



“For the financial system, technology-driven innovation is transformative. New business models, products and services are emerging, driving competition and changing the way users interact with the system.” (*Financial System Inquiry Final Report, page 143*)

“The disruptive effects of innovation have the potential to deliver significant efficiency benefits and improve user outcomes, notwithstanding costs associated with adjustment for industry, and possible uncertainty for some consumers about change.” (*Financial System Inquiry Final Report, page 144*)

“The Inquiry’s recommendations seek to provide more facilitative settings that enable financial firms to innovate – increasing competitive tension, delivering greater efficiency and enhancing user outcomes.” (*Financial System Inquiry Final Report, page 27*)

The Inquiry believes action can be taken in the following areas:

- Industry and government can work together to identify innovation opportunities and emerging network benefits.
- Government and regulators can remove unnecessary impediments to innovation.
- Government and regulators can support data-driven business models.
- Regulators need flexibility to respond to future developments. (*Financial System Inquiry Final Report, pages 144-146*)

“The Inquiry believes implementing the package of recommendations... will contribute to developing a dynamic, competitive, growth-orientated and forward-looking financial system for Australia.” (*Financial System Inquiry Final Report, page 146*)

**Table 1: Innovation recommendations**

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Source: Derived from Financial System Inquiry Final Report, page xxiv

## Digital identity

“Participants in Australia’s financial system have always needed, and continue to need, confidence in peoples’ identities. Australia’s current identity infrastructure is fragmented,

consisting of a largely uncoordinated network of identity credentials.” (*Financial System Inquiry Final Report, page 153*)

“Anti-money laundering projects have resulted in an estimated \$725 million in expenditure... highlighting the ‘Know Your Client’ regulatory burden and potential to reduce costs by improving identity processes.” (*Financial System Inquiry Final Report, pages 153-154*)

“Each year, an estimated 4-5 per cent of Australians experience identity crime resulting in financial loss... An enhanced digital identity infrastructure can help to reduce this risk.” (*Financial System Inquiry Final Report, page 154*)

“Government should, in consultation with the private sector, develop a national identity strategy based on a federated-style model in which public and private sector identity providers would compete to supply trusted digital identities to individuals and businesses.” (*Financial System Inquiry Final Report, page 151*)

The Inquiry has made the following recommendation:

**“Develop a national strategy for a federated-style model of trusted digital identities.”**

(*Recommendation 15*) (*Financial System Inquiry Final Report, page 151*)

This recommendation seeks to:

- “Articulate a strategic vision and coordinated approach to digital identity management in Australia that enables the development of a competitive, innovative and dynamic market for identity services and maximises network benefits.
- “Improve the efficiency of digital identity processes in the financial system, minimise costs and regulatory burden for institutions, and draw on the respective strengths and expertise of the public and private sectors.
- “Facilitate innovation by improving consumer choice and convenience, and reducing friction in the digital economy.
- “Ensure digital identity management processes help to prevent crime, improve security and enhance privacy.” (*Financial System Inquiry Final Report, page 152*)

### **Interchange fees and customer surcharging**

“The Inquiry believes interchange fee caps improve the efficiency of the payments system. Without interchange fee caps, price signals for customers are less clear and outcomes are less efficient because customers can be encouraged to use higher-cost payment methods.” (*Financial System Inquiry Final Report, page 171*)

“The Inquiry considers that surcharging regulation should ensure merchants can surcharge to reflect their relative costs of accepting different payment methods. This could be better achieved by providing merchants with clearer surcharging limits, which could reduce over-surcharging and improve enforceability.” (*Financial System Inquiry Final Report, page 169*)

“The scenarios set out in *Figure 1 (on page 5 of this brief)* illustrate some of the practical outcomes these proposals could achieve, particularly in reducing costs and over-surcharging. (*Financial System Inquiry Final Report, page 170*)

The Inquiry has made the following recommendation:

**“Improve interchange fee regulation by clarifying thresholds for when they apply, broadening the range of fees and payments they apply to, and lowering interchange fees.**

**Improve surcharging regulation by expanding its application and ensuring customers using lower-cost payment methods cannot be over-surcharged by allowing more prescriptive limits on surcharging.”**

*(Recommendation 17) (Financial System Inquiry Final Report, page 168)*

This recommendation seeks to:

- “Clarify regulation and enhance competitive neutrality between system providers.
- “Improve the efficiency and effectiveness of price signals, and reduce the potential for cross-subsidisation between customer groups and merchant groups.” (*Financial System Inquiry Final Report, page 169*)

“To improve the transparency and efficiency of interchange fee regulation, the Payments System Board (PSB) should consider:

- Publishing thresholds for determining which system providers will be regulated.
- Broadening interchange fee caps to include all amounts paid to customer service providers in payment systems, including service fees under companion card systems.
- Lowering interchange fees by reducing interchange fee caps, but also:
  - Replacing three year weighted-average caps with hard caps, so every interchange fee falls below the interchange fee caps. This would also reduce differences in fees paid by small and large merchants.
  - Applying caps as the lesser of a fixed amount and a fixed percentage of transaction values, instead of only one of these components. This would also increase use of electronic payments for smaller-value transactions and ensure fees reflect costs for larger-value transactions.” (*Financial System Inquiry Final Report, page 168*)

## **Data access and use**

“Data is becoming increasingly integral to how the financial system and broader economy function. By 2020, the amount of data held globally is predicted to be 44 times larger than it was in 2009.” (*Financial System Inquiry Final Report, page 182*)

“The increasing use of data is not without risk... Globally there is growing debate about the use of data and how societies should balance privacy and efficiency considerations.” (*Financial System Inquiry Final Report, page 182*)

“Government should commission the Productivity Commission (PC) to commence, by the end of 2015, an inquiry into the costs and benefits of increasing access to and improving

the use of data, subject to privacy considerations.” (*Financial System Inquiry Final Report, page 181*)

The Inquiry has made the following recommendation:

**“Review the costs and benefits of increasing access to and improving the use of data, taking into account community concerns about appropriate privacy protection.”**

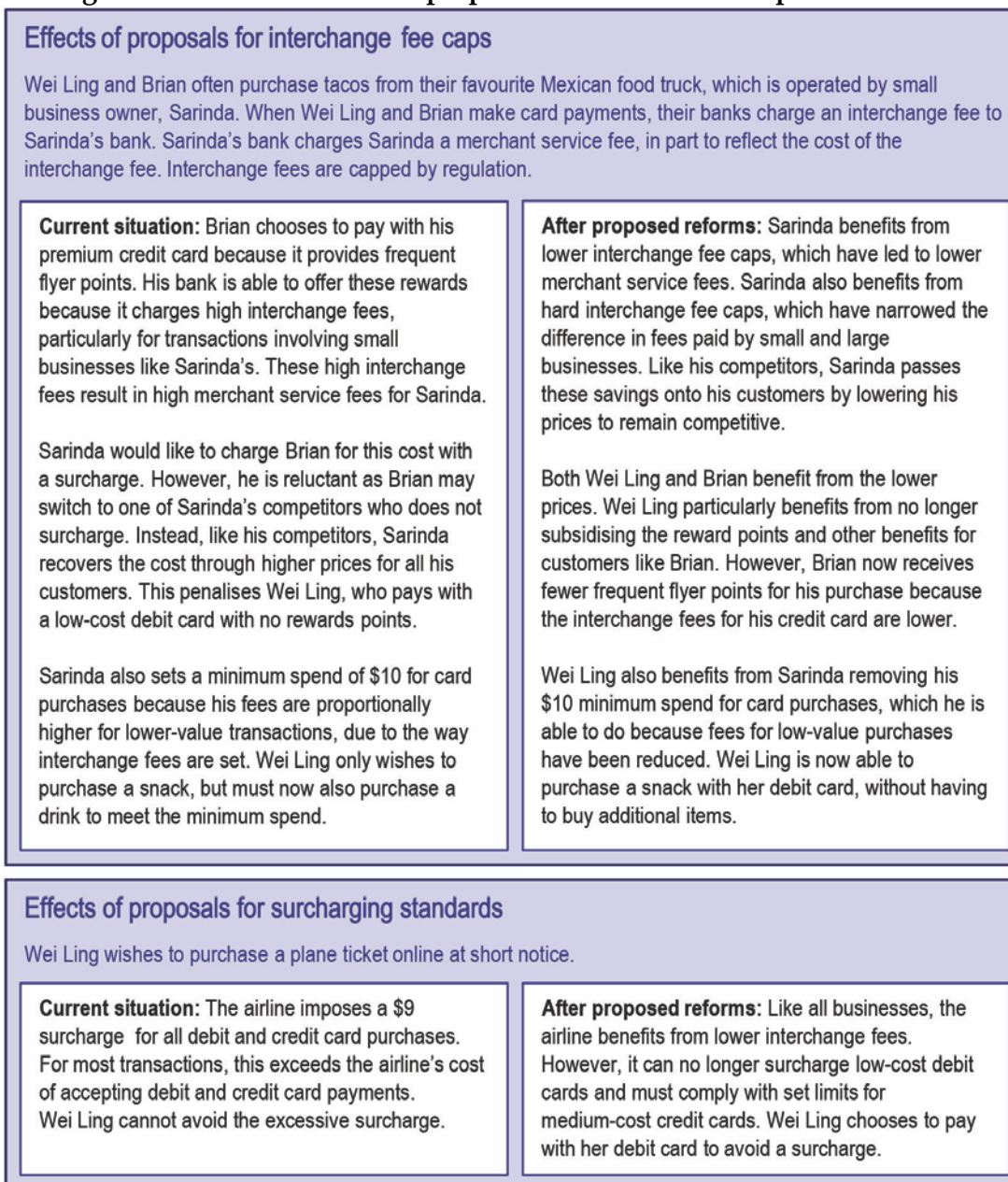
*(Recommendation 19) (Financial System Inquiry Final Report, page 181)*

This recommendation seeks to:

- “Improve the quality of business and consumer decision making, public policy development and implementation, and research into how the financial system and broader economy function.
- “Better enable innovative business models that are reliant on data, where they improve user outcomes and overall system efficiency.
- “Increase the utility of public institutions that hold data.” (*Financial System Inquiry Final Report, pages 181-182*)

“Increasing access to data could enhance consumer outcomes, better inform decision making, and facilitate greater efficiency and innovation in the financial system and the broader economy but could also involve privacy risks.” (*Financial System Inquiry Final Report, page 181*)

**Figure 1: Cameos on how the proposed reforms would improve outcomes**



Source: *Financial System Inquiry Final Report*, page 170