



20 May 2018

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Australian Securities and Investments Commission (ASIC)
via email: responsible.lending@asic.gov.au

Dear Ms Grey

Consultation Paper 309: Responsible Lending Conduct

Thank you for the opportunity to submit a response to Consultation Paper 309 (released February 2019). Overall, we believe the proposals lay a framework that is flexible while achieving many of the key recommendations of the Financial Services Royal Commission

Equifax is a global information solutions company. We use data, innovative analytics, technology and industry expertise to transform data into insights that help our customers make informed decisions. Headquartered in Atlanta, Equifax operates in North America, Central and South America, Europe and the Asia Pacific region.

Established as the Credit Reference Association of Australia in 1967, later as Veda and now Equifax, we have strong disciplines in data governance. The credit information, for which we are custodians, is integral to the credit risk frameworks and decision processes of most financial institutions in Australia.

We do not propose to comment on all proposals in the Consultation Paper. Instead, we would like highlight four areas for your consideration.

1. Proposed RG209 Guidelines and Data Minimisation Principle

A number of the proposals seek to clarify:

- the aspects of the consumer's financial situation that the licensee may (or may not) need to make inquiries about or verify (B1Q4 and B1Q5).
- the kinds of information that could be useful for verification and how that data might be obtained (C1Q1, C1Q3)
- whether an 'if not, why not' approach would improve verification practices.

As outlined in the Consultation Paper, data from transaction accounts may be useful in verifying declared living expenses for example. That data may be obtained under the proposed Consumer Data Right (CDR) regime, or via data aggregation services (typically using screen scrapping) or through scanning paper statements.

Whatever mechanism is used to obtain transaction data, these proposals may significantly under-estimate the issues (technical, ethical and legal) involved in collecting, structuring, analysing and using that information. This raises two fundamental dilemmas:

- a) such information doesn't solve the asymmetry between consumer and licensee (the consumer may not consent to disclosure all accounts used for spending); and
- b) the licensee may obtain more information than necessary to verify the consumer's financial situation.

The draft CDR Rules proposed by the Australian Competition and Consumer Commission (ACCC) sets out the principle of data minimisation. However, the proposed banking API standards attempts to balance coarse-grain and fine-grain consent frameworks.

In short, the proposed CDR regime means licensees (as accredited data recipients) may not be able to practically limit their access to data strictly necessary for expense verification. This potentially results in the;

- a) consumer being forced to consent to disclosing more information than they want; or
- b) imposes additional, quasi-fiduciary obligations on the licensees when they come to know the extraneous information.

2. Benchmarks

We support the proposal that the right benchmark, when used appropriately, can be a useful tool to determine the plausibility of information and whether further steps are needed to verify information (C3).

This approach to the use of benchmarks raises two further issues:

- a) The veracity of the benchmark and its fit to the attributes of the consumer applying for credit (it's relevance); and
- b) How benchmarks may be used within automated decisioning processes.

Consumers increasingly expect to engage with licensees via mobile devices. Using benchmarks to test plausibility suggests licensees may need to develop a cascading series of engagement and decision points with the consumer; depending on their circumstances, objectives and need to provide additional information. This is potentially at odds with consumers' expectation of fast and instantaneous digital engagement.

Delivering such digital processes on an industrial scale is likely to depend on artificial intelligent (AI). Building, understanding and using benchmarks that have veracity, relevance and reliability in such automated, AI decision processes becomes even more critical for the industry.

3. Written Assessment and Data Driven Decisioning

We support the proposal to provide additional guidance on what information should be included in a written assessment (D5).

Guidance to-date suggests licenses need to go further and 'connect the dots'. For example, identifying any mismatch between product features and the consumer's objectives. To be scalable, fast, reliable and digitally-native, processes will rely on natural language processing (NLP) and other forms of machine learning and AI. Typically, AI doesn't follow linear decision waterfalls or depend on static attribute triggers. Moving from black-box to explainable and demonstrably fair decisions is no small problem in the realm

of AI. It will likely involve compromises between machine learned precision and human-defined decision boundaries.

The industry will need guidance on the appropriate setting for these compromises and any guidance on written assessments needs to be developed in context of these automated decision processes.

4. Loan Application Fraud Mitigation

We acknowledge the appeal of using information collected for verification to detect deliberate loan application fraud.

Our experience in running the Fraud Focus Group suggests that deliberate application fraud can be detected and managed only through collaboration and information sharing over time. Such systems need to be able to factor the potential for false-positives, maintain privacy and only act on provable trends in fraudulent activity.

The Consultation Paper identifies the need for licensees to share information about investigations into potential fraud (paragraph 76, point (a)). The industry will need guidance on the appropriate way to share and use this information. We welcome the opportunity to work with ASIC and the industry to expand the Fraud Focus Group to facilitate that collaboration.

Thank you for your consideration of our submission. We look forward to discussing the points raised and any other assistance we can offer as you move to clarify the responsible lending guidelines.