaking these activities are more likely to change providers. While almost everyone has a transaction account, Millennials (Gen Y) and Gen X are more likely to have a mortgage or, along with post-Millennials (Gen Z), be saving for a mortgage. Millennials (Gen Y) are also at a point where they either have had their existing financial products for a relatively short period or don't yet have certain financial products (such as a mortgage). This makes them less susceptible to behavioural biases such as the endowment effect or status quo bias (see section on [behavioural biases](#)).

Figure 28. What banking issues consumers are interested in learning about



Source: Financial Brand.

In general once people get past the age of 45 their primary financial objectives change. Protecting their financial assets becomes more important. While they still need a transaction account and for most a credit card, Boomers and Builders are more likely to have term deposits. These factors are likely to contribute to Millennials (Gen Y) being twice as likely to have changed or be intending to change the provider of a banking product. Gen X are also more likely to have changed or be intending to switch.

Figure 29. Average number of products (by demographic)

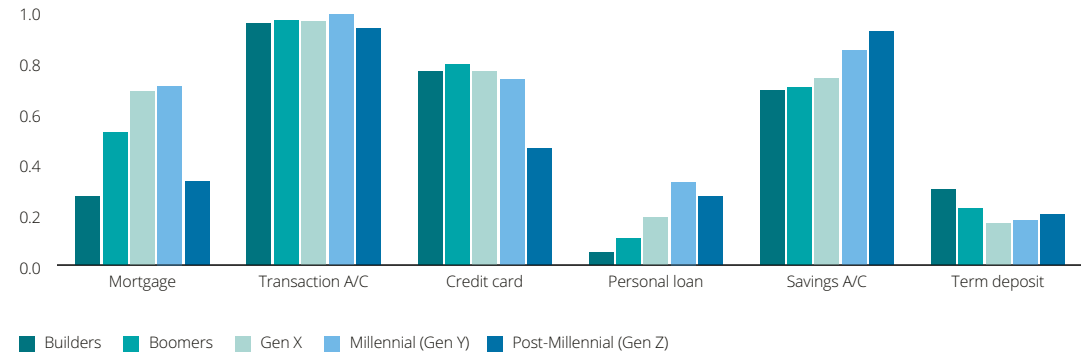
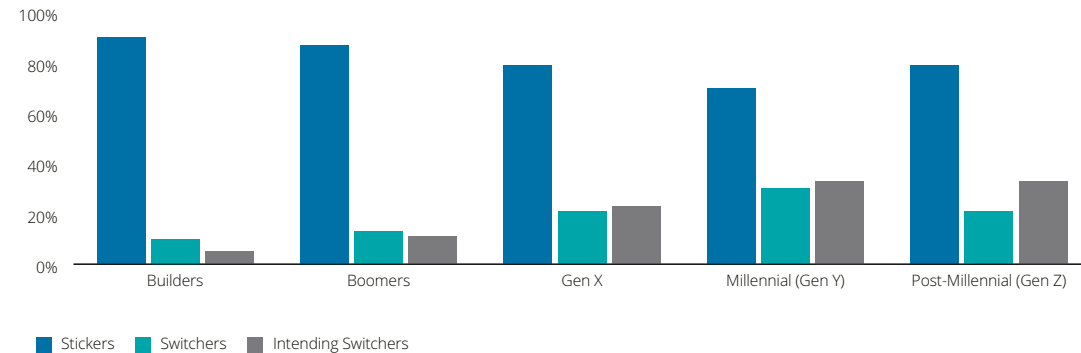


Figure 30. Switching rate by age



Education

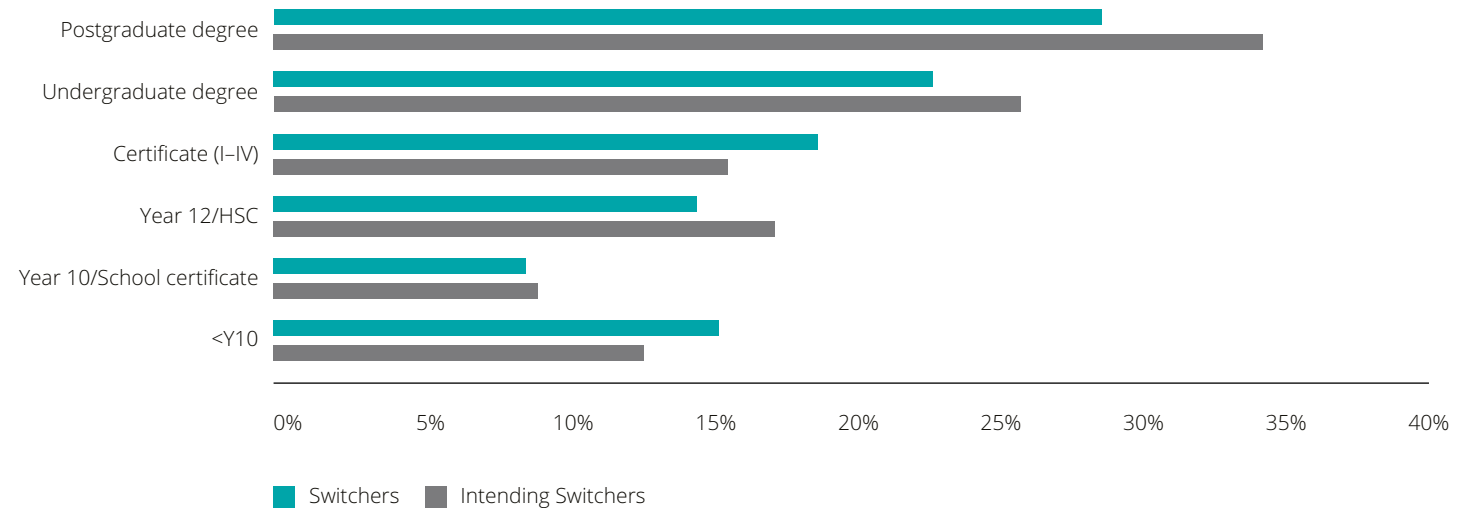
The more educated you are the more likely you are to change bank. People with higher education levels will have a higher financial capability to understand their finances and the sophistication to understand the impact of their decisions on their financial outcomes. Overall, the higher your level of education, the higher your financial consciousness.

People with an undergraduate or postgraduate degree are more likely to have changed the provider of a banking product in the last three years, and are even more likely to be intending to change provider in the next 12 months.

Those who have a high-school education only are less likely to have changed or be intending to change bank.

One of the concerns expressed during the consultation process for the CDR legislation was that less educated people would be less likely to share data. Based on the results of this survey this should remain a concern of organisations and government. Bank and government programs to support financial capability and literacy will be even more important in a world of open banking, as will programs to enhance data literacy.

Figure 31. Switching rate by education



Employment and occupation

People who are employed full-time in a professional or managerial role are more likely to have changed the provider of a banking product in the last three years, and even more likely to be intending to change provider in the next 12 months.

People in clerical and administrative roles are less likely to have changed, or be intending to change, their provider.

Unsurprisingly, this is also true for those who have retired. This is consistent with our earlier observation that the primary financial objective of people over the age of 45 tends to be protecting their financial assets. They will also be more susceptible to behavioural biases anchoring them to existing products (see section on [behavioural biases](#)).

Figure 32. Switching rate by employment

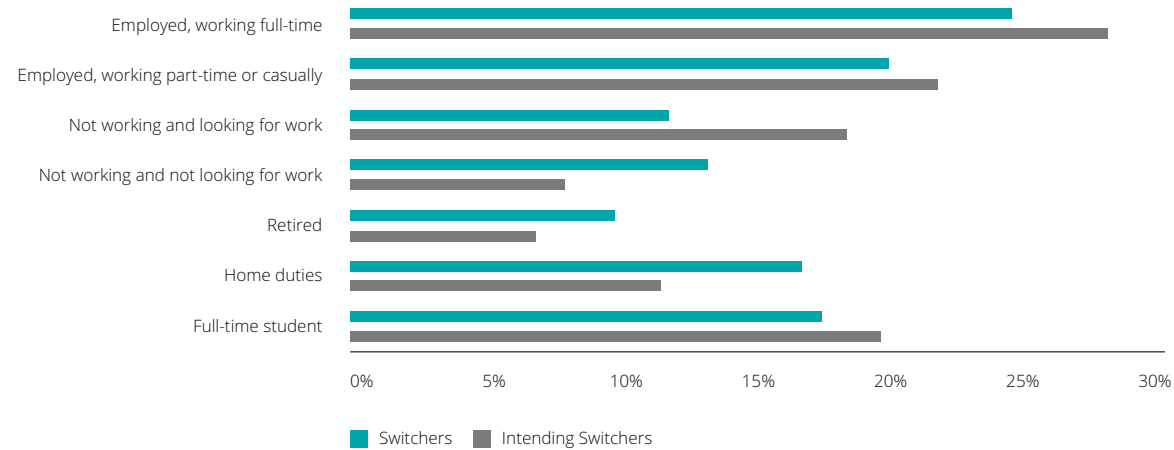


Figure 33. Switching rate by occupation



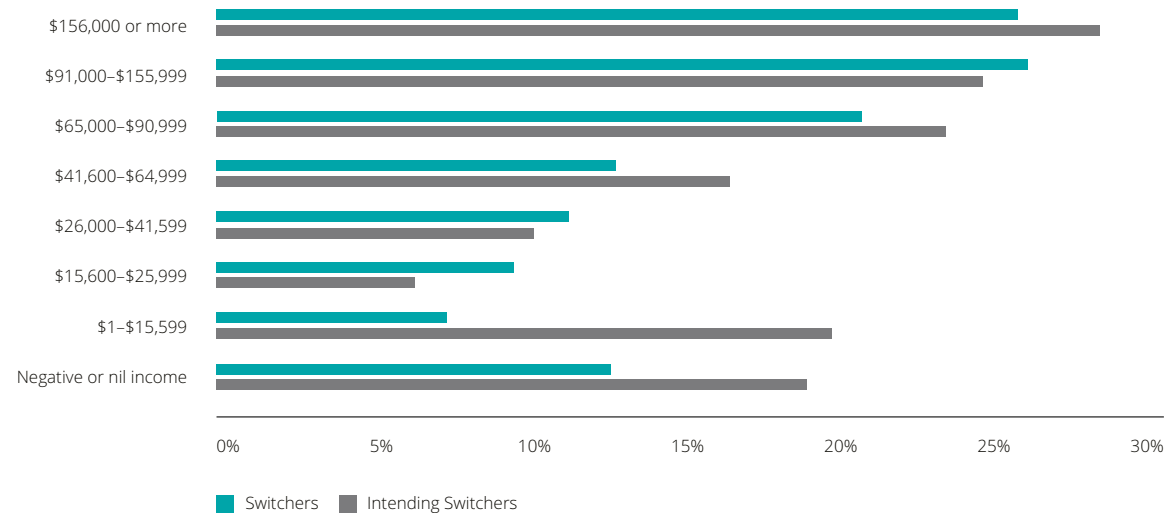
Income

People with higher incomes have higher average mortgage balances and more financial products. As a result they have a greater potential benefit from being engaged with their finances and potentially from changing provider. Higher income levels are also associated with higher financial consciousness.⁷⁴

Households with incomes of \$91,000 or above (and individuals with incomes of \$65,000 or above), are more likely to have changed the provider of a banking product in the last three years, and be intending to change provider in the next 12 months. Another concern raised during the consultation process for the CDR legislation was that the benefits of open banking would not be realised by those with lower incomes. In our survey those with household incomes below \$65,000 were less likely to have changed the provider of a banking product in the last three years.

A study undertaken for Data61 as part of the standards development found that people from disadvantaged or vulnerable groups were more inclined to be concerned about harm arising from data sharing and had more explicit concerns about how their data might be used to classify or exploit them.⁷⁵ It will be important that the consumer education process can clearly communicate the potential benefits of open banking to people in all income groups.

Figure 34. Switching rate by household income



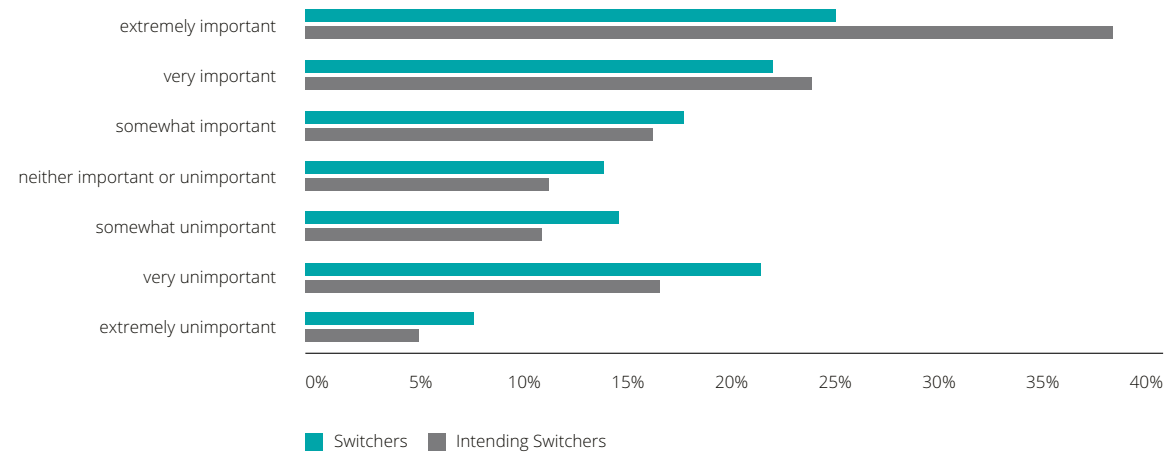
Attitude to technology

We asked people about their attitude to technology. How important did they think it was to keep up with new technology?

While keeping up with technology was seen as at least somewhat important by a majority of people, it was more likely to be seen as extremely or very important by those who had changed the provider of a banking product in the last three years.⁷⁶ This was particularly the case for those intending to change provider in the next 12 months.

Deloitte's digital banking consumer survey also highlighted that there was a relationship between a consumer's use of digital technologies and their emotional engagement with their bank. Heavy users of digital channels – online embracers and digital adventurers – have a stronger emotional connection with their primary banks compared to the respondents who are less frequent users of digital channels. This emotional connection with their bank is likely to be an important element in how much consumers' trust their bank.⁷⁷

Figure 35. Switching rate by attitude to keeping up with new technology



But it also comes with a warning. People with stronger emotional connections with their bank also have higher expectations for the quality of service provided by their bank. Service quality and reputation are two of the factors which influence customers' choice of bank.

Poor service and loss of relationship trust are in the top five reasons why people change banks.



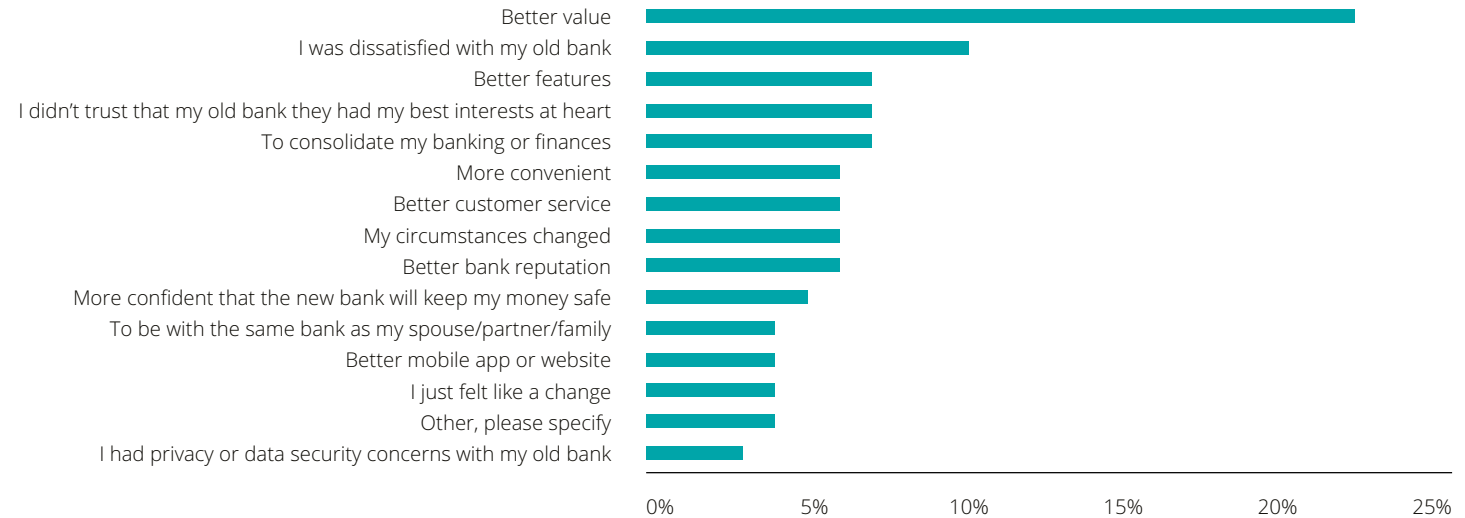
Why do people switch?

We asked people the primary reasons that they decided to change the provider of their banking products. Respondents were able to select as many as were relevant and rank them in order of importance.⁷⁸

Two things stand out. Firstly, the primary reason why people switch banking providers is the pursuit of better value – in short, getting more for less. This focus on value has always been there, but it is amplified in an environment in which more people are struggling to pay bills and there's greater uncertainty on future income levels or stability of employment. These were all factors contributing to a decrease in financial consciousness in 2019.⁷⁹ Consumers' awareness of value is often triggered by changes in the official cash rate (OCR) and bank interest rates, particularly where changes in bank interest rates occur outside of changes in the OCR, even though the OCR is just one component of the cost of funding by banks.

Secondly, there are a number of factors that cause people to change their banking provider. While value and price are important, other non-price factors such as service quality, product and service features, reputation trust, and reducing complexity also influence customers' choices. Banks need to get a number of things right to retain customers.

Figure 36. Reasons for changing provider



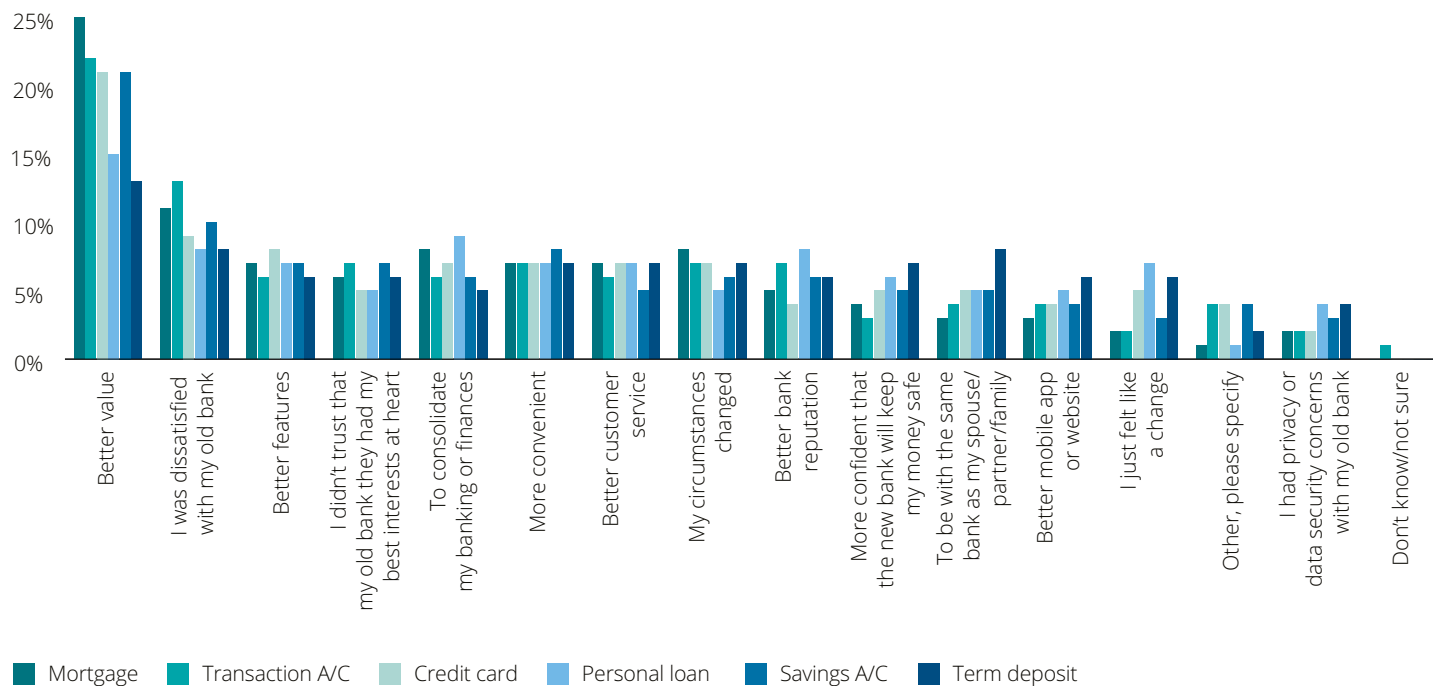
Poor service ('I was dissatisfied with my old bank') and loss of relationship trust ('I didn't trust that my bank had my best interests at heart') were in the top five reasons provided for changing provider. In an open banking environment in which switching is simpler, getting back to basics and getting service quality right will be increasingly important.

The other top five reasons for changing provider were practical: the desire to make their banking less complicated (to consolidate my banking or finances) and provide better product features such as offset accounts, and the ability to made additional mortgage payments.⁸⁰

While consolidating banking relationships was one of the top five reasons people change provider, the convenience of having banking and finances with one organisation is also a key reason that people stay with their existing provider. Notwithstanding this, ASIC's research on the lending market highlighted that people were disappointed that their lender did not offer any rewards for an existing relationship.⁸¹

Of course while people can choose a bank to change to for a range of different reasons, they can also change from their bank if it falls short on any one of these reasons.

Figure 37. Reasons for changing provider (by product)



The reasons people change banking providers vary by banking product.

Realising better value remains the primary reason why people switch banking providers for all products. It is particularly relevant for those changing the provider of their mortgage given that buying a home is typically the most significant financial commitment that people make.

Relationship trust ('I didn't trust that my bank had my best interests at heart') is a more significant factor when people are considering their savings, that is their transaction accounts, savings accounts and term deposits. Prudential trust ('more confident that the new bank will keep my money safe') and information trust ('I had privacy or data security concerns with my old bank') were also factors, particularly for those selecting the provider of term deposit products.



The reasons people change banking providers also vary by generation.

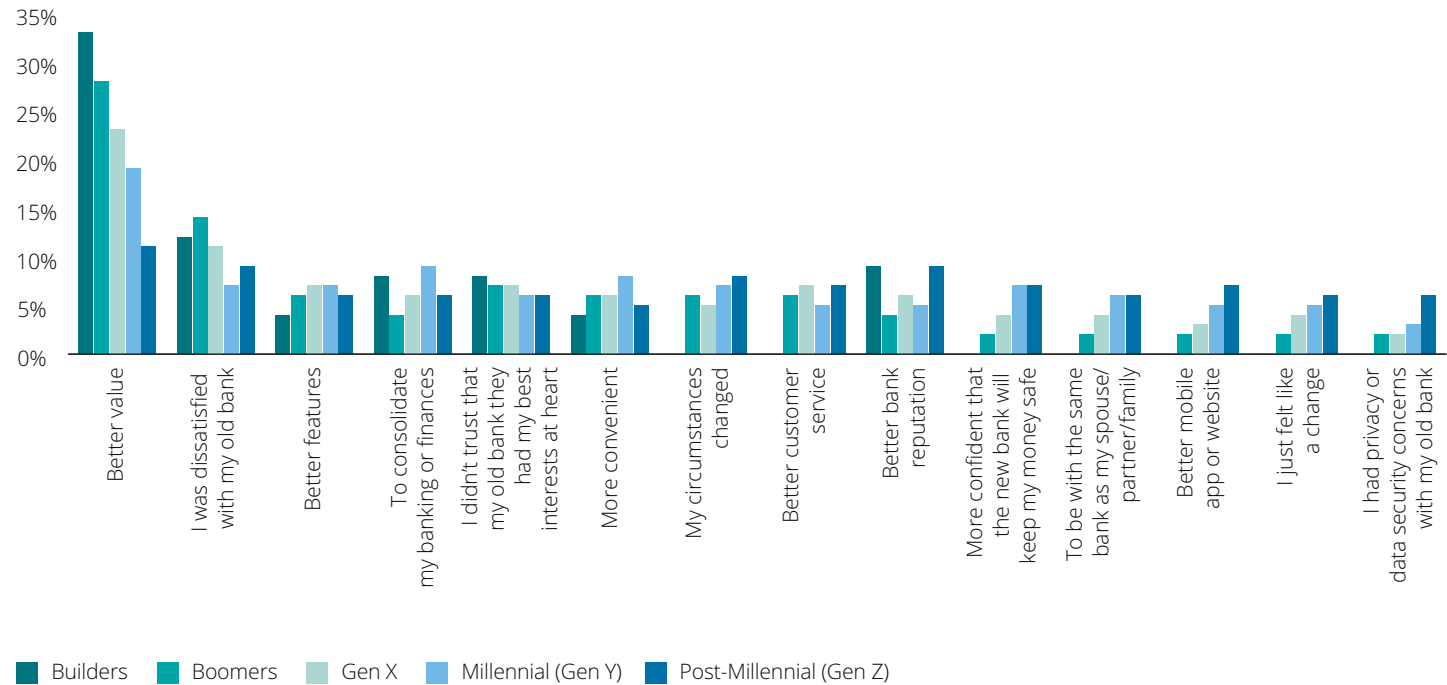
Realising better value was still the most important driver for people to change banking providers. It is particularly important for Boomers and Builders.

Relationship trust was also important across all generations.

The digital experience, perceptions of information trust and prudential trust as well as the banks overall reputation were more likely to be noted as important by Millennials (Gen Y) and post-Millennials (Gen Z).

Changes in life circumstances were also more likely to be noted by Millennials (Gen Y) and post-Millennials (Gen Z) as reasons to change banking providers.

Figure 38. Reasons for changing provider (by demographic)



The impact of trust on switching

We noted earlier that people’s trust in an organisation influences their willingness to share information. But does it also influence how likely they are to switch providers?

The chart below shows the levels of prudential trust and information trust for people who had changed providers in the last three years (Switchers).

Switchers have higher levels of both prudential trust and information trust in almost all organisations compared with those who had not changed providers in the last three years (refer Figure 8).

We then compared levels of trust and willingness to share information for Switchers with Stickers and calculated the percentage difference for each organisational type.

Switchers’ higher levels of both prudential trust and information trust are particularly evident with digital banks and foreign banks.

These relatively higher trust levels translate into a significantly higher relative willingness to share their banking transaction information with digital banks (+60%) and foreign banks (+61%). And they would also be more willing to share banking transaction information with mortgage brokers (+64%) and with potential non-bank challengers including superannuation companies (+63%), technology companies (+52%), supermarkets (+33%) and airlines (+32%).

Figure 39. Trust – Switchers

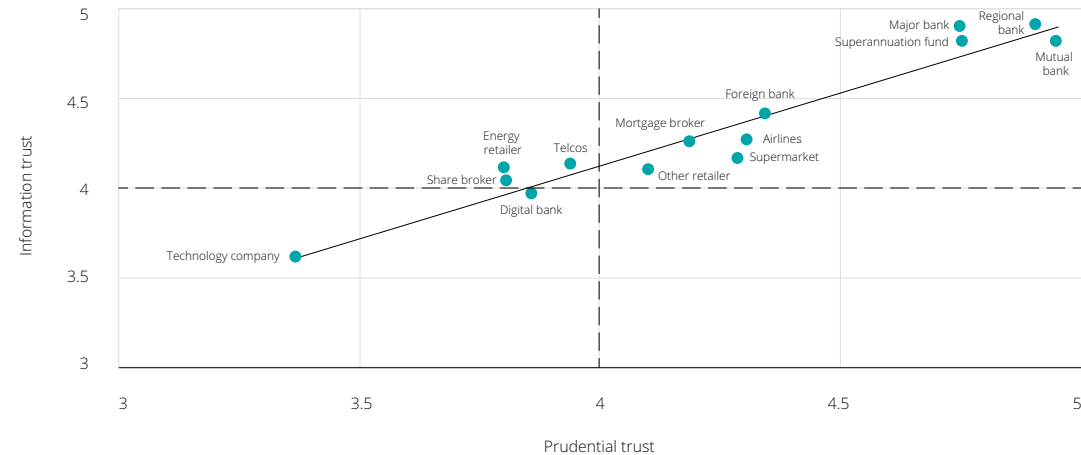
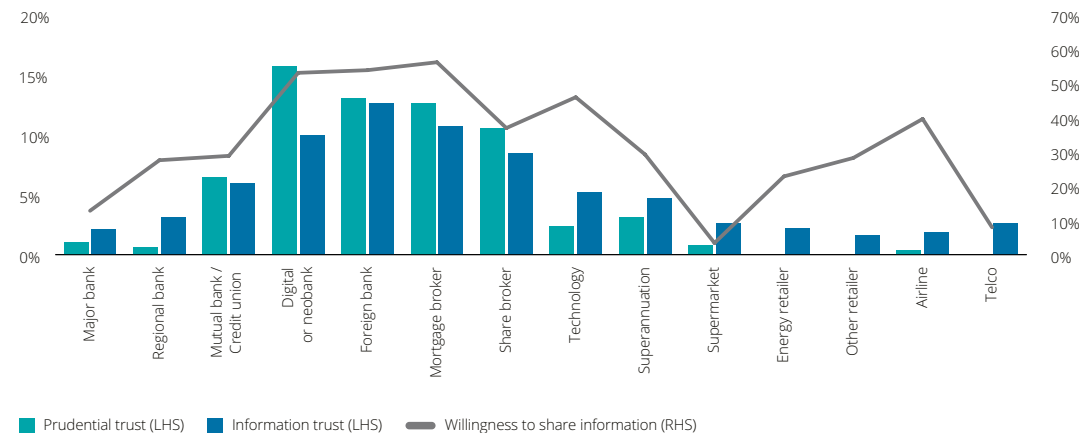


Figure 40. Incremental propensity to trust and share – Switchers v Stickers



When presented with a range of potential benefits that they could receive in exchange for sharing their information both those who had switched their product provider in the last three years and those who are intending to switch their product provider in the next 12 months were notably more willing to share data.

Another survey undertaken by Deloitte showed that while 62% of respondents believe they should have the option to request their personal data be deleted, only a third (31%) would do so if it meant losing features such as personalised recommendations.⁸²

While a majority (51%) of people were willing to share information with organisations that they trust if they received a benefit, this varied significantly by generation.

Over 70% of Millennials (Gen Y) and post-Millennials (Gen Z) were willing to share their data in exchange for benefits. Boomers (36%) and Builders (31%) were far less willing to share data, despite the benefits they could receive in exchange.

This generational difference is an important factor for organisations to consider when developing their strategies on how they will respond to open banking.

Figure 41. Willingness to share data for benefits (by switching intention)

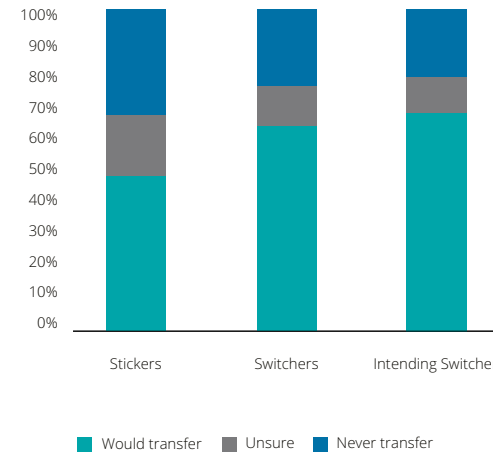
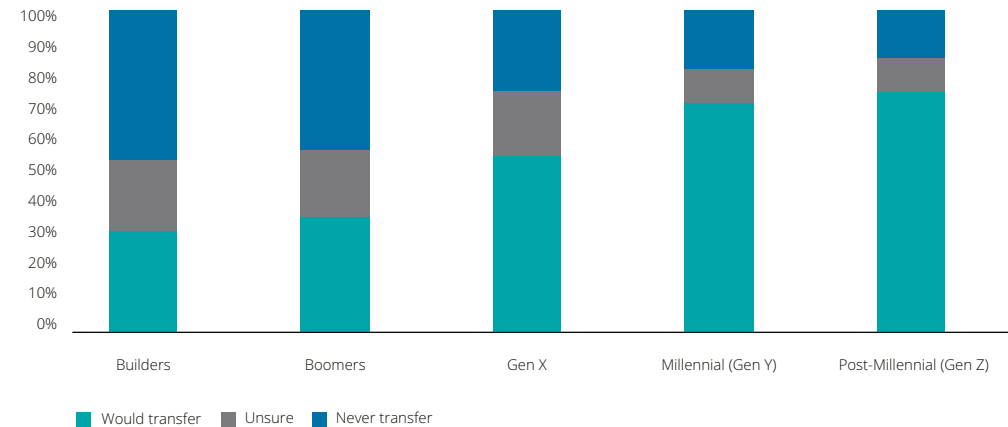


Figure 42. Willingness to share data for benefits (by demographic)



Who did they switch from? Who did they switch to?

We asked people who had changed the provider of a banking product in the last three years (Switchers) what type of organisation had previously been the primary provider of each of their financial products.

The major banks still provide a compelling proposition for most people. A majority of people (57%) who changed the provider of one of their financial products still selected one of the major banks when they switched.

The higher levels of Switchers' trust in digital banks and foreign banks, and the resultant higher willingness to share information with these organisations, was reflected in where Switchers chose to bank when they changed provider. People who had changed their primary banking relationship were two-and-a-half to three times as likely to have their new primary banking relationship with a digital bank (+192%) or a foreign bank (149%) compared to Stickers.

Figure 43. Primary bank relationship after switching

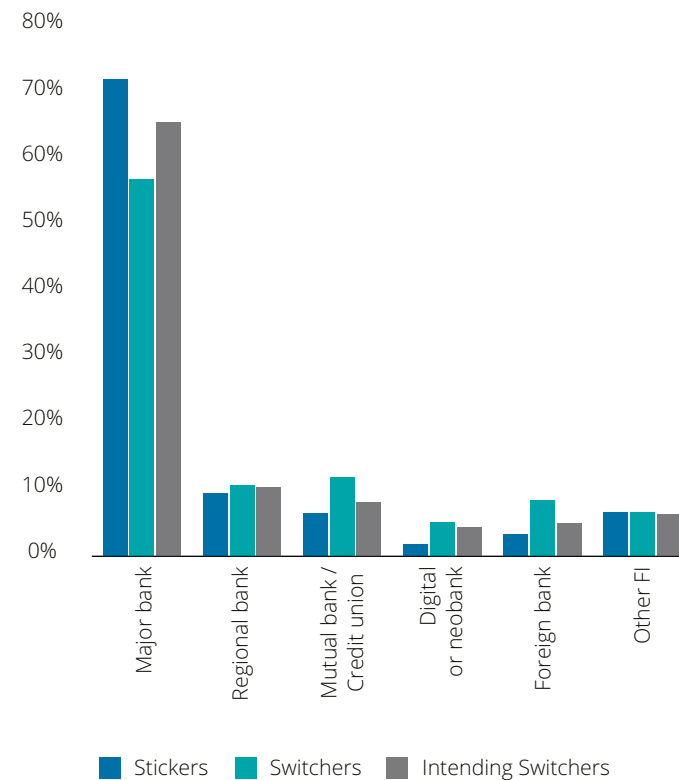
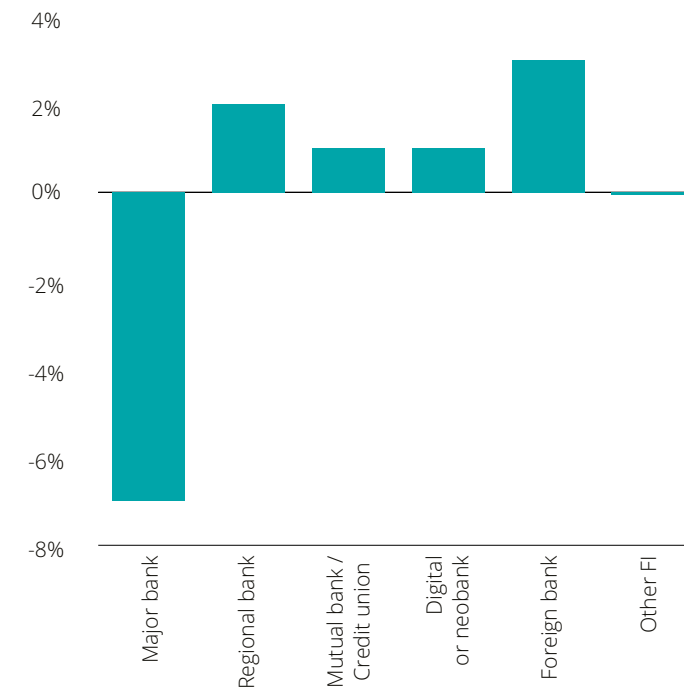


Figure 44. Change in bank relationship when switching

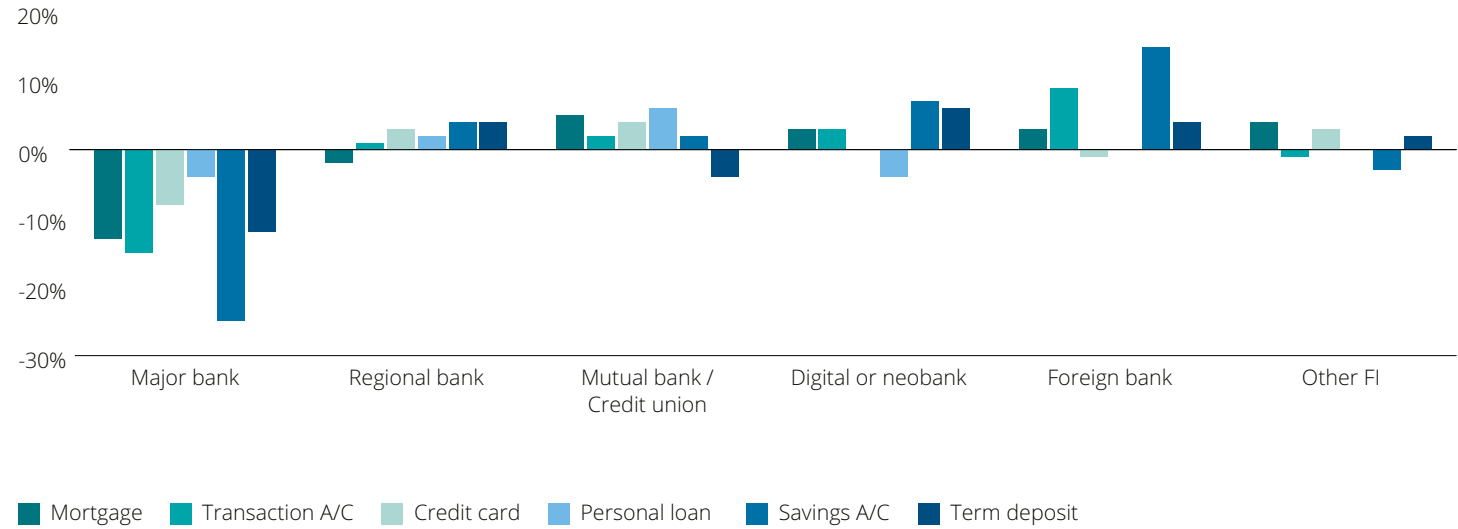


For each product type we then compared what type of organisation people changed from and what type they moved to.

The net change in primary banking relationship away from major banks was evident across all product groups. Regional banks attracted switchers of savings accounts and term deposits. Mutual banks attracted switchers for lending products including mortgages and personal loans.

Digital banks attracted switchers of savings accounts and term deposits, but were also successful in attracting people needing mortgages and transaction accounts. Foreign banks attracted switchers of transaction accounts and savings accounts.

Figure 45. What type of organisation are people switching from?



Switching: it's not as hard as you think

People's willingness to switch is also dependent on their perceptions of how hard it will be to switch providers.

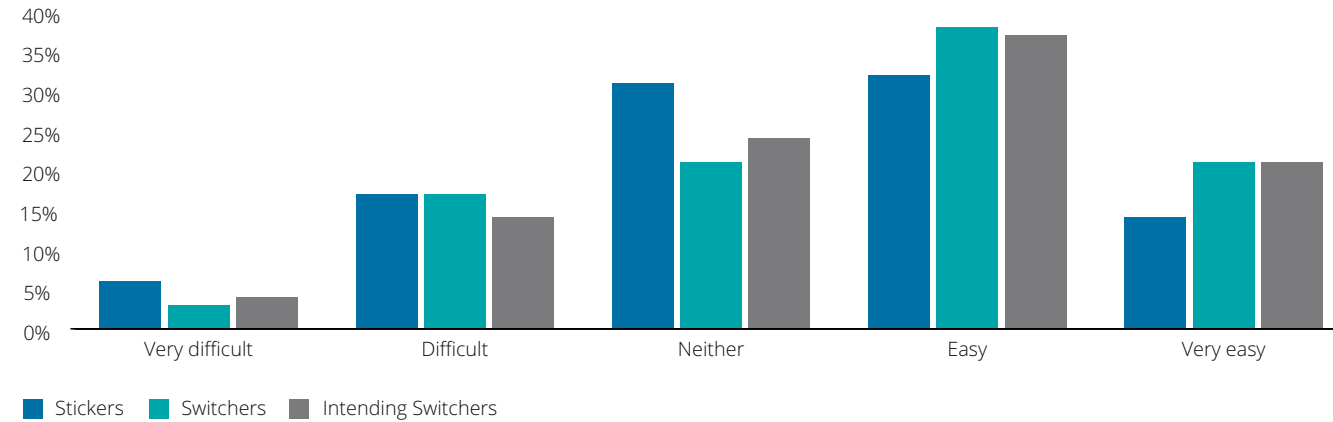
We asked people how hard they thought it would be to switch the provider of their banking products. Answers were provided on a five-point scale from 'very easy' to 'very difficult'.

Almost half the people (49%) thought it would be easy or very easy to switch providers. Only 17% thought it would be difficult and just 5% thought it would be very difficult.

Those who had already experienced switching in the last three years were more likely to think it would be easy or very easy to switch providers (59%).

On average across all products a fifth (21%) of Switchers thought switching was very easy. This group was more likely to be Millennials (Gen Y), better educated (university educated) and to see keeping up with technology as extremely important.

Figure 46. Perceptions of ease of switching



Interestingly, 21% of those intending to switch in the next 12 months also thought that, on average across all products, it would be very easy to switch providers.

Almost 70% of people thought it would be easy or very easy to switch providers of non-lending products – transaction accounts, savings account and term deposits. Only 11% of people perceived that switching the provider of these products would be difficult or very difficult.

Opinion was more divided when it came to mortgage lending and personal lending. More people perceived that switching mortgages would be difficult or very difficult (43%) than those who thought it would be easy or very easy (36%).

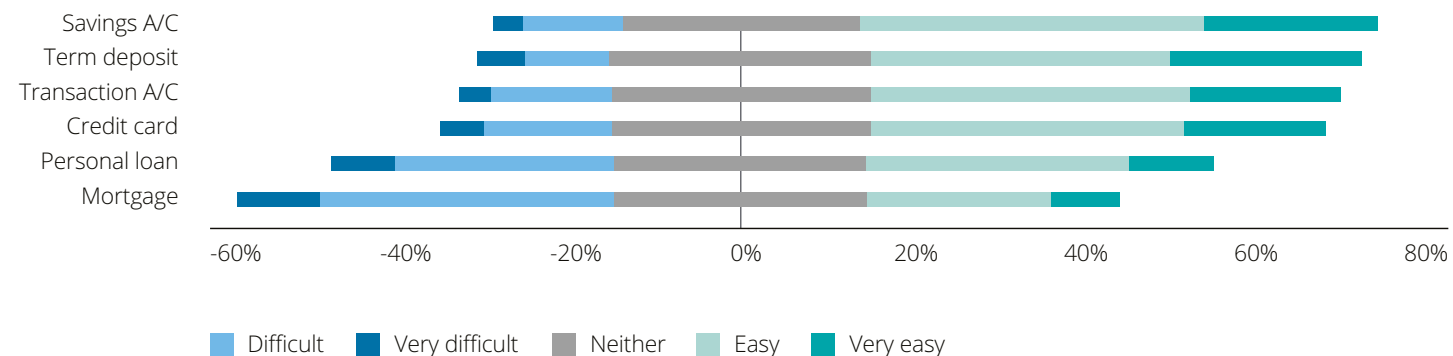


However those who had changed their mortgage provider were more likely to view switching as very easy or easy than those who had not changed the provider of their mortgage in the last three years (39% v 27%).

This reflects both how their perception has been shaped by experience, as well as their higher education levels, and their comfort with technology. By reducing uncertainty, past experience with switching removes (or at least reduces) one of the hurdles which can [paralyse decision-making](#).

It is important to note that 39% of those who had switched mortgages perceived the switching process to be difficult or very difficult. People in this group were more likely to be Gen X, and to see keeping up with technology as only 'somewhat important'. This suggests that there is still an opportunity to simplify the process to remove pain points and assist customers in switching to their organisation.

Figure 47. Perceptions of ease of switching



Capturing the next wave

It's all about value



Changing behaviour

The majority of people who considered switching – through searching or receiving a recommendation – ultimately did not change provider (refer Figure 18).

Just 10% of those who had searched for information ultimately switched. It was the same for those who had received a recommendation. These results were only marginally higher than those who had neither searched nor received a recommendation (9.5%).

It was only those who had both searched for information and received a recommendation who were more likely to switch (24%).

We've already noted that the majority of people are satisfied with their current banking products and providers, or at least not sufficiently dissatisfied to gather information about other banking products or offerings, let alone make a decision to change providers.

People's behavioural biases can result in them continuing with a current provider even if there is a benefit to them from changing.

These can mean that an individual who is already satisfied is likely to put a lower value on the potential benefits of an alternative product.

People's reluctance to switch can also occur if they lack the financial capability or literacy to understand and assess the benefits of alternative financial services products.

When we asked people in a separate survey the reasons why they retained their existing account rather than seek an alternative, they said that 'there were no better options available', that it was 'too hard to pick an account' and that they 'couldn't be bothered'. Together these three reasons were given for transaction accounts (50%), credit cards (39%) and mortgages (30%).⁸⁴

For challengers, changing customer's behaviour can be hard, but it starts with trust, a compelling proposition that delivers value, and clear communication to the right target customers.

"Banking is essential for a modern economy. Banks are not."

Bill Gates, Microsoft⁸³



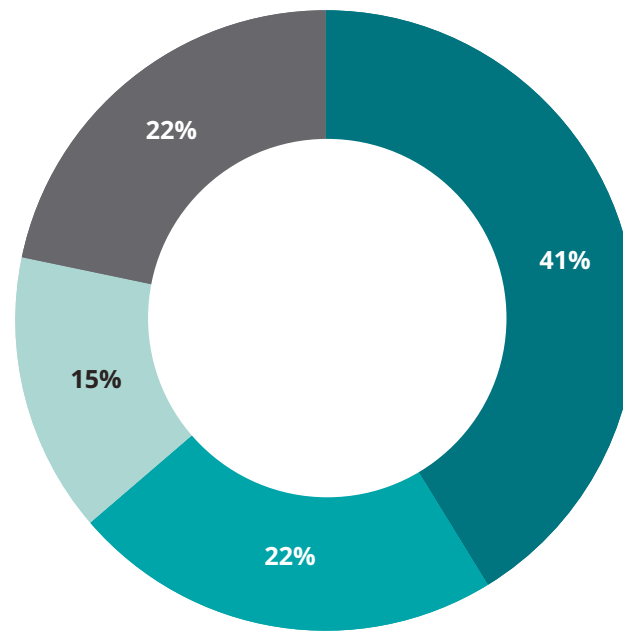
Switching intent

In 2020, consumers will be able to ask their banks to share account and transaction information with third parties. But what will be needed for people to embrace open banking?

We asked people whether they intended to change the primary service provider of each of their financial products. The results were similar to the switching outcomes in the last three years. A fifth of people (20%) intend to switch provider of at least one of their banking products in the next 12 months.

Of those intending to switch, most (59%) are focused on looking for an alternative provider for only **some** of their banking products – typically one or two products – rather than their entire banking relationship. Only a fifth (22%) of people intending to switch are intending to change the provider of **all** of their banking products.

Figure 48. Number of products people intend switching



■ Up to a third ■ One-third to two-thirds
■ More than two-thirds ■ All

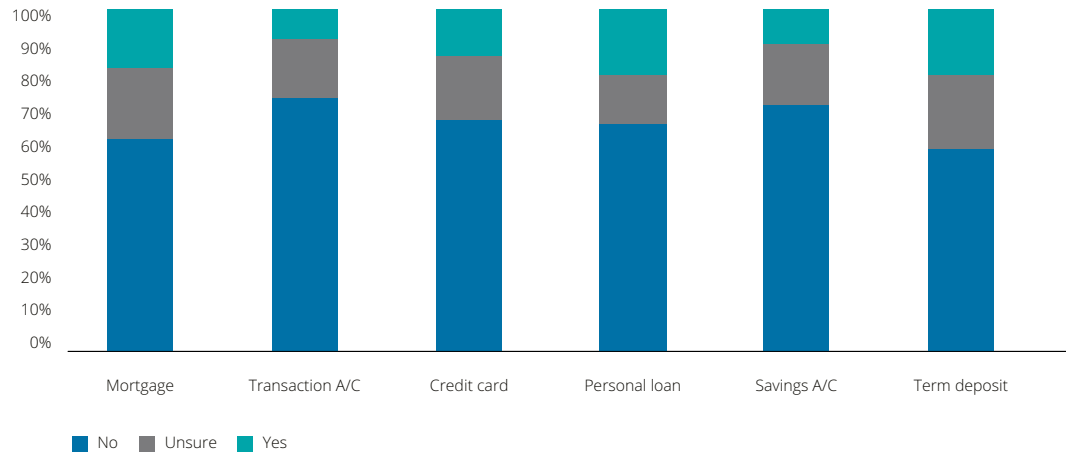
On the face of it people seem to be torn between two of the factors causing them to switch providers: the search for the provider of the best value product, and finding a banking relationship which helps simplify their banking by consolidating their banking relationships.

It is, perhaps, because of these seeming conflicting objectives that in the UK account aggregation offerings have become increasingly popular. A bank can be the core relationship for a consumer without providing all of a consumer's banking products. This could also be true for non-banks, if they are trusted.

Over the next 12 months, people intend to switch the provider of about 12% of their banking products and are unsure about a further 18%.

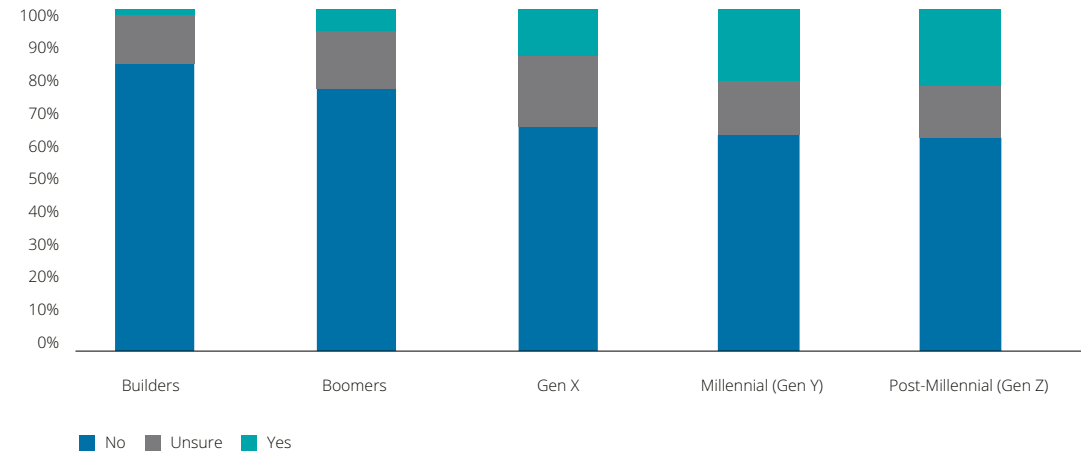


Figure 49. Intent to switch (by product)



People are more likely to intend to switch higher value lending products (mortgages (17%) and personal lending (19%)) and least likely to intend to switch their transaction account (9%).

Figure 50. Intent to switch (by demographic)



The demographic profile of those intending to switch is similar to that of those who have switched in the last three years. Millennials (Gen Y) (21%) and post-Millennials (Gen Z) (22%) are more likely to intend to switch. Builders (2%) and Boomers (7%) are least likely.



Value for data

As people become more aware that the data they generate has value, and as their 'ownership rights' in the data they generate are strengthened through the consumer data right, people can decide to share their data (and their privacy) in exchange for value and benefits.

We asked people to identify for which benefits they would be willing to share their data with **any** organisation, and with an **accredited** organisation.

So what benefits do people want?

Not surprisingly, better value was the benefit that would most encourage consumers to share their information. Of those willing to share information, this was most attractive to Millennials (Gen Y) (93%) and Gen X (88%), who typically have the largest mortgages, as well as post-Millennials (Gen Z) (92%).

These results are consistent with other research Deloitte has undertaken where people said that price factors were 'very important' or 'important' in choosing their banking provider – 87% of mortgage holders, 76% of credit card owners and 74% of transaction account owners respectively.⁸⁵

Figure 51. Benefits for which consumers would share data

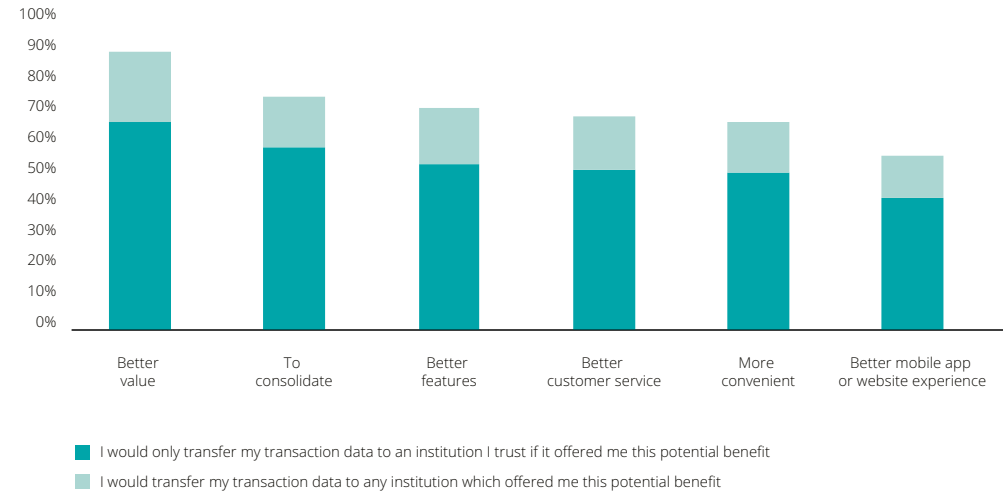
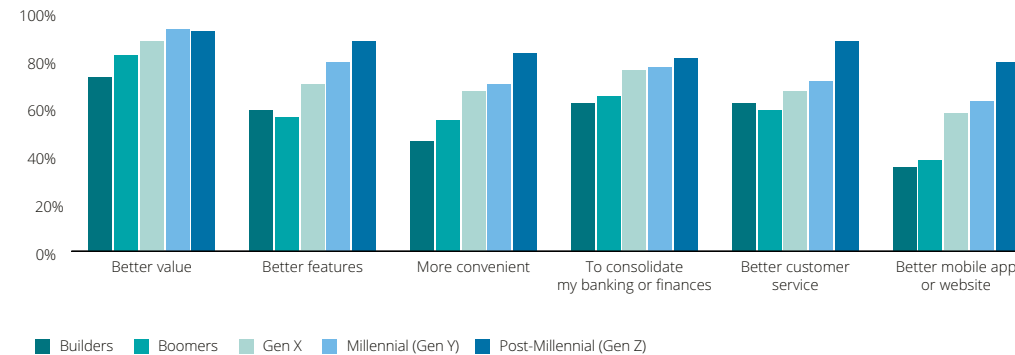


Figure 52. Benefits for which consumers would share data (by demographic)



The majority of those (53%) who were willing to share their information, were only willing to share it with an organisation they trusted. A minority (17%) were willing to share their information with **any** organisation.

Of those willing to share information, 12% were unwilling to share their data even if it meant they could get better value. Instead they wanted other benefits in exchange for sharing their data.



There were a range of other benefits that were seen as valuable and which may influence consumers to share their transaction data, particularly with an organisation that they trust including the ability to consolidate their finances, and better customer service. These benefits enable organisations to compete on factors other than price.

Simplifying finances by consolidating accounts was the second most valued benefit. Other studies have shown that 50% to 70% of customers interact with more than one bank.⁸⁶ More than 70% of consumers are willing to share their data if it helps them consolidate their finances. This was particularly valued by post-Millennials (Gen Z) (81%) and Millennials (Gen Y) (77%).

However, while people's desire to consolidate accounts with the same bank can be a motivator to switch, it can also prevent people switching to obtain benefits. CHOICE found that one third (32%) of people who had not switched accounts said they wanted to keep all their accounts with the same institution.⁸⁷

Better features can also create value for consumers. Consumers can benefit from product features such as offset accounts, or the ability to fix a proportion of the loan at a lower rate.

Figure 53. Benefits for which consumers would share data (by switching intent)



The proportion of people who were willing to share their data for specific benefits increased for younger generations, with the post-Millennials (Gen Z) most willing to share their data for all of the benefits noted.

People who had switched their product provider in the last three years were more likely to rate the potential benefits as valuable enough to make it worth sharing their data.

This was even more so for those who are intending to change provider in the next 12 months.



Behavioural biases

A study on product innovation has insights on the behavioural biases that impact people's willingness to change providers.⁸⁸

They identified three key biases that could prevent people changing providers:

- **Loss aversion effect:** People put a higher weight on what they'll lose in giving up an existing product compared with the perceived value of what they gain from a new product.
- **Endowment effect:** People tend to value products they already possess more than those they don't have.
- **Status quo bias:** People tend to stick to what they have even if a better alternative exists.

The effect of these are evident in the switching results of our survey. Although open banking is likely to reduce some of the transaction costs associated with gathering information on alternative providers and changing provider, equally important will be reducing the psychological costs associated with behaviour change.

These behavioural biases make it important for organisations to clearly communicate the value their product or service provides. Another way of addressing these biases is to find believers – consumers who prize the benefits they could gain from a new product or only lightly value those they would have to give up. Our survey highlights some of the characteristics of potential believers, those who intend to change providers in the next 12 months.

A third way of addressing these biases is just to be patient – companies must anticipate a long, drawn-out adoption process and manage accordingly.



Overcoming inertia

To successfully get customers to switch, banks and other financial institutions need to overcome customers' inertia.

This is only exacerbated for more complex products, where customers may feel anxious about selecting the best banking product for them, overwhelmed by different product terms and conditions, and lack an easy way to compare and assess options.

There is a real opportunity to leverage behavioural design to help overcome the behavioural biases that impact people's willingness to change providers or their ability to make a decision to change – the intention-action gap.

Challenger organisations can do this by developing targeted switching propositions that reduce cognitive load through simplifying the amount of information to process, automating as much as possible.

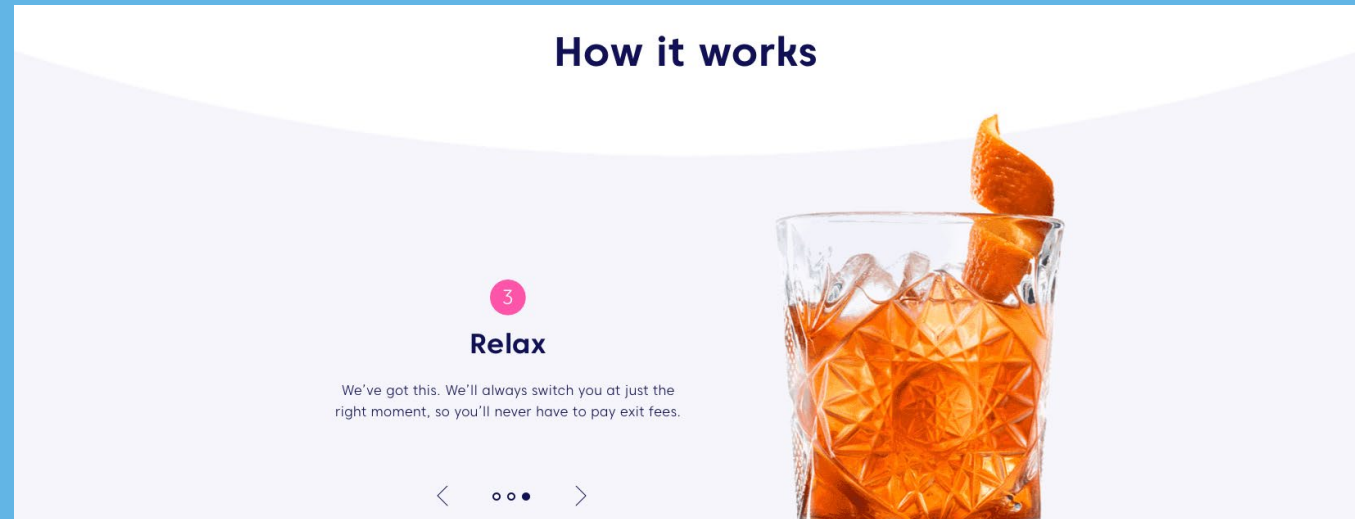
Incumbent banks can change both the value they deliver, and how they communicate this, to existing customers, to influence customers' perception of the value they would receive from switching. This is especially important for those customers showing leading indicators of switching (e.g. opening new accounts with other providers).

Case study

Switchcraft saves households time and money by automatically moving them to cheaper energy deals for free.

Switchcraft, an automatic energy switching website in the UK, has vastly simplified the process of switching energy suppliers. Households just need to register their details with Switchcraft and the service will automatically move them to the best price plan when their current contract ends, helping households avoid needlessly wasting money by sticking with the status quo.

The tedious switching process has been completely eliminated. No more comparing and selecting providers, providing all the information needed to the new provider, and then cancelling the account with the old provider. Switchcraft claim that this can save customers an average of £200 plus p.a. on their energy bills and even up to £300-500 p.a. for some. There is an opportunity for challenger brands in Australia to adopt the Switchcraft business model to help consumers overcome switching inertia between institutions.



Source: <https://www.switchcraft.co.uk>



Using the right influencers

The wisdom of the tribe is still very real for Australians. We've noted the [role that family, friends and colleagues](#) play in influencing people's choice of provider of banking products.

Crafting propositions that help spread word of mouth and grow advocacy between family, friends and colleagues of customers is a powerful technique. Examples include family-oriented bundling, refer-a-friend programs and offering workplace benefits.

Switching mortgages

Switching intention is highest for mortgages, with 47% of mortgage holders having sought additional information or obtained a recommendation in the last three years. However, around 89% of people who searched for information, or sought a recommendation, or both, ultimately did not act on this to switch their mortgage.

There are a number of potential reasons for this. People may be genuinely satisfied with their existing mortgage. However it is also likely that all of the behavioural biases that we have noted play a part. They may be overwhelmed by the sheer range of mortgages available ([analysis paralysis](#)). They may worry more about what they'll lose by changing mortgages than what they will gain from obtaining a lower rate ([loss aversion](#)), particularly where most of those benefits are in the future ([uncertain future](#)). They may also worry about their ability to understand the features and benefits of the new mortgage, let alone how they compare to their existing mortgage ([impact of emotion](#)). They may place too much value on their existing mortgage ([endowment effect](#)) or simply be resistant to changing ([status quo effect](#)).

Open banking addresses some of these behavioural biases. In order to gain new mortgage customers, challengers could:

- Use a customer's shared data to provide personalised assessment of the benefits associated with differing mortgage products and facilitate a comparison with a customer's current mortgage
- Reduce uncertainty by showing people how changing providers can impact their personal finances
- Design simpler digital and direct experiences which clearly communicate these benefits
- Refine propositions for products and incentives that help push customers over the proverbial tipping point – while also strengthening competitive positioning
- Strengthen distribution networks with mortgage brokers, while ensuring that transparency of commission payments and ethical values are upheld in their recommendations.



Influencers, such as mortgage brokers, could potentially use a customer's shared data when helping them choose a provider. Advice from an expert is a key driver for mortgage switching behaviour. For those who have switched their mortgage, advice from a mortgage broker was more influential than advice from families, friends and colleagues.

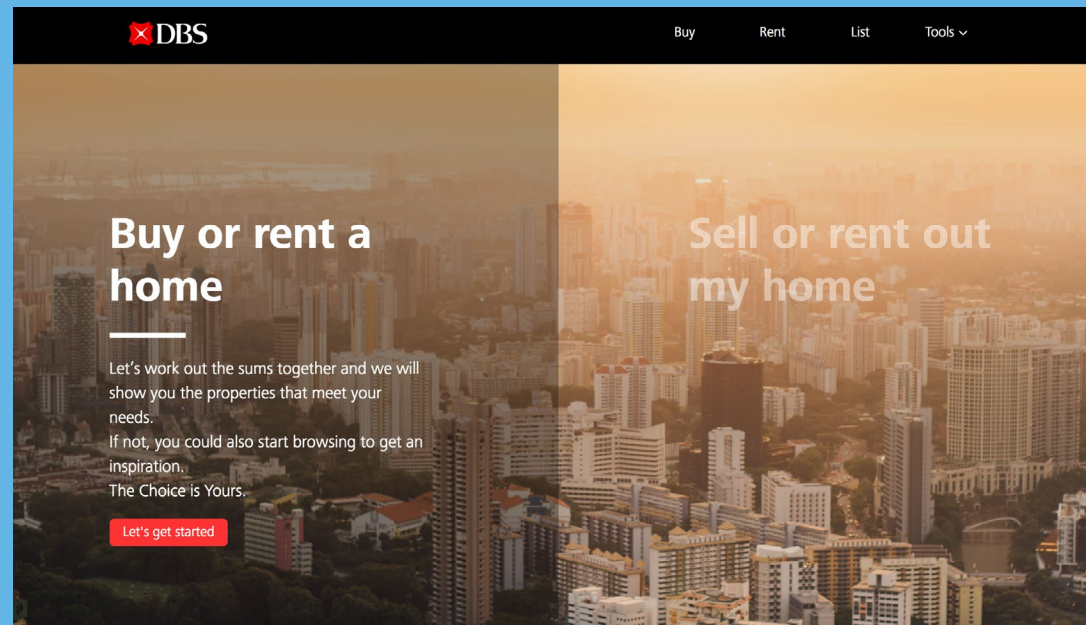
Mortgage brokers and financial advisers are particularly important influencers for women, who made up 78% of people who switched or purchased a new mortgage and claimed that a financial adviser or mortgage broker was a key influencer in their decision.

Case study

DBS Property Marketplace: Connecting customers to real estate to speed up mortgage origination.

DBS mortgage loan APIs help customers assess their loan affordability by inputting basic customer/property data and then initiate a home loan application directly via their DBS accounts. A partnership has been established with search and data portal PropertyGuru to use this API.

The integration speeds up the process of applying for home loans. After customers have identified their desired homes, they can calculate loan affordability and initiate a home loan directly from PropertyGuru's site. Australian banks can use open banking data during mortgage origination to remove friction from the customer experience during the credit assessment process.



Source: <https://www.dbs.com/dbsdevelopers/homeplanner.html>

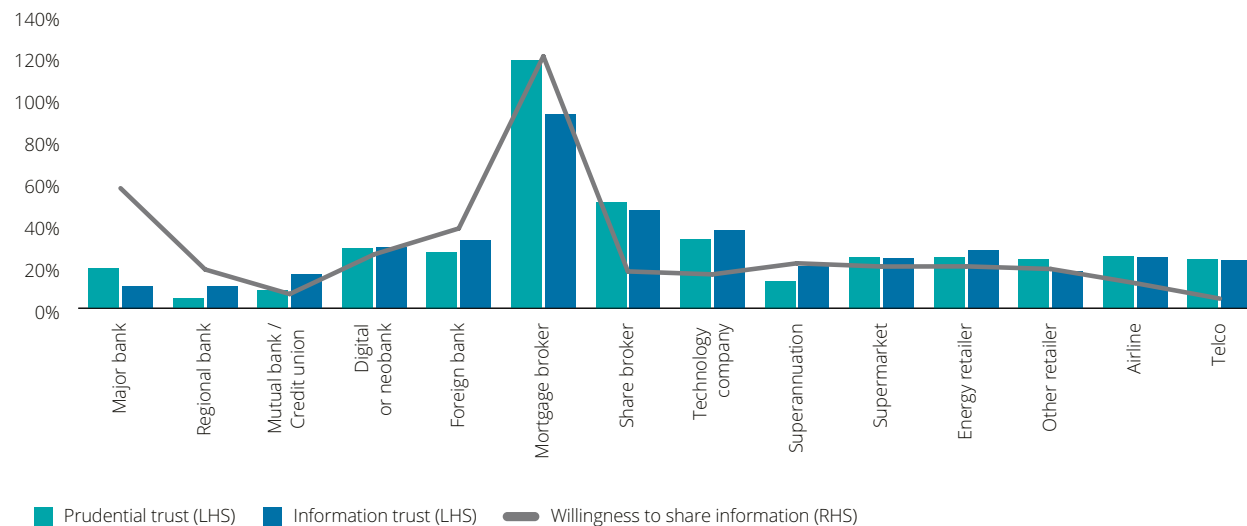


Mortgage brokers

For most people, taking out a mortgage is the largest financial commitment they make. In addition, mortgages are seen as complex, making the journey to getting a home loan 'complex, multifaceted and nonlinear'. In going on this journey people start out undecided and take their time deciding whether to obtain a loan directly with a financial institution or to use a mortgage broker.⁸⁹

In our survey, two-fifths of the people who had a mortgage had used a mortgage broker to apply for their mortgage loan. More than half of all new residential loans approved in the year to March 2019 were originated by third parties, including mortgage brokers.⁹⁰ Mortgage brokers, along with financial advisers, are seen as particularly influential for those intending to change banks in the next 12 months (refer Figure 20). Mortgage brokers were most influential for Millennials (Gen Y), a demographic likely to be taking out their first home loan.

Figure 54. Incremental propensity to trust and share mortgage broker customers v direct from bank



A mortgage broker customer

- Demographic**
- Age:** More than half are less than 45
- Education:** University educated
- Employment:** In full-time employment in a professional role
- Income:** Household income of \$91,000 or above
- Behavioural attitude to technology:** Believe keeping up with new technology is only somewhat important
- Attitude to sharing data:** More willing to share data with mortgage brokers and major banks.



Why do people use mortgage brokers? While people say that getting a better rate is why they had changed their product provider (Figure 55), reducing complexity and improving comprehensibility rated higher than getting better value for the reasons people used a mortgage broker (Figure 56).

As people progress on their journey to getting a home loan, the role that mortgage brokers play in making the mortgage application process easier and making it easier to get information about mortgage loans is valued more highly than just getting a better interest rate.

ASIC's review of mortgage customers found that people who are not sure which home loan is right for them or who are wanting to access a range of home loan options are more likely to use a mortgage broker.⁹¹

People who use mortgage brokers expect brokers to act in their best interests.⁹² However this is not always the case. In August 2019, the government announced that a 'best interest duty' would be introduced for mortgage brokers from the end of 2019. This will align mortgage brokers' requirements with consumer expectations.

Figure 55. Reasons people had changed product relationship

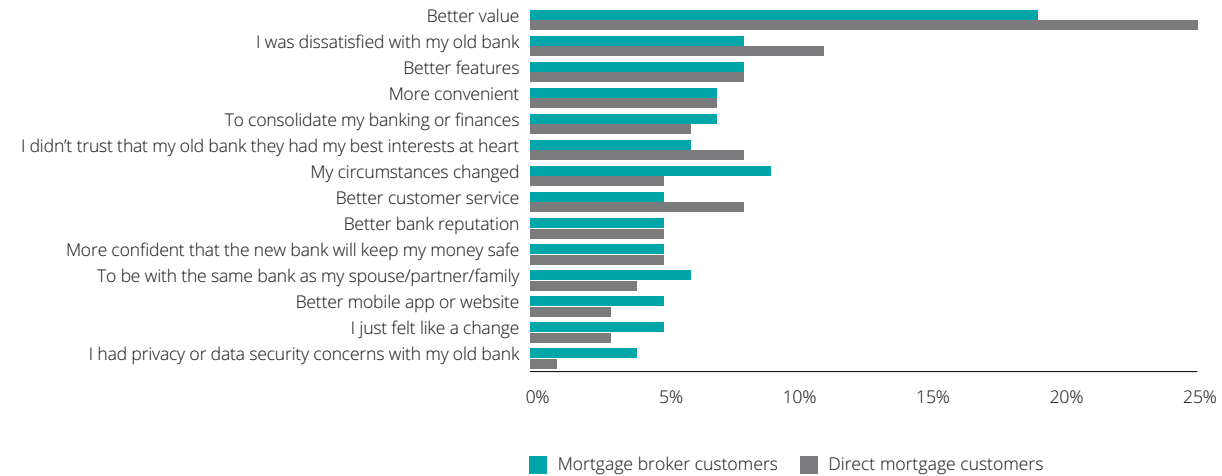
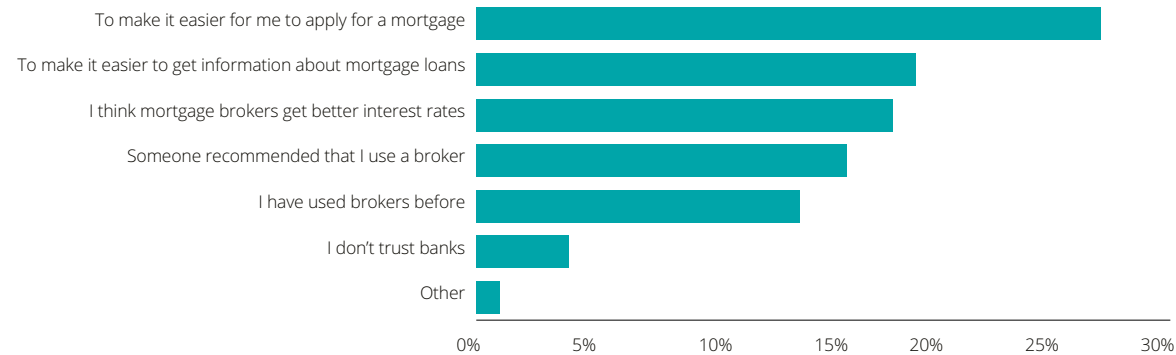


Figure 56. Reasons people would use a mortgage broker



Digital and neobanks on the rise

A bevy of digital-only neobanks have emerged in the last two years.

In Australia, Volt⁹³ and Xinja⁹⁴ have full ADI licences, graduating from their restricted Authorised Deposit-Taking Institution (RADI) licence status in January 2019 and September 2019 respectively.

Judo started as a lender to small business and received its full ADI licence in April 2019. Neobank 86400, backed by payments company Cuscal, received its full ADI licence in July 2019. US neobank Douough has partnered with mutual Regional Australia Bank,⁹⁵ UK neobank Revolut started a beta version of its app in June 2019⁹⁶ and Chinese digital-only bank WeBank is reported to have plans to launch in Australia.⁹⁷

Digital and neobanks are focused on removing pain points in banking, including approval times and fee levels, as well as providing new services, including spend management.

Incumbent banks have also developed digital bank offerings: UBank (NAB) and Up (Bendigo and Adelaide Bank) have joined ING and ME Bank in offering digital banking services. However unlike digital-only neobanks, these digital bank offerings rely on existing bank infrastructure to deliver their services.

However most digital and neobanks face a number of challenges including:

- **Awareness** – Not many people are aware of the concept of neobanks let alone the banks themselves. It might take some time for the neobanks to create awareness and gain popularity.
- **Trust** – Even though digital banks are regulated by APRA and need to have the same banking licences and approvals as existing Australian banks, digital and neobanks have yet to earn the trust of consumers.
- **Customer relationship** – So far neobanks have mostly gained traction as a secondary account. Most people prefer traditional banks for their primary account. While major banks are still the preferred option for most, people who switch are two-and-a-half times more likely to bank with a digital or neo-bank than those who have not switched. Switchers are particularly likely to change to a digital or neo-bank for savings accounts and term deposits.

Rather than digital and neobanks appealing only to younger generations, our survey reveals that only 25% of current digital bank customers are Millennial (Gen Y), and over a third (34%) are Boomers and Builders.⁹⁸ What does stand out is that those who have switched to a digital bank are more comfortable with technology and are twice as likely as 'Stickers' to see technology as extremely important (26% of 'Switchers' vs 13% of 'Stickers').



A digital or neobank customer

Demographic

Age: Half are over 45

Education: University educated

Employment: In full-time employment in a professional role

Income: Household income of \$91,000 or above

Behavioural attitude to technology:

Believe keeping up with new technology is very or extremely important

Attitude to sharing data: More willing to share data with digital banks and foreign banks (but not major banks).



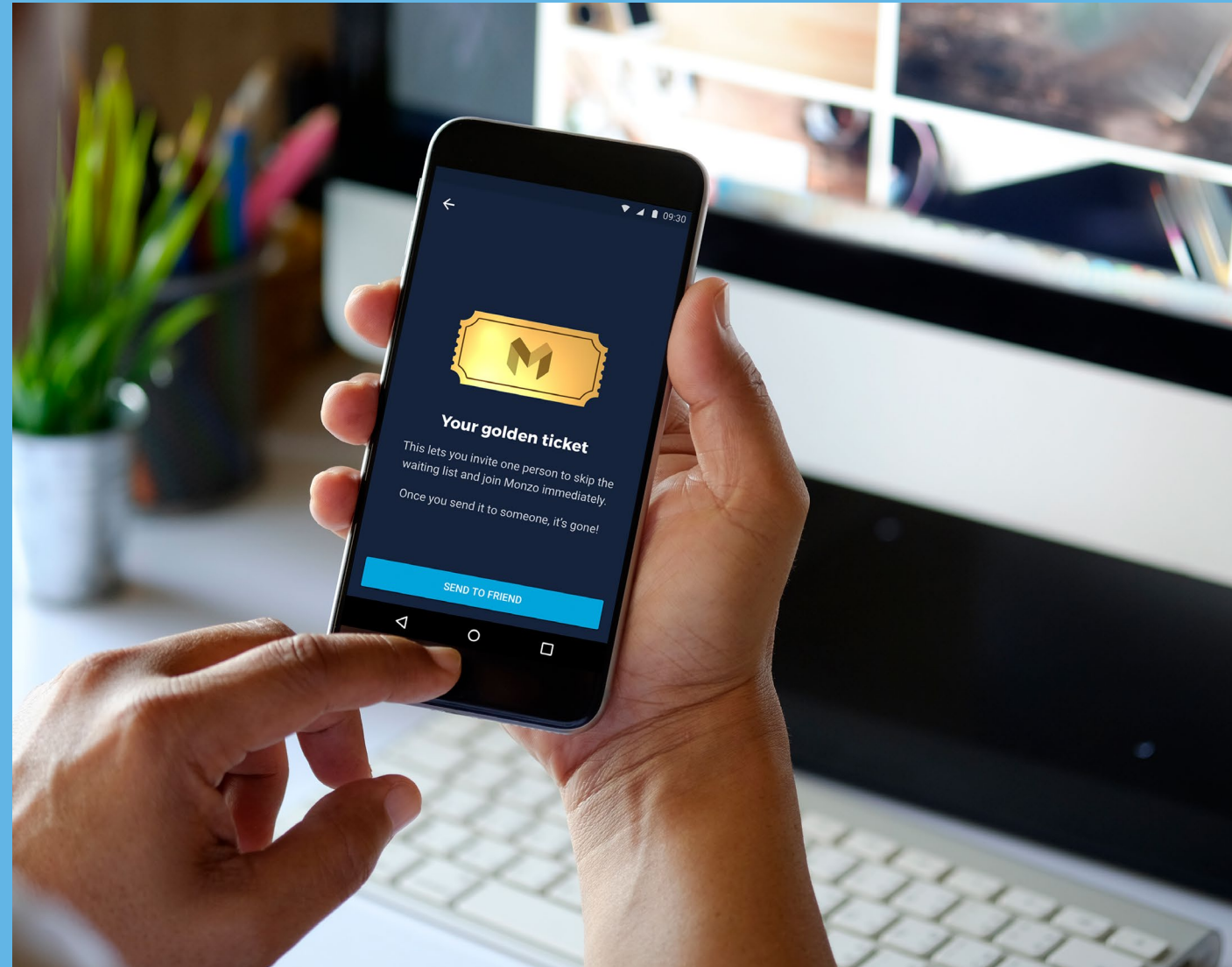
Case study

Monzo's viral waitlist and Golden Ticket

As mentioned earlier, Monzo is a challenger bank in the UK which has experienced considerable success in building a community of loyal customers. The digital bank's biggest growth driver has been its customer base. According to the company, 80% of new customer growth comes from referrals or word-of-mouth.

Monzo has used wait lists and customer referrals to create hype around their product and successfully acquire new customers.

During its launch, Monzo placed any customers who wanted to join on a waitlist which at its peak was two months long. Customers could see their position on the waitlist and bump it up by referring other people to join Monzo. Monzo also allowed existing customers to give a 'golden ticket' to friends so that they could skip the queue entirely.



Source: <https://medium.com/airtree-venture/the-challenger-bank-marketing-playbook-virality-community-education-design-7c790d5a0577>
<https://monzo.com/blog/2019/01/24/monzo-golden-tickets>



Point of difference is critical

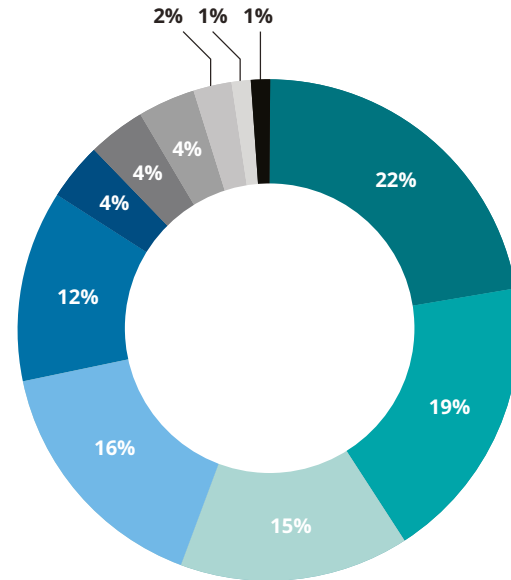
With open banking now just around the corner, many of the big banks are focused on complying with the new technology and regulatory requirements. This presents an opportunity for other organisations – start-ups and other challengers – to develop propositions that deliver value for consumers that could disrupt incumbents' business models.

The improved connectivity and data transparency that comes with open banking, coupled with the growing intent to switch, mean that organisations need to have a clear point of difference: one which solves customers' problems in a way that delivers value to the customer. This is important both for organisations seeking to defend their existing customer base, and for those seeking to acquire new customers.

To compete, banks and potential non-bank competitors, need to see open banking as an opportunity.

In the UK, more than 135 entities have been approved by the Financial Conduct Authority (FCA) to provide open banking-enabled services to consumers and SMEs. These entities are providing, testing or designing a range of use cases based on customer data which is shared through open banking. Account aggregation, personal financial management, and SME financial management propositions are the initial areas of focus.⁹⁹

Figure 57. Third party propositions (UK)



- Personal financial management
- E-commerce payments
- Credit file enhancement
- SME accountancy and financial management
- Account aggregation
- SME lending
- Settlement and back office integration
- Open banking as a service
- Consumer lending
- Micro savings
- Consent management

Stage	Proposition	Examples
Live	Account aggregation services	Barclays, Lloyds, NatWest/RBS, HSBC
	Personal financial management	Yolt, Moneyhub
	SME financial management	Xero, Intuit, Sage, FreeAgent
In testing	Open banking as a service	Tokem, TrueLayer, OpenWrks, Yapily, SaltEdge
	Consumer lending	Account Score, Experian, Equifax
	Automatic overdraft borrowing	SafetyNet Credit
In design	Credit file enhancement	Bud, CreditLadder, RentalStep, Credit Kudos, ClearScore
	E-commerce payments	CashFlows, Trustly, Adyen, Transferwise
	Identity verification	The IDCo
In testing	SME lending	iwoca, Funding Options, Funding Circle, GrowthStreet
	Debt advice	Tully (from OpenWks), CastLight
	Account sweeping	Moneybox
In design	Micro savings	Moneybox
	Product comparison services	RunPath, Finnovation Labs, Funding Xchange
	Protections for financially vulnerable people	Kalgera



Account aggregation

While consumer awareness of open banking has been low so far in the UK, the new open banking regime has paved the way for new entrants and non-banks to offer more engaging user experiences and become customers' preferred interface to access and manage their banking.

In the UK, open banking has acted as a catalyst for banks to accelerate their investment in customer experience and engagement initiatives, and defend against competitors that offer customers the opportunity to more easily manage all their accounts in one place.

Several banks, both established and newer challenger banks, now offer account aggregation services; they are also increasingly being offered by third party providers.

In a category known for disengaged customers, this is a natural first step. It helps people simplify their banking by aggregating rather than consolidating their banking relationships.

In Australia the ACCC has noted that the initial accredited data recipients are providing account aggregation services and personal financial management tools.¹⁰⁰

Case study

HSBC Connected Money – joined up banking

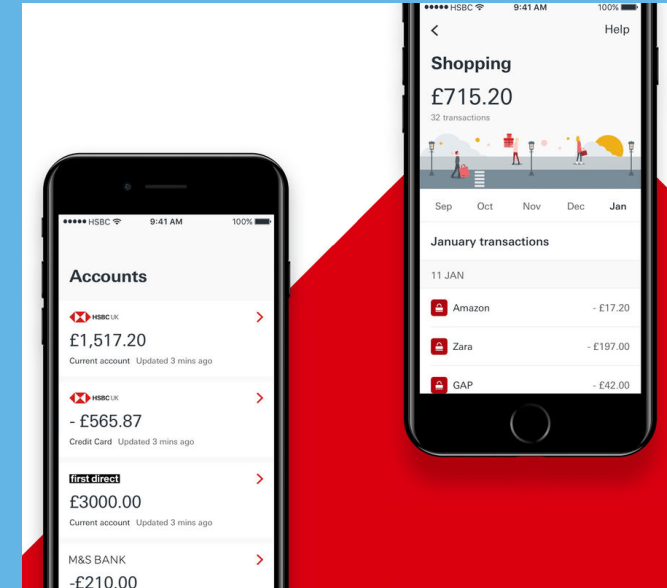
HSBC was a first mover in launching an account aggregation service to customers ahead of the introduction of open banking to the UK market. Connected Money, which first launched as a separate app, allows HSBC customers to see all their accounts in one place, including accounts with rival banks, and includes tools to help track where their money goes and what they will have left to spend once bills have been paid.

“Open banking was a catalyst, but we started almost three years ago with something designed to drive engagement around everyday banking. Whether it’s millennials or any other generation, there’s a sense of dread and inertia when it comes to managing money.”

Raman Bhatia, Head of Digital Product, HSBC Retail Banking and Wealth Management

According to HSBC, more than 300,000 customers signed up for the app in its first year.

Connected Money was originally launched as a standalone experiment focused on account aggregation and money management. HSBC is now merging the most popular features of Connected Money into its main HSBC mobile banking app which will enable the core features of Connected Money to be available to a larger customer base.



Sources:
Browne, Ryan, HSBC's new money management app has racked up 300,000 users in a year, CNBC, 30 April 2019. Refer <https://www.cnbc.com/2019/04/30/hsbc-connected-money-app-has-racked-up-300000-users-in-a-year.html>
Flinders, Karl, HSBC drops Connected Money and integrates best features to main mobile banking app, ComputerWeekly.com, 6 June 2019. Refer <https://www.computerweekly.com/blog/Fintech-makes-the-world-go-around/HSBC-drops-Connected-Money-and-integrates-best-features-to-main-mobile-banking-app>



Personal financial management

Many consumers are seeking insights into how to improve the way they manage their money.

With access to customer and transaction data through open banking, using account aggregation as a foundation, and with sophisticated automated analytics, a number of organisations, both banks and third parties, are providing personal financial management services.

These services can provide customers with insights into how they are spending their money, how their spending patterns support their goals, and potentially the ability to compare their spending patterns with those of similar people. Other personal financial management offerings can make recommendations on ways to access better offerings for other services e.g. through cheaper energy deals. With the process for open energy already underway, and superannuation, insurance and health insurance all potentially to follow, organisations, both incumbents and challengers, should be thinking about what personal financial management could look like in the emerging open data economy.

We've identified seven potential opportunity areas in personal financial management:

 Keep me on track	 Make banking more convenient	 Reward my spending	 Keep my money safe	 Save me money	 Save me time	 Give me inspiration
Get better visibility and control of my finances, across accounts	Do banking when and where I want	See all my loyalty and rewards in one place	Keep an eye on my money and prevent fraud	Find opportunities to save me money	Take the hassle out of money related tasks	Find me the best places to eat, drink, shop or visit

The connectivity that comes with open banking, and open data, presents several opportunities to form unique partnerships to provide defensible competitive advantage. There is a clear opportunity for banks to create the right experiences to meet customers' needs for more complex products. This opportunity is amplified in an open banking environment, as greater data sharing facilitates new offerings, and increases the potential for real-time credit decision making.



Case study

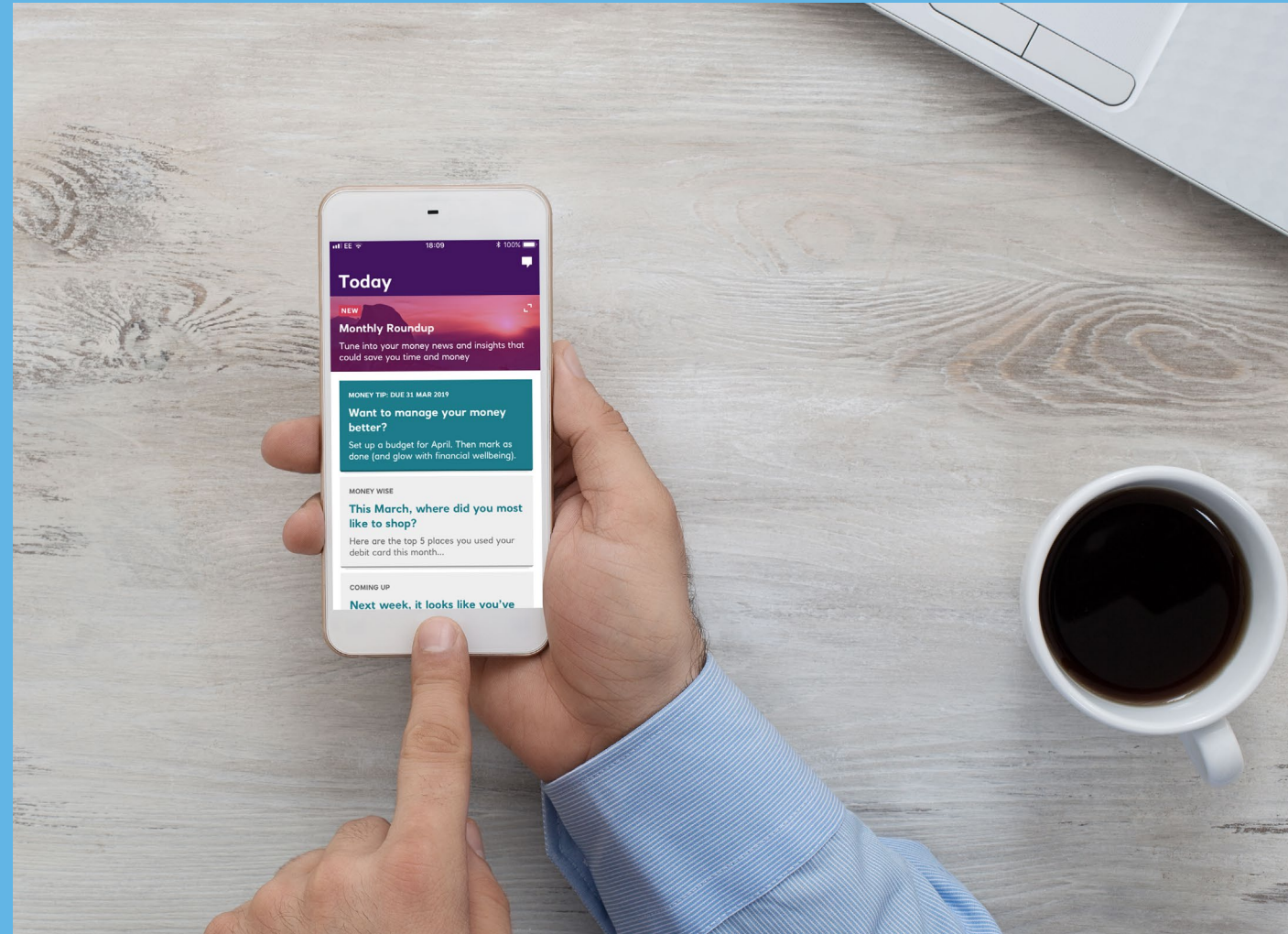
NatWest MIMO – beyond banking

UK-based bank NatWest started trialing Mimo which stands for “money in, money out”, a personal finance app, with select customers and employees in April 2019. The app draws on open banking APIs, AI, and data analytics to provide users with budgeting help, financial tasks reminders and insight into their spending habits.

The app is able to tell you when to switch energy providers, or if you’re spending too much on coffee. A spokesman for NatWest said customers would get a prompt stating that, for instance, a better energy deal was available, and asking them whether they would like to switch. There are plans to eventually launch it for any UK smartphone user, regardless of who they bank with.

“We know that customers want to keep better track of their money... so we’ve developed Mimo to make it easy, simple, and as straightforward as possible to keep on top of their finances.”

Frans Woelders, chief digital officer, NatWest



Sources: Brodbeck, Sam, Banking Revolution: NatWest to launch 'virtual assistant' which will switch you onto the best insurance and energy deals, The Telegraph, 1 April 2019. Refer <https://www.telegraph.co.uk/personal-banking/current-accounts/banking-revolution-natwest-launch-virtual-assistant-will-switch/> Royal Bank of Scotland, NatWest to trial new personal finance app, 1 April 2019. Refer <https://www.rbs.com/rbs/news/2019/04/natwest-to-trial-new-personal-finance-app.html> Lewis, Rob, Natwest “MIMO” – New Personal Finance App Trialled, Money Watch, 31 March 2019. Refer <https://money-watch.co.uk/11345/natwest-mimo#> <https://www.thisismoney.co.uk/money/saving/article-6872419/Mimo-NatWest-announces-trial-digital-personal-finance-assistant-app.html>



Are we ready for open banking?



Are we ready for open banking?

Open banking in Australia under the CDR started with the publication of standardised product information via APIs. Three of the four major banks did this voluntarily from 1 July 2019, notwithstanding that the legislation did not pass Parliament until 1 August. Standardised product information creates opportunities for organisations to help consumers gather information and become aware of other, better, offers that are available to them.

From February 2020 customers will be able to instruct a big four bank to share information on the customer's transaction accounts, savings accounts, debit and credit cards and mortgages.

But are consumers ready for open banking? Do they understand it?

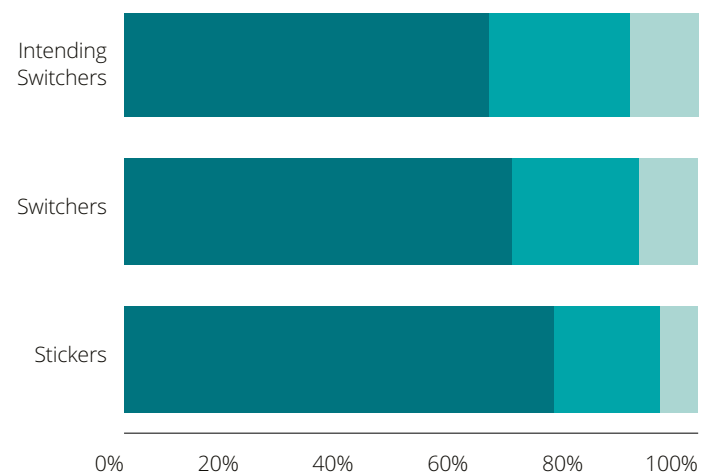
While they don't need to understand the mechanics of open banking, consumers will need to understand the benefits it could provide and how they can access them. Research by Data61 as part of the development of the consumer standards, confirmed that people's propensity to share information was enhanced when they were provided with more information about the Consumer Data Right during the switching process.¹⁰¹ People need to trust that the information they share will be secure. They will also need to trust open banking and trust the third parties with which they are choosing to share their data.

Respondents to the survey were advised that from February 2020, consumers will have the right to efficiently, conveniently and safely access information held by banks about their transactions. Consumers will be able to direct that their information be safely shared with accredited third parties and third parties of their choice. We advised that this was known as open banking and it was designed to give consumers more control over their information. We also noted that it can lead to more choice as to where they place their business, more convenience when managing their money, and access to new products and services.

We then asked people how familiar they were with open banking.



Figure 58. Open banking awareness (by switching intent)

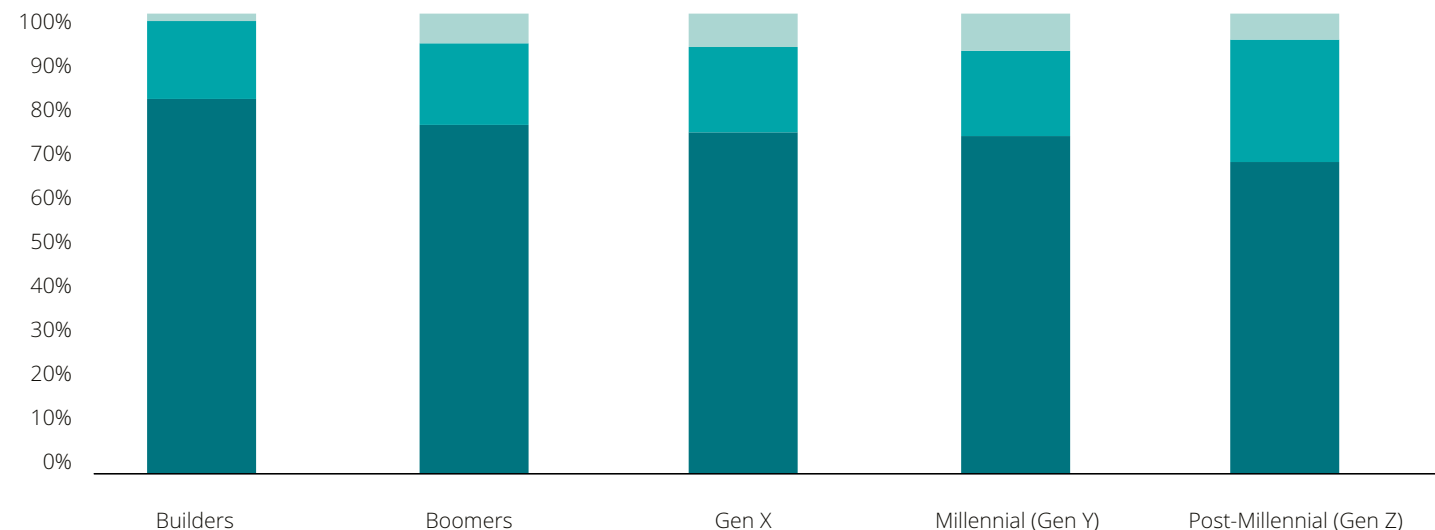


- I have never heard the term before
- I have heard the term, but didn't understand what it was about
- I have heard the term, and understood what it was about

Not surprisingly, most people were not familiar even with the term 'open banking', let alone what it was about.

A quarter of people had heard the term 'open banking', but only a quarter of this group (27%) were confident that they could say that they understood what open banking was about – i.e. just 7% of all those surveyed.¹⁰²

Figure 59. Open banking awareness (by demographic)



- I have never heard the term before
- I have heard the term, but didn't understand what it was about
- I have heard the term, and understood what it was about

However, people who had switched banks in the last three years were more than 50% more likely to know what open banking was. And those intending to switch in the next 12 months were 75% more likely to know what open banking was, albeit this still represents just 10–12 % of these groups.

Despite all the reporting on the topic, a majority of people in all generations are still not aware of the term, or the concept of, 'open banking'.

Awareness was highest among Millennials (Gen Y) and post-Millennials (Gen Z). These are also the groups that are more willing to share information in exchange for benefits.



The Farrell Review emphasised that consumer education was important to the success of open banking. Consumers will be confident participating in open banking if they understand:

1. Their rights and responsibilities
2. The value of their data, which includes the benefits they can realise from sharing this data
3. The risks associated with participating in open banking
4. The safeguards in Australia's open banking system to minimise those risks.

The Australian Banking Association (ABA) has noted that customer education is a 'key component to ensure the benefits of open data are realised across the economy'.¹⁰³ Consumer advocates stress that education should include the benefits, risks and responsibilities arising from consumers' participation in open banking.¹⁰⁴

The education process has already started. There were various media releases and press reports when the Farrell Review was initially launched, during the public consultation process for the legislation, rules and standards, and when the legislation was introduced into and passed Parliament.

The Government has indicated that the ACCC will undertake a consumer education campaign shortly before open banking goes live in February and consumers can start sharing their information. This is based on lessons from the UK's consumer education program. The UK Financial Conduct Authority (FCA) assessed the impact on consumer banking behaviour of some of the early measures adopted as part of the UK's open banking implementation, and highlighted the benefit of consumers receiving information 'just in time'.¹⁰⁵

But consumer education should not just be up to government. All banks and potential accredited data recipients should be educating their customers and potential customers about open banking, and in particular about the potential benefits consumers can realise from sharing their data.

Ultimately open banking, and the move to an open data economy as a result of the Consumer Data Right legislation (among other things), will require greater levels of both data literacy **and** financial literacy, financial capability and financial consciousness, if consumers are going to be able to effectively assess the benefits associated with alternate pricing options for lending, alternate savings options, and better budgeting and personal financial management generally.

The lack of financial and data literacy in Australia is probably one of the key impediments to consumers realising benefits from open banking.



Next steps



Next steps

Since the release of the Farrell Review, many banks have focused almost exclusively on the compliance obligations resulting from the introduction of open banking in Australia. This is not surprising. Many banks have significant conduct and remediation issues to fund and resolve. Revenue growth has slowed and it seems almost all banks, both in Australia and globally, are focused on cost management or cost reduction, on becoming leaner, agile, and fit for purpose.

Deloitte has published a series of articles on areas which will be impacted by open banking, including privacy, APIs, data governance, data analytics and more.¹⁰⁶ These papers outlined some of the questions organisations should be thinking about in the design and implementation of their open banking programs.

As the Farrell Review highlighted, open banking is all about the customer.

The Consumer Data Right legislation and the introduction of open banking in Australia have the potential to change consumer banking behaviour. Open banking is just the first sector to which data sharing will be applied. The commencement of data sharing in banking heralds the emergence over time of cross-sector, economy wide data sharing. In an open data economy people will be able to share data between scores if not hundreds of organisations operating in a range of sectors.

Organisations should be thinking of both the opportunities and the challenges that the emerging open data economy will present.

So where should organisations be now?

With February 2020 just a few months away, banks should be thinking about how open banking will impact their customers, both existing and prospective.

The first set of questions most banks will ask is whether they can be confident that they have authenticated the request, confirmed that the request to transfer is authorised, extracted the right data, transferred it to the correct third party, and done all of this within the customer experience standards and the timeframe prescribed in the rules and standards.

Organisations seeking to become accredited data recipients should ensure that they meet the privacy and information security standards, and of course the customer experience standards, in order to be accredited.

And while the focus of this report is on consumer behaviour, open banking in Australia is not limited to consumers. All organisations – small business, and larger corporates as well as consumers – will have the right to instruct their bank to share their customer account and transaction data with a trusted third party (an accredited data recipient).



Towards a trusted personal data ecosystem

People are likely to be more willing to participate in open banking if organisations – data holders and data recipients – develop and embed robust privacy measures. Open banking starts with transparency, informed choices, and express consent. In embracing open banking, organisations need to provide transparency over how customers’ information is used and shared; ensure it is shared securely; and clearly communicate to the customer the value created by sharing the information.

The specific comments survey respondents provided on their willingness to share data highlight a broader issue. What happens to the data that banks already collect?

The bigger privacy picture

As the consumer data right expands to other sectors and as consumers become more data literate, they are likely to demand greater clarity, and consent, around how their existing data is collected and used.

The final report of the ACCC’s Digital Platform Inquiry noted that there is ‘a substantial disconnect between how consumers think their data should be treated and how it is actually treated.’¹⁰⁷

The report noted that the ‘lack of both consumer protection and effective deterrence under laws governing data collection have enabled problematic data practices and a lack of transparency and control which undermine consumers’ ability to select a product that best meets their privacy preferences.’ It specifically acknowledged that these data practices extend to other markets and concluded that ‘the Privacy Act needs reform in order to ensure consumers are adequately informed, empowered and protected, as to how their data is being used and collected.’¹⁰⁸

Yet whether driven by consumer demand, by changes in regulations, or by an organisation’s efforts to become more trustworthy, as we move towards an open data economy, organisations should consider reviewing all of their privacy processes for the customer data they collect and use, and enhance their practices to promote transparency, information choice, and consent where appropriate.

Privacy by design

Privacy by design is about truly giving consumers control over their data. There is a range of actions organisations can undertake to achieve this:

1. Develop an open banking strategy that embeds privacy and ethical principles into its design
2. Develop privacy controls and a roadmap for implementation at the forefront, including adoption of privacy enhancing technology
3. Review the robustness of the data ecosystem’s ability to support privacy across governance, processes, people, and technology
4. Bring consumers on the open banking journey by helping them understand their privacy and data ownership rights.

Emerging privacy enhancing techniques are allowing customers, institutions and regulators to unlock the value that comes from sharing financial data by doing it in a way that safeguards the privacy of customers, safeguards the confidentiality of institutions’ business processes and complies with regulatory principles.¹⁰⁹ Customers having control over their data, and the trust and confidence that they can share this safely, are prerequisites for the adoption and use of open banking to drive value for consumers.



Last word



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Last word

To move beyond compliance, be ready to answer questions like the following:

- What happens on 1 February 2020 when a bank has 300 requests from customers to transfer their customer and transaction data to another organisation?
- What information is the customer asking to share? Transaction information on all products they hold or only some of their products?
- What communication will be sent to those customers? In what form? In what timeframe?
- How profitable are the customers who have requested that their information be shared? How competitive is the pricing for these customers? How competitive are the features of the banking products used by these customers?
- What other customers are similar to the customers who have requested that their data be shared? What communication will be sent to that group of customers? In what form? In what timeframe?

- Which organisation have they asked that their information be shared with?
- How quickly can we respond as an organisation?
- How quickly can we review and amend our products, without of course introducing additional product complexity?

The list of questions goes on...

In developing their response to open banking, banks should be considering all elements of their target operating model and how these will, or could be, impacted by open banking. Responding to open banking will require organisations to be confident that their systems, processes and controls are fit for purpose in an open data environment.

Strategy: Whether you think open banking is a 'Y2K' moment for banking, or a 'Kodak' or 'Uber' moment, it is important to develop a vision and have a plan to respond. The vision may change, but thinking about how open banking could impact customers will facilitate a series of incremental changes.

Organisations will be able to consider new strategies. Open banking improves organisation's ability to delink distribution from product manufacture. Organisations could explore distribution of branded or white-labelled banking products and services through third party channels including non-bank channels.

Alternatively, organisations could focus on customer relationships and embed themselves in broader customer journeys rather than only at touchpoints where a banking product is required. For example, open banking based account aggregation offerings enable an organisation to provide a range of products and services to a customer not all of which are manufactured by the organisation itself.

At a minimum, there will be compliance obligations for data holders and data recipients. One of the lessons from the implementation of open banking in the United Kingdom was that a lot of money can be spent on technology and compliance, without creating any value for customers. The lack of customer focus, together with an initial lack of customer experience standards, was one of the reasons for the slow initial adoption of open banking in the UK.



Customer: In Australia, leading organisations are thinking about how they can protect and enhance their relationship with their customers. They are thinking about customer journeys – about home ownership, travel, mobility, starting and running a business. They are assessing where and how they deliver value to customers.

For some this may result in a reassessment of which customer groups their proposition is aimed at. This may require a more detailed understanding of customer profitability, including lifetime profitability, and cost to serve.

For others it may require the development of new customer propositions. Organisations which provide account aggregation, and use this to provide valuable insights and information to customers, are more likely to become the primary customer relationship bank. In this environment, everyone else is at risk of simply becoming a provider, potentially of an increasingly commoditised product.

Trust, or rebuilding trust, must become a core component of an organisation's strategy.

Organisations will need to measure and manage customer trust and ensure they are worthy of that trust by being able to keep the promises they make. Net promoter scores alone are likely to be insufficient because poor customer outcomes are not always immediately apparent and may manifest themselves only much later.

Pricing: Organisations will need to be capable of using shared information (together with data from comprehensive credit reporting) to enhance their pricing decisions. If they don't, there is a risk that they lose their lowest risk customers, and see a gradual deterioration in the average credit quality of their loan book. The additional information available from customers may, and is even likely to, result in the provision of CDR data becoming a pre-requisite to obtaining a loan.

Data: For data holders, it will be important to make sure their data is accurate and able to be extracted from multiple product systems. Accredited data recipients need to make sure they can capture the customer information received, including meta-data of the purpose for which the customer has provided data and the time-period for which the data can be used. Another key lesson from the UK's open banking implementation was to 'start early on data'.

As well as enhancing data governance and architecture, organisations will need to review their data analytics processes to understand how they will be adapted to use shared data, and how quickly the data analytic algorithms can provide results.

APIs: Whether building an API platform, buying one, or having a compliant API platform provided as a service, organisations should be well progressed with developing and testing the API platform that they will use to share and receive data under open banking.

Privacy: Privacy is at the epicentre of being ready for open banking. All CDR participants – both data holders and data recipients, traditional organisations and new challenger organisations – need to have a robust privacy management framework which supports an end-to-end data lifecycle.

Compliance and conduct: The new legislation, rules and standards will introduce new compliance obligations. Open banking participants will need to ensure that they are meeting these obligations. As they review processes for loan origination and pricing, organisations will need to be on the lookout for any inadvertent conduct issues. These can impact fairness, vulnerable customers, transparency, or the suitability of a product for a customer, based on the (expanded) knowledge they have of the customer from the data shared. Greater transparency beyond boilerplate compliance language will be needed if financial institutions want to offer clear value propositions to consumers in return for greater access to an ever-wider variety of data.¹¹⁰



The implications for risk management are profound. Building good consumer practices into business systems to detect, measure and manage customer vulnerability, rather than running them as separate compliance programs will become more and more important. An emphasis on building trust and preventing misconduct, achieving trustworthiness by design, will be paramount to ensure commercial differentiation and avoid reputation and regulatory risk.

A customer centric business model will challenge the traditional three lines of defence. Compliance systems built on regulatory obligations rather than addressing vulnerabilities to keeping customer promises will likely not be sufficiently detective and preventative.

Ecosystems: As organisations' strategies evolve, they will need to learn to operate in a shared ecosystem, moving away from the currently closed environment, to one where they work more closely with third parties to provide a broader range of services to customers. As they think through their strategic response to the introduction of open banking, organisations will need to consider which potential third parties fit their brand, their values and their customers' needs. Open data and the associated Consumer Data Right legislation will accelerate the transition to customer centricity and the creation of a trusted ecosystem of service providers that make it possible.

What is clear it that trustworthy ecosystems will need to have regulatory objectives built into platforms to enable compliance as an outcome of business processes rather than only operating compliance programs as separate programs.

Change: Implementing any new legislation requires change in an organisation, whether building new technology, complying with new regulations, or changing internal processes to reflect the new operating environment. Leading organisations should undertake reviews of their open banking programs to check for completeness and to look for points of vulnerability. Organisations, and their boards and management, will have to ensure that they have earmarked adequate funds in budgets for 2019 and 2020 for the requisite changes.

Incumbents' strategy development and change programs should be well advanced. They should have moved from design and build, to testing. Challengers should also be thinking about the advantages of becoming an accredited data recipient early, along with the obligations doing so will create for them as data holders under the reciprocity principles.

In summary, organisations should:

1. Ensure they can meet their compliance obligations under the Consumer Data Right legislation, rules and standards – both as a data holder and as a data recipient
2. Understand operationally what processes and controls need to change as a result of the introduction of open banking: credit assessment and pricing, data governance, data analytics, responsible lending and conduct, financial crime, and more
3. Understand strategically how open banking and the emerging open data economy, may impact the organisation's strategy, products and services, target customers and the eco-system in which it operates.

The start of open banking is just a few months away!



Key contacts



Key contacts

Series Editor

Paul Wiebusch

Open Data Lead Partner
PWiebusch@deloitte.com.au
+61 3 9671 7080

Customer

Robin Scarborough

Partner, Customer
roscarborough@deloitte.com.au
+61 2 9322 3833

Kristina Craig

Director, Customer
kristinacraig@deloitte.com.au
+61 2 8260 6101

Liam Carmody

Consultant, Customer
lcarmody@deloitte.com.au
+61 2 9322 3695

Angela Robinson

Partner, Digital
angerobinson@deloitte.com.au
+61 3 9671 5430

Strategy

Matt Bailey

Partner, Strategy
mattbailey@deloitte.com.au
+61 2 9322 7109

Pricing

Alon Ellis

Partner, Pricing
alellis@deloitte.com.au
+61 3 9671 6381

Data

Melissa Ferrer

Partner, Data Modernisation
meferrer@deloitte.com.au
+61 3 9671 8925

Jamie Leach

Director, Consulting, Open Data
jleach@deloitte.com.au
+61 7 3308 7469

Technology

Daniel Nilsson

Partner, Technology and APIs
dnilsson@deloitte.com.au
+61 3 9671 8925

Credit Risk

Marcus Oakley

Partner, Credit Risk Analytics
maoakley@deloitte.com.au
+61 3 9671 7707

Privacy

Daniella Kafouris

Partner, Data, Privacy and Security
dakafouris@deloitte.com.au
+61 3 9671 7658

Ilana Singer

Manager, Privacy
isinger@deloitte.com.au
+61 3 9671 5475

Accreditation and Compliance

Jonathan Perkinson

Partner, Assurance and Advisory
jonperkinson@deloitte.com.au
+61 2 9322 3705

Trust

Willem Punt

Partner, Assurance and Advisory
wpunt@deloitte.com.au
+61 3 9671 8194

Kirsty Hosea

Partner, Consulting, Trust CX
kihosea@deloitte.com.au
+61 4 5234 0986

Risk

Ally MacLeod

Partner, Risk
amacleod@deloitte.com.au
+61 2 9322 7499

Public Policy

John O'Mahony

Partner, Deloitte Access
Economics
joomahony@deloitte.com.au
+61 2 9322 7877



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2. Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, how much would you be able to buy with the money in this account? (More than today, Exactly the same, Less than today, Don't know)
3. "Buying a single share from a company usually provides a safer return than an index fund." Is this statement true or false? (True, False, Don't know).
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