20 May 2019

Fleur Grey
Senior Specialist
Credit, Retail Banking and Payments
Financial Services
Australian Securities and Investments Commission
Level 5, 100 Market Street
SYDNEY NSW 2000

By email: responsible.lending@asic.gov.au

Dear Fleur,

Consultation Paper 309
Update to RG 209: Credit licensing: Responsible Lending conduct

HSBC Bank Australia Limited appreciates the opportunity to provide feedback to the Australian Securities and Investments Commission (ASIC) regarding Consultation Paper 309 - *Update to RG 209: Credit licensing: Responsible Lending conduct.*

HSBC has participated in the industry discussions led by the Australian Banking Association (ABA) and the Australian Retail Credit Association and we are supportive of their submissions.

In Australia, the HSBC Group offers an extensive range of financial services through a network of 38 branches and offices. These services include retail and commercial banking, financial planning, trade finance, treasury and financial markets, payments and cash management and securities custody. HSBC Holdings plc, the parent company of the HSBC Group, is headquartered in London and is one of the world's largest banking and financial services organisations.

We have reviewed the Consultation Paper and identified four key themes that resonate throughout the document and write to provide ASIC with our feedback on these areas.

Principle or Prescriptive regulatory approach

HSBC's preference is for ASIC to adopt a principles rather than prescriptive based approach for the redesign of *RG 209.* We believe documented principles with clarified standards in key areas will produce an appropriate standard for the industry to comply with, while offering flexibility for lenders to continue to make appropriate lending decisions in the interests of the customer.

The Consultation Paper details extensive options for inquiries and verification of income and expense data, and while we understand the background to this objective, we believe the difference between secured and unsecured lending should be carefully considered from a risk-based perspective. Increased prescription, without product differentiation, may inadvertently result in reduced access to credit, a deterioration in the customer experience and an increased cost for lenders. We agree there is a benefit in the standardisation of the way income and expense data is captured and categorised to remove the subjectivity and differences in interpretation and execution across lenders. This would be undertaken at an individual portfolio level differentiating between secured and unsecured lending.

We recommend that the impact of future technology, including Open Banking, is taken into consideration by ASIC when updating *RG 209*. We acknowledge that Open Banking is a significant step forward, however it is dependent upon customer education and consent to provide the data to the lenders. We are cautious that extensive prescription within the Regulatory Guide may unintentionally restrict the future use of automated verification tools or similar industry IT developments.

Expense Inquiries, Validation and Verification

As outlined above we recommend the proposed level of inquiries required to be made by a lender to a customer with regard to expenses for an unsecured lending application needs to be carefully considered. From a product perspective we believe there is a significant difference between the complexities of home loan lending versus credit card lending and we recommend building in enough flexibility for lenders to be able to assess customers on the basis of product risk.

We support retaining an environment where lenders can undertake an appropriately reduced level of expense inquiries and verification for unsecured lending products in comparison to more complex mortgage products. We are concerned that some of the examples of discretionary / variable expenses listed in Appendix 1 of the Consultation Paper may be more appropriate for assessing a mortgage application rather than a credit card or personal loan. Behavioural economic factors and variations to discretionary / variable spending occur as lifestyles' change, and the detailed level of expense analysis may prove unreliable and unnecessary for low value and shorter term lending products.

As an international bank HSBC has a global customer base and we receive lending applications from non-residents residing across many countries. The detailed level of expense data required to be sourced may prove difficult to obtain unilaterally across jurisdictions and we ask that ASIC consider this aspect as part of the Consultation process.

We believe the use of customer specific measures such as debt to income ratios or debt servicing ratios can provide a differentiating factor to lenders to better inform the level of expense verification / validation required at the individual customer level for mortgage applications.

Customer

Scalability is an essential component to ensure costs remain controlled and balanced customer outcomes are achieved. We have a concern that mandating extensive expense inquiries for unsecured lending may disproportionally require increased resource allocation towards this product area. While we appreciate that standardisation of lending standards across all products and lenders may provide a level of industry certainty, we consider the risks of reduced competition and consumer choice as a result of increased costs, inflexible product offerings and generic customer profiling may result. Additionally, the larger lenders may be able to absorb the increased compliance costs, which may reduce market competition further as the costs may become prohibitive for some of the smaller lenders.

We acknowledge that future technology developments particularly with regard to Open Banking may increase the availability to lenders of automated income and expense data. As an early adopter of Comprehensive Credit Reporting, HSBC supports progression in this space and understands over time we will have increasing access to accurate information from relevant data providers. In the near term however, we are required to obtain this data from customers and are therefore subject to a customer's willingness to provide detailed historical records of daily expenses when applying for a credit card. We are concerned this will result in a negative customer experience that may lead to customers turning away from regulated / licensed lenders to more readily available credit options which may not perform robust affordability assessments, such as pay-day lenders or buy-now-pay-later arrangements. This scenario may be exacerbated for vulnerable customers who would otherwise be provided protections by regulated lenders.

Competition

We acknowledge that there needs to be a balance between achieving sound responsible lending practices, good customer outcomes while prompting competition and this is a challenge facing both regulators and the industry. An increased level of prescriptive regulation will provide consistency and certainty of practice, however it will also result in increased overheads and costs that may need to be passed onto customers. In this environment scale and size will be invaluable and consequently the smaller lenders, such as HSBC, will struggle to compete for market share in the unsecured lending space. We believe we have a viable lending proposition for customers and wish to ensure our products remain competitive within the market, to the ultimate benefit of consumers.

Our preference therefore, is for ASIC to consider a clearer principles based approach with clarified standards in key areas which differentiate product, individual customer risk and their access to credit.

We would be happy to discuss any aspects of our submission if required. Please do not hesitate to contact our Regulatory Affairs team via phone (02) 9006 5648 or email regulatoryaffairs.au@hsbc.com.au.

Yours sincerely,

Phillip Alaveras
Head of Retail Banking and Wealth Management Risk
HSBC Bank Australia Limited