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**Thorn Australia Pty Limited**  
Independent Expert Summary Report:  
Interim and Final Compliance Reports

7 May 2019

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# 1 Background

Thorn Australia Pty Ltd ("Thorn") is a wholly-owned subsidiary of Thorn Group Limited and carries on a consumer leasing business through its brands Radio Rentals ("RR") nationally, except for South Australia where it operates as Rentlo Reinvented ("Rentlo"). Thorn Group Limited is listed on the Australian Securities Exchange.

Thorn has held an Australian Credit Licence ("ACL"), number 383003, since 12 October 2010 and leases appliances, furniture and technology and other consumer goods to consumers online via its websites, by telephone and through its store network across Australia.

Thorn entered into an Enforceable Undertaking ("EU") with the Australian Securities and Investments Commission ("ASIC") on 23 January 2018.

The EU was the outcome of ASIC surveillance and investigation, which focused on Thorn's compliance with the National Credit Act. The EU states ASIC is concerned that in the period from 1 January 2012 to 1 May 2015, Thorn had in place a credit assessment model that caused Thorn to:

- a) fail to make reasonable inquiries about each consumer's financial situation, specifically the consumer's actual housing costs; and
- b) fail to take reasonable steps to verify each customer's financial situation, specifically to verify each customer's actual expenses, other than by comparing stated expenses (when provided by the consumer) to the relevant benchmark amount in the Henderson Poverty Index.

Deloitte was appointed as the Independent Expert on 12 February 2018 to provide a series of reports in accordance with the EU. As at the date of this Report Deloitte has completed three Reports which have been issued to ASIC and Thorn:

- Interim Compliance Report dated 23 August 2018;
- Final Compliance Report dated 23 January 2018; and
- Interim Remediation Report dated 7 February 2019.

This Report provides a summary of the findings of the Interim Compliance Report dated 23 August 2018 and the Final Compliance Report dated 23 January 2019. It does not include the summary of the findings from the Interim Remediation Report dated 7 February 2019.

# 2 Scope and Approach

## Scope

The Independent Expert is required under paragraph 3.10.6 and 3.10.8 of the EU to provide an Interim Compliance Report and a Final Compliance Report to Thorn and ASIC, detailing:

- a) whether Thorn's systems, processes, policies and training procedures are adequate to ensure compliance with:
  - i. its obligations under its ACL;
  - ii. the general conduct obligations under section 47 of the National Credit Act including paragraph 47(l)(k) in relation to Excess Credits; and
  - iii. its responsible lending obligation as a lessor under Chapter 3, Part 3-4, Division 3 of the National Credit Act ("the Relevant Obligations"),
- b) and that, as part of the review of matters in paragraph (a) above, the Independent Expert has reviewed consumer files on a sample basis and internal documents, interviewed relevant staff, and reviewed the Websites<sup>1</sup>;
- c) a description of the method used for the assessment, including the details of the review of consumer files, staff interviews and Website review;
- d) recommendations for actions that, in the opinion of the Independent Expert, would be necessary for Thorn to implement to rectify the deficiencies identified in the Interim Compliance Report; and
- e) in the Final Compliance Report, assess Thorn's actions taken to address recommendations identified in the Interim Compliance Report.

## Approach

The activities we performed during our assessment for the Interim Compliance Report and the Final Compliance Report included:

- Interviews with relevant key personnel of Thorn to understand the systems, processes, policies and training procedures in place to support Thorn's compliance as an ACL holder.
- A walk-through of key systems, including those used for managing complaints and hardship applications, training and enterprise risk management.
- Developing testing criteria aligned to the Relevant Obligations assess Thorn's systems, processes, policies and training procedures.
- Obtaining and assessing key documents against the testing criteria to determine the adequacy of Thorn's activities for assessing and issuing consumer leases with consideration to the size, nature, scale and complexity of Thorn's business.
- Obtaining a sample of training records, complaints and hardship applications to assess the implementation and consistent application of Thorn's processes and policies.

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<sup>1</sup> [www.radio-rentals.com.au](http://www.radio-rentals.com.au)  
[www.rr.com.au](http://www.rr.com.au)

- For each report assessing a sample of 149 consumer leases against Thorn's lease assessment guidelines and relevant responsible lending obligations of the National Credit Act.

### **Sampling period**

The sampling period for our assessment of consumer leases for the Interim Compliance Report included consumer leases approved by Thorn between 26 February 2018 up to and including 1 May 2018.

The sampling period for our assessment of consumer leases for the Final Compliance Report included consumer leases approved by Thorn between 1 September 2018 up to and including 31 October 2018.

# 3 Report conventions

The following conventions are used in this report:

- All references to 'deficiencies', refer to an act or omission whereby Thorn appears to have not complied with the Relevant Obligations or its processes, policies or training procedures;
- All references to 'adequate', refer to the adequacy of Thorn's activities in assessing and issuing consumer leases with consideration to the size, nature, scale and complexity of Thorn's business;
- All reference to 'recommendations' refer to the actions we believe would be necessary for Thorn to undertake in order to rectify deficiencies identified; and
- All references to 'enhancements' refer to actions we believe should be considered by Thorn in taking a leading approach in demonstrating compliance with its obligations as a licensee.

# 4 Overall Findings

In accordance with the scope of work, Deloitte made the following overall findings:

- Five opportunities for enhancement were identified in the Interim Compliance Report. No deficiencies were identified; and
- Three opportunities for enhancement and one recommendation to address a deficiency were identified in the Final Compliance Report.

## Interim Compliance Report

In accordance with our scope and approach in assessing Thorn’s compliance with the Relevant Obligations we also assessed a sample of 149 consumer lease files.

In conducting our assessment of the 149 samples, we identified that generally Thorn has:

- Documented the requirements and objectives of the consumer in relation to the lease;
- Obtained and verified information in relation to a consumer’s income; and
- Obtained and verified information in relation to a consumer’s housing costs.

As a result of the lease file assessment and our additional work in assessing Thorn’s arrangements as an ACL holder, we identified five opportunities for enhancement which are detailed in Table 1 below.

The enhancements were discussed with Thorn management who agreed to action all the enhancements. Thorn’s actions in implementing the five enhancements were subsequently assessed in the Final Compliance Report and found to be satisfactory.

**Table 1. Interim Compliance Report – Enhancements**

Area	Observation	Enhancement
1 Monitoring and supervision	Thorn’s current approach to conducting Internal Audit Credit Hindsight reviews is not risk-based and does not target certain processes or consumers exhibiting certain characteristics (which may be a source of risk).	Thorn may consider a more significant sample size and a risk-based approach in conducting Credit Hindsight reviews to specially target application of processes and policy including leases that exhibit certain characteristics e.g. where Thorn policy deems further inquiries should be made.
2 Internal Dispute Resolution (“IDR”)	Thorn provides the final outcome of a consumer complaint in writing only where the consumer had made a complaint in writing.	Thorn may consider providing the final outcome of all complaints to consumers in writing by either post or electronic means, regardless of the format or channel through which the complaint was received.  Providing written evidence of resolution allows for an auditable trail, clarifies the consumer’s understanding of the matter and evidence if the consumer takes the complaint to an external dispute resolution scheme.

Area	Observation	Enhancement
3 Risk management	<p>The Risk Management Strategy states Thorn will have in a place an operating structure that reflects the three lines of defence model ("3LOD").</p> <p>Thorn's current structure does not reflect a 3LOD model, with a number of operational functions reporting to the Chief Risk Officer ("CRO").</p>	Thorn management to consider implementing additional safeguards to ensure any risks are appropriately managed, given the CRO oversees a number of operational functions that generally do not report to a CRO (in a 3LOD model).
4 Suitability assessment	Thorn's policies do not state that Thorn does not have to credit assess any consumer within 90 days of the consumer being approved for credit (however they must continue to satisfy serviceability tests).	Thorn may consider updating its policies to reflect the requirement to make a suitability assessment within 90 days of the consumer being approved for credit otherwise a new suitability assessment is required (including obtaining updated documentation from a consumer).
5 Suitability assessment	A small number of leases displaying negative capacity (verified expenses exceeded verified income) were approved due to operator error.	Thorn may consider implementing a system enhancement to ensure that where a consumer displays negative serviceability that the application will be declined.

### Final Compliance Report

In accordance with our scope and approach in assessing Thorn's compliance with the Relevant Obligations, an additional 149 consumer lease files were assessed.

The results of our assessment were similar to those made in the Interim Compliance Report and we observed the steps Thorn had taken to document a consumer's requirements and objectives and obtain and verify information relating to the financial situation of a consumer before approving a consumer lease.

In the Interim Compliance Report we identified that the documentation of further inquiries on consumer files could be improved and at the time of the report Thorn was implementing actions to improve the consistency and approach of lease assessors. These actions included enhancements to the ongoing monitoring processes and the introduction of a standardised unsuitability assessment.

The further inquiries required typically relate to dishonours, defaults or inconsistent information provided by the consumer in the lease application

The effectiveness of Thorn's enhancements was assessed by Deloitte during the Final Compliance Report and although we observed an improvement in the way Thorn was documenting further inquiries in accordance with its policies, further improvement was still required.

As a result of this deficiency<sup>2</sup> identified in relation to how Thorn was documenting further inquiries, we made a recommendation for Thorn to implement which is detailed in Table 2 below.

The recommendation was made as without consistent documentation of notes or evidence on a lease file, it is unclear how a lease assessor has made the further inquiries required by Thorn's policies and how the results of these inquiries have been considered in Thorn's assessment.

<sup>2</sup> In this instance the deficiency relates to where Thorn appears to have not complied with its policies. The deficiency does not relate to non-compliance with the Relevant Obligations or the terms of the Enforceable Undertaking.



In undertaking our work, we also identified three further enhancements to Thorn’s lease policies which are detailed in Table 3 below. Thorn has agreed to action the enhancements and recommendation and Thorn’s actions in implementing the enhancements and recommendation will be assessed by Deloitte in a *Further Compliance Report* due to ASIC by August 2019

**Table 1. Final Compliance Report – Recommendation**

Area	Observation	Recommendation
1 Further inquiries	<p>In undertaking our assessment of a sample of consumer leases for the Final Compliance Report, we observed an improvement in the way Thorn has documented the results of further inquiries when compared to the assessment undertaken in the Interim Compliance Report.</p> <p>At the date of the Interim Compliance Report, Thorn had also identified similar themes in relation to the documentation of further inquiries through an Internal Audit review.</p> <p>However, our assessment of leases undertaken for the Final Compliance Report indicated that there is still some improvement required in relation to how Thorn is documenting further inquiries.</p>	<p>Thorn should develop a checklist or template within the Inteflow lease assessment system to clearly capture the nature and the results of further inquiries made.</p> <p>Where no further inquiries are required to be made, the lease assessor should also capture in the notes or in a checklist in the consumer’s lease application that sufficient information has been captured and further inquiries are not required.</p> <p>The checklist should be supported by the lease policy and further training of lease assessors on the importance of documenting inquiries.</p>

**Table 2. Final Compliance Report - Enhancements**

Area	Observation	Enhancement
1 Suitability assessment - Gambling	<p>Thorn’s business rules in relation to gambling state that, when a consumer spends more than 20% of their income on gambling within a 90 day time period, the lease application should proceed with caution.</p> <p>It is unclear what is meant by ‘proceed with caution’ and how this influences the assessment i.e. make further inquiries or decline the lease application.</p>	<p>Thorn to consider enhancing its credit assessment policies by developing a threshold in relation to gambling amount and frequency that requires a further inquiry to be made and / or the gambling expenses to be included in the consumer’s expenses.</p> <p>To reduce the subjectivity of the guidance stating to ‘proceed with caution’ when assessing a lease, Thorn to consider defining ‘proceed with caution’ and consider developing a threshold.</p>
2 Suitability assessment – ‘Buy Now Pay Later’ liabilities	<p>The ‘Buy Now Pay Later’ market is growing and in undertaking the lease assessment, we observed a large number of Thorn consumers with ‘Buy Now Pay Later’ re-payments.</p>	<p>Thorn to consider enhancing its credit assessment policies by developing a business rule relating to ‘Buy Now Pay Later’ liabilities to be included in the consumer’s serviceability calculation where the number of repayments and /</p>

Area	Observation	Enhancement
	<p>Thorn does not currently include 'Buy Now Pay Later' liabilities (e.g. Afterpay, Certegy, Ezi-Pay and Zip) in the consumer's serviceability calculation due to the short-term nature of the payment plan (not an ongoing financial commitment) but consider it a discretionary spend.</p>	<p>or dollar amount is over a certain threshold.</p>
<p>3 Suitability assessment - Defaults</p>	<p>Thorn's Credit Policy describes that where a consumer has three or more outstanding defaults of \$1000, the application will be declined.</p> <p>In undertaking our lease assessment, we identified several consumers who had a single default of more than \$3000, however were approved, due to the way Thorn's business rule has been structured.</p>	<p>Thorn may consider adding a further step in relation to the business rule on defaults that where a consumer has a two defaults totaling \$3000 or a single default that is over \$3000, further inquiries should be made and documented.</p>

# 5 Limitations

Our work for Thorn was limited to the specific scope outlined in the Engagement Letter dated 26 February 2018, which was provided to ASIC, and the terms of the Enforceable Undertaking. Our work was completed during the period April 2018 to August 2018 (Interim Compliance Report) and November 2018 to January 2019 (Final Compliance Report), and therefore, we may not have identified matters that would have been found had additional time been available.

Our scope did not include any assessment of controls supporting technology platforms or an assessment of the accuracy of underlying data.

Our work does not constitute a reasonable assurance (audit) or limited assurance (review) engagement in accordance with the Auditing and Assurance Standards Board ("AUASB") standards and consequently, no assurance is provided. The scope of our work does not extend to obligations not specifically detailed in the engagement letter and the work described herein, and any interpretation of law. No legal opinions are provided or can be assumed.

Our assessment is based on the relevant legislative and compliance obligations identified within the engagement letter and this report at a point in time, which are subject to change and hence cannot be relied upon to meet the future compliance needs.

Deloitte assumes that any information provided by Thorn in relation to inquiries for this report is true, complete and not misleading, and confirms that if the information is untrue, incorrect or misleading then the report may be incorrect or inappropriate for its purpose. The decision-making responsibility in response to the findings of this report resides solely with Thorn and ASIC.

Our assessment of Thorn's training, complaints, hardship applications and lease files was performed on a sample basis and therefore we cannot, in practice, examine every aspect of content, activity and procedure, nor can we be a substitute for management's responsibility to ensure adequacy of the charters, policies and maintenance of adequate controls over all levels of operations including the prevention and detection of irregularities, including fraud.

We believe the statements made in this report are accurate, but no warranty of completeness, accuracy, or reliability is given in relation to the statements and representations made by, and the information and documentation provided by, Thorn. We have not attempted to verify these sources independently unless otherwise noted within the report.

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