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Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

FAAA submission to the Senate Economics Legislation Committee Inquiry into the Digital ID Bill 2023 and the Digital ID (Transitional and Consequential Provisions) Bill 2023

Dear Senators,

The Financial Advice Association of Australia (FAAA)¹ welcomes the opportunity to make a submission to the Senate Economics Legislation Committee Inquiry into the Digital ID Bill 2023 and the Digital ID (Transitional and Consequential Provisions) Bill 2023 (the Bills).

In line with our submission in October 2023 to the Department of Finance's consultations on the Bills, the FAAA remains fully supportive of the measures proposed to make Digital ID a reality.

The FAAA's membership is made up of approximately 10,000 financial adviser practitioners from every corner of the country who seek to secure the financial futures of their clients. They often act on their clients' behalf when interacting with financial institutions and handle personal, sensitive and delicate information about their client's financial affairs and medical records, relationship histories and general welfare. They also have a critical role to play in the identification of clients and verification of ID documents provided by clients under the AML/CTF legislation.

Client identification is currently a challenging and time-consuming exercise, and the missing piece is Digital ID.

¹ The Financial Advice Association of Australia (FAAA) was formed in April 2023, out of a merger of the Financial Planning Association of Australia Limited (FPA) and the Association of Financial Advisers Limited (AFA), two of Australia's largest and longest-standing associations of financial planners and advisers.

The FPA was a professional association formed in 1992 as a merger between The Australian Society of Investment and Financial Advisers and the International Association of Financial Planning. In 1999 the CFP Professional Education Program was launched. As Australia's largest professional association for financial planners, the FPA represented the interests of the public and (leading into the merger) over 10,000 members. Since its formation, the FPA worked towards changing the face of financial planning, from an industry to a profession that earned consumer confidence and trust, and advocated that better financial advice would positively influence the financial wellbeing of all Australians.

The AFA was a professional association for financial advisers that dated back to 1946 (existing in various forms and under various names). The AFA was a national membership entity that operated in each state of Australia and across the full spectrum of advice types. The AFA had a long history of advocating for the best interests of financial advisers and their clients, through working with the government, regulators and other stakeholders. The AFA had a long legacy of operating in the life insurance sector, however substantially broadened its member base over a number of decades. The AFA had a strong focus on promoting the value of advice and recognising award winning advisers over many years. The AFA had strong foundations in believing in advocacy for members and creating events and other opportunities to enable members to grow and share best practice.

SUMMARY

Recent cybersecurity scandals (such as Optus and Medibank), and issues with data and the portability of one's online identity have shocked many Australians. In the financial advice profession, a great deal of care is used to protect the highly sensitive information transferred between advisers and clients. For example, an adviser may be privy to not only a client's salary but also that of their spouse, their medical history, criminal history and other private details about their financial arrangements.

Service delivery online, both governmental and non-governmental, remains patchy at best. Consumers are presented with multiple login options that are influenced by the dominance of the multinational technology corporations and are inconsistent across the economy. Third party registrations powered by Google or Apple logins now proliferate online spaces but continue to confuse consumers over their safety.

Advisers have a duty to protect the data of their clients, while simultaneously meeting reporting standards and other obligations implemented and enforced by regulators and ombudsman services, such as ASIC, OAIC, AUSTRAC and AFCA. A key advantage of Digital ID is that this data could become instantly portable across the system, from clients' financial records to external government reporting. While outside of the scope of this inquiry, the Consumer Data Right and the government's ongoing advances in this area should be considered in this context. Combined, these initiatives could have a dramatic impact by substantially reducing regulatory costs, as well as the cost of providing financial advice.

Every effort must be made to ensure that there is public trust in the Digital ID. In our initial consultation submission on Digital ID, we mentioned that safeguarding the registration process must have the highest priority to support the public's willingness to engage with its use. The same safeguards that are put in place for our passports, licenses, birth certificates, etc, should be given to the identification that we will port online.

The FAAA would like to also add that while all of the above is critically important, the government should be accelerating the rollout. The economy needs this functionality as soon as possible, and delays are damaging to the nation's future growth and client data security.

BACKGROUND ON FINANCIAL ADVISERS' ROLE IN IDENTIFYING CLIENTS

Financial advisers play a critical role in facilitating the identification of clients when seeking to establish financial product accounts for clients. This is a requirement of the Anti-Money Laundering/Counter-Terrorism Financing (AML/CTF) legislation. The information and other steps required of financial advisers in this process may vary based upon the client's personal circumstances, including factors such as whether they are a US resident, politically exposed person or operate in overseas jurisdictions. This is known as the Know Your Client (KYC) obligation.

The adviser needs to retain copies of identification documents and records of inquiries made as part of this process for a number of years. Financial advisers therefore are required to retain significant amounts of sensitive ID documents. In some cases they also forward these documents to financial product issuers who must also identify their customers. It is certainly a key security risk, and one that generates ongoing concern and additional costs.

We envisage that Digital ID could replace much of the identification and verification requirements with respect to individuals. In the future it may also have a role in terms of Company Digital IDs. The

utilisation of Digital IDs in financial services would remove the requirement for financial advisers to collect and retain this sensitive information, which would deliver a significant benefit to both advisers and their clients.

We are conscious that the Digital ID regime is being driven by the Finance Department, whereas AML/CTF is the responsibility of the Attorney General's Department. We note the very limited reference to KYC and AML/CTF in the Explanatory Memorandum. We seek more direct consideration of how Digital ID will impact the AML/CTF regime and how it can be used to improve the current identification obligations that apply with AML/CTF. This is a critical outcome and directly relevant to the objective of minimising the requirement for commercial operations to collect and store sensitive personal identification documents.

SCOPE

The FAAA continues to support the rapid deployment of Digital ID. The phases as previously outlined by the government in its staged rollout should continue to be adhered to.

For our members, Phase 4 will be revolutionary to their businesses but can only be achieved if public confidence has been engendered by the successful rollout of the previous three phases that involve government agencies.

A responsive regime and rollout, spear-headed by a minister who aims to include as many services and applications for the Digital ID as possible, should be supported. There should be a culture of inclusion of government services and an ever-expanding role for Digital ID moving forward.

DATA

The collection and safe storage of personal data is a critical issue for financial advisers. On the one hand such data is essential to the ability of an adviser to perform their duties for their clients. On the other hand, such data changes regularly and is incredibly difficult to keep up with under the current regime, often involving substantial and costly manual processes. Digital ID, the FAAA believes, solves many of these problems. Security of clients' data is a key concern for both advisers and the clients themselves.

TRANSPARENCY

The government must be as transparent as possible about the design and construction of Digital ID. Previous attempts at creating or utilising national identification frameworks have a long and chequered history in Australia, with many successes (notably the widespread use of Service NSW across their government) and also some less positive outcomes, including the failed *Australia Card*, the *Access Card* and the previous government's not yet successful *My Health Record* rollout.

While the FAAA does not share the concerns voiced about government over-reach as expressed by some others, public trust in the system is paramount. Distrust of identity regimes is rife, and the federal government should go out of its way to be transparent about any contracts and tenders entered into for its build. Information should be freely given in plain English about what the Digital ID will and will not do, and how it will be protected (so far as is consistent with cybersecurity considerations).

Digital ID must be supported by a majority of Australians or the current patchwork of alternative sources of identity will remain. As such, it is also of importance that our political leaders do not politicise the Digital ID or engage with anything other than genuine and well-intentioned feedback aimed at improving the regime. Otherwise, there is a high risk that the public will not support the regime.

CONCLUSION

The FAAA is strongly supportive of the rollout of Digital ID and, will happily facilitate where possible its utilisation across the financial advice profession and for sensitive financial data. We specifically support the prospect of Digital ID replacing the existing manual, hard copy processes with client identification and verification for AML/CTF purposes and request that specific consideration is given to making this a reality.

We appreciate the diligent work of this committee and for reviewing this submission.

If you have any questions about the position of the FAAA on this submission, please do not hesitate to contact George John, Senior Manager, Government Relations & Policy at george.john@faaa.au or 0420 301 501.

Yours sincerely,



Sarah Abood

Chief Executive Officer

Financial Advice Association of Australia