20th May 2019

Fleur Grey
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Credit, Retail Banking and Payments
Financial Services
Australian Securities and Investments Commission
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Dear Ms Grey,

Consultation Paper 309 – Update to RG 209: *Credit licensing: Responsible lending conduct*

illion (formerly Dun & Bradstreet Australia and New Zealand) welcomes the opportunity to provide this submission to the Australian Securities and Investments Commission (ASIC) in response to the current review of Regulatory Guide 209 *Credit licensing: Responsible lending conduct* (RG 209).

illion is a data and analytics business, operating in Australia since 1887. Using extensive credit and commercial databases, we assist banks, other financial services providers and other businesses to make informed credit and risk management decisions, and help consumers access their personal credit information. Our data assets, combined with our end-to-end product portfolio and proprietary analytics capabilities, enable us to deliver trusted insights to our customers and facilitate confident and accurate decision making. illion is highly invested in the Australian market with over 130 years of data history and experience.

illion strongly agrees with ASIC's view that changes in technology and the public policy environment – particularly the recommendations flowing from the Royal Commission into Banking and Financial Services – mean that a review of the responsible lending guidelines is particularly timely. From illion's perspective, the substantial expansion in datasets over recent years, enhancement of comprehensive credit reporting (CCR) and new technologies such as Digital Data Capture (DDC) means that it is now both highly efficient and inexpensive for credit providers to obtain the insights they need to make responsible lending decisions. This review provides the basis for substantially more effective guidelines for all lenders.

Part A of this submission will begin by providing illion's views on key issues and developments relevant to the current consultation and responsible lending more broadly. In Part B, this submission will provide answers to specific questions raised in *Consultation Paper 309* (CP 309).

If there are any questions or concerns arising from this submission, please feel free to contact me at any time at steven.brown@illion.com.au.

Yours sincerely,

Steve Brown
Director - Bureau Engagement

Part A: Key Issues

1. The role of Comprehensive Credit Reporting (CCR) in responsible lending and the over-rising importance of account balance data

An effective credit information sharing system, centred on Comprehensive Credit Reporting (CCR), is critical to better credit risk decision-making, greater access to credit for individuals and small and medium-sized enterprises (SMEs) and fulfilment of responsible lending obligations. At its essence, CCR allows credit providers to make credit management decisions with significantly greater confidence and create an environment that encourages competition and innovation in the financial services sector. illion is therefore of the view that lenders must be obliged to make use of CCR data, where available, as part of their responsible lending obligations. We also consider it essential that account balance data is included within the CCR framework, for reasons outlined below.

Benefits provided by Comprehensive Credit Reporting (CCR)

A fully implemented CCR regime will provide a more open framework through which increased and richer information is shared with lenders and borrowers. For lenders, CCR will deliver greater levels of information available to fulfil responsible lending obligations and assist in making better informed credit management decisions. This added transparency will enhance lender confidence in a customer's ability to repay loans and reduce the rate of defaults, and increase the ability for new entrants and innovative providers to compete with incumbents.

For borrowers, CCR will facilitate greater competition in the market, increasing access to more affordable and innovative products. Borrowers with positive credit histories, for example, will have greater opportunities to benefit from their actions and behaviour, while those previously excluded due to a lack of information may now be able to access mainstream credit (as opposed to being unable to borrow at all, or reverting to unscrupulous credit providers). Further, individuals in a vulnerable credit situation can be identified and assisted earlier. More generally, greater transparency will assist in effective regulatory oversight of the financial services sector, saving costs and supporting overall economic growth.

Benefits provided by account balance information (in CCR)

When determining the different data sets[1] to be included within CCR and the public interest in responsible lending, it is vital that customer account balance information is included. Without balance data (currently unavailable under Australia's CCR model), lenders are left with an incomplete understanding of a borrower's level of indebtedness and rate of credit utilisation, and are therefore at a disadvantage in responsible lending terms. The added transparency provided by account balance information would deliver significant benefit in the responsible lending framework, for reasons outlined below.

Account balance data assists in enhancing transparency by revealing a borrower's actual level of indebtedness, particularly in comparison to credit limits, which is critical when developing an accurate risk profile of a prospective customer. Logically, a lender will be more willing to extend credit to a customer with a $100,000.00 line of credit and an actual balance of $0.00, for example, as opposed to a customer with the same available credit and a $100,000.00 balance. Currently, in the

[1] For example, customer identification information, consumer credit liability information, repayment history information, default information, payment information and new arrangement information. These data sets were proposed for inclusion under the *National Consumer Credit Protection Amendment (Mandatory Comprehensive Credit Reporting) Bill 2018* (Cth).

absence of account balance data, these customers appear identical to the lender, who then must use alternate means to enhance their assessment of risk (such as Digital Data Capture (DDC), sometimes known as ‘screen-scraping’ technology).

Similarly, risk assessment is currently further complicated by a lack of transparency in a customer’s rate of credit utilisation (the ratio of account balance to total credit limit). For example, a customer’s monthly payment of $1,000.00 could indicate they are paying either a monthly minimum amount on a large total balance, or are paying off the total amount per month without accruing a balance. A lender would be more likely to extend credit to a customer with a low credit utilisation rate, but in the absence of account balance data, will require alternate means to assess this particular aspect of risk. Importantly, if unable to assess the rate of credit utilisation, lenders will struggle to identify low risk borrowers and will be more likely to implement risk-based pricing, ultimately contributing to increased costs for consumers. The ability to more easily target low risk, prospective borrowers will therefore support further competitive pressure on product pricing in the lending market.

Increased transparency of levels of indebtedness will also prevent borrowers from becoming over-indebted by taking on inappropriate credit. A key example is the uptake of additional, unsuitable credit cards. ASIC’s *Report 580: Credit card lending in Australia,* concluded that consumers with multiple credit cards over the previous 12-month period were over-represented in all problematic debt indicators. According to the research, the proportion of consumers who met each indicator increased as the number of open credit cards increased, for example, 14.2% of consumers with one card were found to be in problematic debt, compared to 31.2% of consumers with three open cards.[2] The increased risk associated with multiple credit cards presents a clear picture of the need to ensure transparency in credit utilisation and indebtedness.

Additionally, evidence has demonstrated that greater depth and breadth in the application of CCR has a significant impact on the ability of lenders to extend credit to traditionally underserved borrower groups. In 2012, illion partnered with global research body PERC to analyse credit data from 1.8 million Australians and understand the value of broad adoption of CCR in the local market.[3] This research compared credit decisions, based on credit scores developed using primarily negative data in comparison to comprehensive information, to empirically show that younger Australians aged 18-25 will receive the greatest benefit from improved data sharing. The results demonstrated that while overall safe credit approvals could rise by 27 per cent using positive data for the broader population, 18-25 years olds could benefit from a more than 40 per cent increased rate of approvals. The ability to secure credit for a home, vehicle, or education is fundamental at this stage in life. [4]

A more competitive credit environment will offer consumers pricing benefits as well as the capacity to show recovery from a negative credit experience sooner than what is possible under a ‘negative only’ credit reporting regime. These substantial public interest benefits are wholly reliant on the comprehensive information being available and utilised. Until the recent broad-based adoption of CCR by Australia’s major banks, CCR information has not been widely shared despite the enabling legislation being in place since 2013 - a real missed opportunity from a responsible lending perspective.

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[2] Australian Securities and Investments Commission, *Report 580: Credit card lending in Australia* (July 2018) p 28 [120].

[3] Dr Michael A Turner et al, PERC, *Credit Impacts of More Comprehensive Alternative Data Credit Reporting in Australia and New Zealand* (May 2012).

[4] The project examined the impact of adding *some* positive data but not all positive sets seen in more comprehensive full-file systems, which typically include account balance information. The project was designed to prepare for an anticipated movement in Australia away from a purely negative reporting system

It is increasingly well recognised that an optimised credit information sharing system (featuring account balance data) is crucial for the efficient and effective operation of credit markets. In 2015, Asia Pacific Economic Cooperation Forum (APEC) members, including Australia, endorsed the Cebu Action Plan, a framework which cites the World Bank's General Principles for Credit Reporting. These principles serve to guide legal and regulatory frameworks across the APEC region for the development of best practice credit information systems. Despite being a signatory, Australia has as yet failed to mandate greater depth and breadth in data sharing, the result being reduced access to credit, slower economic growth and higher interest rates.[5] The addition of account balance data would go some way towards remedying this issue by boosting competition between lenders, increasing transparency and improving financial inclusion.

The inclusion of balance in a credit report also ensures that lenders get visibility of the level of utilisation that an applicant is making of their credit facilities and how they can best interpret the Repayment History Information (RHI) that is included for each line of credit. If we take the example of "Marcel" who has two credit cards each with a $5,000 limit, one that is used regularly and is paid off each month in full, and another that is only kept for emergencies and has not been used in the last two years. Marcel has a blemish free track record on her credit report and shows all payments made on time. It is important to note that when no payments are due they will be reported by the credit provider to the credit bureau in the same way as a payment that is made on time.

"Bina" also has two credit cards, each with a $5000 limit. In her case she has been having some difficulties managing her spending and does not pay off the full balance of either card each month. In fact her balance on each card has been steadily increasing over the last two years to the point where both cards are now at their limit. Bina has however managed to make the minimum monthly payments on both cards each month.

Now imagine a potential credit provider receiving credit applications from both individuals for a personal loan for a holiday. In both cases the credit files that they receive would show the same $10,000 limit spread across two cards and a blemish free repayment history. In fact their credit worthiness would appear almost identical in both credit reports. Clearly however their actual circumstances couldn't be more different. By including a balance in the credit report it would become immediately clear to the credit provider that the circumstances of both individuals are quite different and with that difference in credit history can be used by the credit provider to make the most informed decision possible about the extension of additional credit to the applicant.

For reasons outlined above, illion is a strong advocate for the expansion of Australia's credit reporting system and mandating an environment that allows CCR data to be available to credit providers. We also note that the breadth of positive reporting data available in Australia falls well short of information available in other jurisdictions such as the United States, Canada, South Africa and the United Kingdom. illion is therefore of the view that domestic lenders must be obliged to make use of CCR data, where available, as part of their responsible lending obligations, and that account balance information must be included as a key data set.

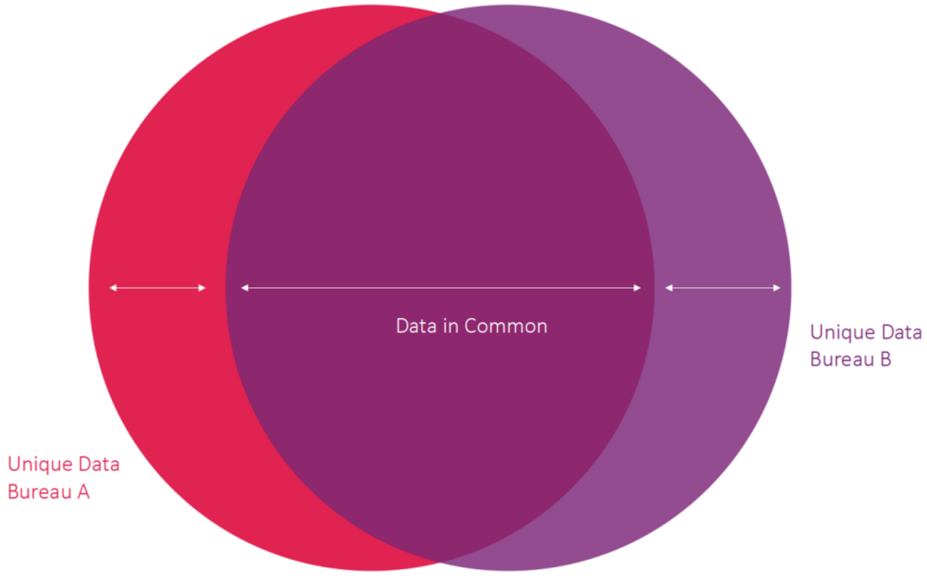
2. Responsible lending obligations should require a 'multi-bureau' approach

illion is of the view that responsible lending obligations should require lenders to use a multi-bureau approach in order to gain the most accurate view of a consumer's finances, due to the fact that

[5] Discussed in Dr Michael Turner and Patrick Walker, PERC, *Australia's National Consumer Credit Protection Amendment (Mandatory Comprehensive Credit Reporting)* (April 2018).

different bureaus may hold materially different data. Our reasoning is explained in more detail below.

At present, the majority of data on an individual consumer is available through either of Australia's two major consumer bureaus (i.e. illion and Equifax). However, the existence of unique data found in one bureau, but not another, presents credit providers with access to greater and more accurate information from a credit assessment perspective. This situation is illustrated in the diagram below.



Much of the information that the bureaus hold will be Data in Common, that information that would be returned by either bureau when a credit provider makes a request to them for a credit report on the applicant. Comparative data analysis that has been undertaken by illion however consistently demonstrates a high degree of unique information that is held by both bureaus. It is this Unique Bureau Data that can alter the decision to grant credit where it indicates the credit product may not be suitable to the applicant.

Analysis of the causes of this unique information to be returned by a bureau has identified three key drivers:

1. Certain information may only be provided to one bureau. This may be because a particular credit provider may only deal with one of the bureaus or a data source is only available to one of the bureaus.
2. The individual may only have a record on one bureau as they haven't been recorded as credit active on other bureaus.
3. The different matching algorithms used by the bureaus may allow the information to be returned by only one bureau despite it being held by both. The search and match approaches used in Australia are rather unique given Australia is one of the few credit reporting systems in the world that does not use a national ID number. This means that file matching must rely on a combination of name address and date of birth providing practical challenges in cases of individuals with very similar names and addresses.

illion submits that ASIC's responsible lending guidance should oblige lenders to take a multi-bureau approach where there is materially different information between the bureaus. The definition of 'materially different' is suggested as:

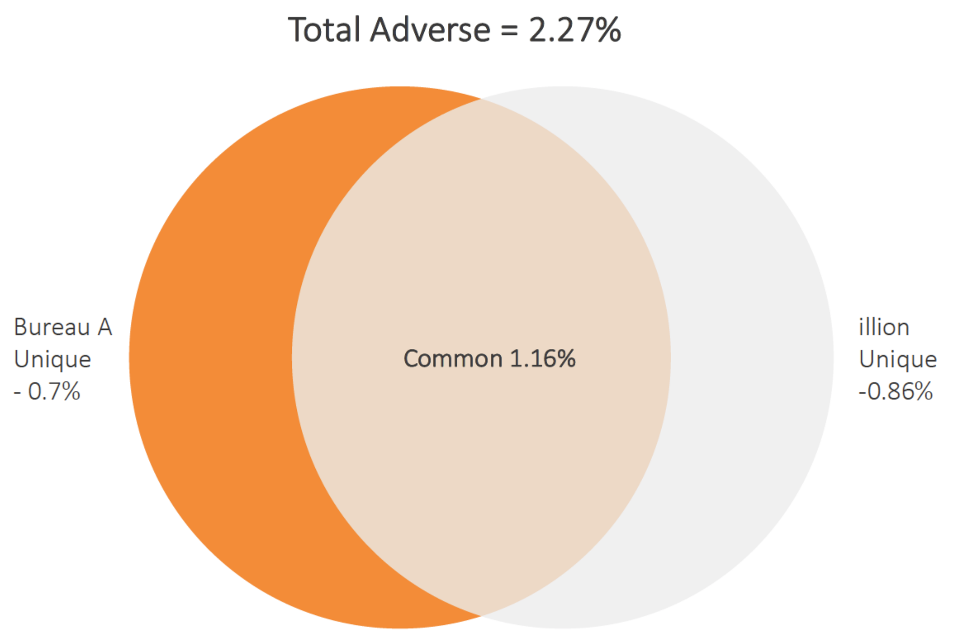
A bureau that can provide at least an incremental 2% match rate to data elements that would change the credit acceptance decision from an accept to a decline.

With the advent of CCR data sharing by the big four banks, an increasing number of credit providers are adopting a multi-bureau approach in order to take advantage of the benefits provided. For example, lenders are able to more accurately identify their true number of high-risk customers when comparing different data sets, if one bureau provides a different percentage of unique adverse data in comparison to another bureau. With greater data at their disposal, credit providers using a multi-bureau approach can therefore make better-informed lending decisions.

In the wake of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, the value of CCR and its role in supporting responsible lending is more apparent than ever. By using all information available via CCR data and a multi-bureau approach, credit providers are more able to accurately assess consumer creditworthiness and mitigate the risk of breaching responsible lending obligations.

<u>Case study example</u>

A recent case study by a mutual lender showed that they had almost three percent of their applicants in total that had an adverse event on their credit file. These types of events include information such as Bankruptcies or Defaults on previous or current credit facilities. Each bureau however provides a significant improvement over just using a single credit bureau file. In fact without access to a multi bureau strategy this lender would have missed almost a third of the adverse information available to them. The complete picture is only visible to them by adopting a multi bureau approach to credit application assessment.



The slide below shows a case study of a major lender and the key drivers of unique illion data on their portfolio where a subsequent credit enquiry on the illion bureau found over 25,000 events that fundamentally changed their view of the risk of the applicant. This is despite the lender having made an initial enquiry to another bureau that did not reveal any adverse information.

The unique information illion identified included both public record information, such as bankruptcies and judgements that would be expected to be present on both bureaus, as well as default information which may be uniquely held by one bureau.

illion is finding adverse information that both bureaus have

Unique matching leads to unique data - Adverse picked up by **illion on a second call**, #applicants per year

Data Providers
illion has unique default data suppliers

Identity
illion has a thick file to match to – Telco, Utility, Payday

Matching
illion has unique matching

applicants with adverse events on file

Adverse from:	Public Record	Risk Indicators	Total	%
Unique illion Information Providers		2,361	**2,361**	**9%**
Public Record Common information Providers	400	4,748	**5,148**	**20%**
Public Record Common Information Providers	3,792	14,455	**18,247**	**71%**
Total	4,192 (16%)	21,564 (84%)	**25,756**	**100%**

3. The role of Digital Data Capture (DDC)

Digital Data Capture (DDC), sometimes referred to as 'screenscraping', is the process whereby a consumer consents to the collection of their screen display data from an application so that it may be translated and displayed via a second application, and accessed by a trusted third party such as illion. DDC is used widely in the financial services sector by lenders, financial management applications, personal finance dashboards, and accounting products to retrieve customer data. DDC is a critical mechanism to empower consumers and facilitate competition in provision of consumer credit. The technology enables lenders to better understand prospective customers and thereby fulfil their responsible lending obligations. DDC is valued by consumers who find it a convenient and hassle-free way of providing information to a potential credit provider.

illion Open Data Solutions currently facilitates access to over 150 financial institutions' transactional information using DDC, including a number of smaller entities. We envisage it will take a considerable period of time, if ever, before all of these organisations provide access to their customers' data through the published API for Open Banking and that therefore there will be an important role for DDC services at least into the medium term.

DDC operates to allow a greater pool of consumers to access appropriate credit, given the increased visibility that lenders have of a potential borrower's income and expenditure via the shared data – it maximises accuracy and minimises the risk of fraud. Other market participants, predominantly smaller lenders and fintechs, also rely on this form of technology to offer their services in a broader industry context where there is significant information asymmetry with larger players. DDC technology is therefore making a significant contribution to the competitive dynamics in the current market. As noted by ASIC in an August 2016 submission to the Productivity Commission's *Inquiry into*

Data Availability and Use, "provided security concerns can be addressed, consumers should not be disadvantaged by their use of legitimate account aggregation services."[6]

DDC does provide a secure method by which consumers can share their transactional banking data. illion for example use robust security measures on par with security standards used by the major banks, encrypting data with 256 bit encryption and secured by 2048 bit keys. Consumer data is always processed in Australia, while independent external security personnel are engaged to carry out annual detailed audits, including penetration testing. Importantly, consumer log-in data is securely handled in line with industry best practice.

The DDC solutions in markets generally provide a far more efficient and cost effective means to verify income and expenditure than more manual processes of individual review of bank statement data using human resources. For a fee of only one to two dollars and in a few seconds a lender can positively verify the details provided by an applicant. This contrasts with more manual processes that may take up to 10-15 minutes to review a bank statement costing $5-$10 depending on whether on-shore or off shore based staff are used to undertake the assessment.

In the period leading into the introduction of the Consumer Data Right (CDR) and Open Banking in Australia, DDC is the most secure, efficient and convenient means of collecting and transferring customer account data with consumer consent. Following the full implementation of the proposed Open Banking regime, there will still be significant use cases for DDC technology where it can and should coexist with Open Banking. This continued utility relates to real-time data provision, simplicity of customer onboarding, level and quality of data availability, and will also provide a redundancy fail-safe, for example, in a period during which an ADI's application program interface (API) is offline. illion believes DDC technology will also provide an important benchmark to assess the performance of Open Banking, at least during its establishment phase.

illion is therefore of the view that DDC technology should be recognised and facilitated under the updated version of the ePayments Code, and permitted to operate in conjunction with Open Banking. As acknowledged in the 2010 *Review into Open Banking*, "banning [DDC] would remove an important market-based check on the design of Open Banking."[7] Banks, conversely, should not be prevented from consenting to the use of DDC by reason of a lack of clarity in an outdated ePayments Code. We believe that ASIC is correct in anticipating that, following the commencement of Open Banking, account aggregator services will remain relevant and offer a "valuable tool for consumers and commercial organisations", particularly when considering the phased implementation of Open Banking that will initially offer only 'read only' access.[8]

4. Guidance on reasonable information verification standards ('if not, why not')

In CP 309 at Appendix 1, ASIC has provided guidance on the types of information sources that it considers will generally be readily available and reasonable to obtain. ASIC has also proposed to expand its guidance on what are reasonable steps to verify a consumer's financial situation by including an 'if not, why not' approach; that is, a licensee must be able to demonstrate why it elected not to obtain or refer to forms of verifying information in a particular circumstance. illion

[6] Australian Securities and Investments Commission, *Productivity Commission Inquiry into Data Availability and Use: Submission by the Australian Securities and Investments Commission* (August 2016) p 3 [9].

[7] Scott Farrell, *Review into Open Banking* (December 2017) p 84.

[8] Australian Securities and Investments Commission, *Consultation Paper 310: Review of the ePayments Code: Scope of the review* (March 2019) pp 17-18 [60].

agrees with this approach and is of the view that the 'if not, why not' approach should be rigorously applied.

The overhead costs associated with accessing different types of consumer credit-related information will be an inherent concern for lenders seeking to meet their responsible lending obligations per ASIC's guidance. However, given the degree of change since RG 209 was originally issued in 2010 - in terms of cost to access data, the speed at which data can be shared, and the types of information available – we do not believe any cost concerns would be well-founded. The market in Australia today is highly contestable; information verification can be undertaken at a fraction of the cost when compared with the situation prevailing in 2010; and data is processed using bureau systems that are now automated, simpler and faster than ever before.

Based on the above price and process comparison, illion firmly believes that cost will not be a valid explanation in the overwhelming majority of cases for licensees that elect not to obtain or refer to forms of verifying information.

5. The need for an expanded list of information sources used to verify consumers' financial situation (Appendix 1)

Noting the reduced costs and enhanced accessibility in verifying consumer information in today's market, illion is of the view that the data sources listed in CP 309 at Appendix 1 should be expanded to provide a more comprehensive and accurate picture of an individual's financial situation. A broad, effective credit information sharing system is critical to more accurate credit risk decision-making, enabling greater access to appropriate credit for consumers and fulfilment of responsible lending obligations.

We therefore propose that ASIC expands the list of information verification sources to include the following items:

- *Account balance information:* As discussed above, account balance information is essential to provide lenders with a complete understanding of a borrower's level of indebtedness and rate of credit utilisation, thereby supporting responsible lending obligations. We firmly believe that this data set must be included in ASIC's guidance on responsible lending.
- *Transaction account statements:* The data sources provided in tables 1 to 4 in Appendix 1 include forms of evidence that a licensee may use to verify a customer's income, existing debts and liabilities, fixed or recurring living expenses, and variable living expenses. illion supports the specification of these sources, however notes that the use of transaction account statements (included in table 5) will likely deliver the same outcome. For example, living expenses such as utilities and internet connection payments will appear on a customer's account statement.
- *Insurance information:* We are of the view that relevant insurance data should be included where a loan is related to a particular kind of asset such as a customer's home, car or home contents. In the instance of an unsecured loan, we also suggest provision of detail on home and contents insurance.
- *Directorships:* illion supports the inclusion of directorship data to provide a comprehensive understanding of an individual, in the context where an individual is involved in an SME. Businesses will often attach a degree of financial risk, impacting a director's personal ability

to service a loan and line of sight by credit providers to this information is important from a risk management perspective.

Part B: Responses to Questions

General Approach: Reasonable inquiries and verification steps (p8)

Proposal B1: We are considering whether to identify particular inquiries and verification steps in RG 209 that we think would generally be reasonable to provide greater certainty to licensees about complying with their obligations.

B1Q1 Would it be useful for licensees if ASIC were to identify the inquiries and verification steps that we consider should be taken? Why or why not?

illion is of the view that ASIC should be more prescriptive in identifying particular inquiries and verification steps in RG 209 as this will likely provide greater certainty to licensees in meeting their responsible lending obligations. This will support a more transparent and streamlined verification process.

B1Q2 If there are particular examples of industry practice that you consider should be reflected in any guidance, please provide details of those practices.

We believe that DDC is a strong example of positive industry practice. This provides for automated bank data retrieval and analysis, offering products and services for consumers, businesses, fintechs and authorised deposit-taking institutions (ADIs). illion Open Data Solutions (formerly Proviso) is the leading aggregator of banking data in Australia. We suggest that the revised guidance explicitly states that the use of DDC to verify income and expenditure is supported by ASIC as an efficient and effective tool to assist Lenders to meet their responsible lending obligations.

B1Q3 Are there any kinds of credit products, consumers or circumstances for which you consider it may be reasonable to undertake fewer inquiries and verification steps? Please identify the kinds of products, consumers and circumstances and particular features you think are relevant.

There are no forms of credit products, consumers or circumstances in which it is reasonable to undertake fewer inquires or verification steps, due to the fact that information verification can now be undertaken at a low cost and efficiently processed using automated, simpler and faster systems than ever before. Further information is provided in Part A of this submission.

B1Q4 In your view, what aspects of the consumer's financial situation would a licensee need to inquire about in all circumstances? If you think some aspects of the consumer's financial situation do not need to be inquired about, please explain why.

B1Q5 In your view, what aspects of the consumer's financial situation would a licensee need to verify in all circumstances? If you think some aspects of the consumer's financial situation do not need to be verified, please explain why.

illion is of the view that a consumer's credit file, as well as their income and expenditure data should be inquired about and verified in all circumstances. This will support a more holistic understanding of the consumer's financial situation and responsible lending practices, preventing consumers from taking on unsustainable credit.

B1Q6 What would be the effect on consumers of ASIC identifying particular inquiries and verification steps? For example, what would be the effect on access to and cost of credit for consumers?

illion is firmly of the view that added transparency in the information verification process would be of significant benefit to consumers. Greater prescription and clarity around services such as DDC will create a better customer experience, and will reduce time and risk associated with verification (due to the highly automated nature of data sharing). Importantly, enhanced information sharing contributes to greater accuracy and certainty in lending practices, which will result in more consumers being able to access appropriate credit and more easily avoid over-borrowing or entering hardship. Enhanced understanding of consumer needs will support lenders to develop products that better service different sectors of the market, improving competitive and innovative dynamics in the market.

B1Q7 What would be the effect on business costs of ASIC identifying particular inquiries and verification steps? Please provide details of the effect on compliance costs for the licensee, and any factors that are likely to affect the level of cost or cost savings.

The cost of credit reporting services in the Australian market has become far more competitive over the last decade as we have developed a multi-credit bureau market that is comparable with other developed economies such as the US, UK, Canada and South Africa. This competition has ensured that the costs of acquiring additional credit reporting information are subject to a high degree of competition. We expect therefore that the costs of transitioning to a multi bureau strategy will be modest in the context of the overall application process.

Similarly we observe that the supply of Bank statement aggregation services in Australia is robust with a large number of Fin Tech companies now offering these services to lenders. These services are generally a very small part of the overall credit application process. Their inclusion in the process is also likely to reduce processing costs for those organisations manually reviewing bank statements.

B1Q8 In your view, what would be the effect (either positive or negative) on competition between licensees? Please provide details.

illion's view is that the identification of particular inquiries and verification steps will have pro-competition benefits between licensees. By providing greater clarity and direction, ASIC will foster an environment where credit providers will be able to make lending decisions with greater accuracy and confidence, and better understand customers within their sector. As a result, more innovative product development will introduce downward pressure on prices, increasing competition and leading to positive consumer outcomes across the financial services sector.

<u>Updating or clarification of current guidance: Verification of consumer's financial situation (p11)</u>

Proposal C1: We propose to amend the current guidance in RG 209 on forms of verification to:

(a) clarify our guidance on kinds of information that could be used for verification of the consumer's financial situation, and provide a list of forms of verification that we consider is readily available in common circumstances; and

(b) clearly state that views on what are 'reasonable steps' will change over time, as different forms or sources of verifying information become available. For example, developments in open banking and data aggregation services will assist licensees to efficiently confirm the financial situation of a consumer (including allowing simultaneous inquiry about and verification of some information).

C1Q1 Please provide details of any particular types of information that you consider should be reflected in the guidance as being appropriate and readily available forms of verification?

illion's view is that account balance information is an essential data source to provide lenders with a complete understanding of a borrower's level of indebtedness and rate of credit utilisation, thereby supporting responsible lending obligations. We strongly believe that this data set must be included in ASIC's guidance on responsible lending. Further information on illion's position is available in Part A of this submission.

C1Q2 Do you consider that the examples included in Appendix 1 are appropriate? Why or why not?

We consider the examples included in Appendix 1 to be appropriate, but would also suggest the inclusion of further data sources that will provide lenders with greater certainty and transparency in relation to prospective borrowers. As discussed in Part A of this submission, illion suggests that ASIC expand the list of data sources to include the following information:

- Account balance information;
- Transaction account statements;
- Insurance information;
- Directorships;

C1Q3 Are there particular issues with using data aggregation services that you consider should be raised in our guidance? Please provide details of those issues, and information that you consider should be included in our guidance. For example, would it be useful to include specific guidance on matters the licensee could, or should, raise with the consumer before obtaining the consumer's consent to use this kind of service?

There is a general lack of clarity around liability for unauthorised transactions made via a customer's bank account, if the customer has knowingly provided their account logon details to a third party such as a data aggregator like illion Open Data Solutions (i.e. under the ePayments Code). illion considers that ASIC should introduce guidance on this issue to provide greater certainty to lenders and consumers.

Proposal C2: We propose to expand our guidance on what are reasonable steps to verify the financial situation of a consumer by:

(a) more clearly stating that it is not sufficient merely to obtain verifying information but not have regard to it, or to use a source of information to verify only one aspect of the consumer's financial situation if it contains other (potentially inconsistent) information about other aspects of the consumer's financial situation; and

(b) including an 'if not, why not?' approach—that is, if a licensee decides not to obtain or refer to forms of verifying information that are readily available, they should be able to explain why it was not reasonable to obtain or refer to those forms of verification in the circumstances of the particular consumer involved.

C2Q1 Do you consider that the proposed clarification of guidance on reasonable verification steps would be useful? Are there any other aspects of our guidance on verification that you consider would be useful?

illion supports the proposal to expand ASIC guidance on what reasonable steps should be taken by licensees to verify a consumer's financial situation, including by specifying that it is not sufficient merely to obtain verifying information but not have regard to it, or use a data source to verify only one aspect of the consumer's situation if it contains other (potentially inconsistent) information about another aspect. This change will improve certainty for licensees around what conduct is required to meet their responsible lending obligations under RG 209.

C2Q2 Would an 'if not, why not' approach encourage improvements to current verification practices? Why or why not?

illion agrees with this approach and is of the view that the 'if not, why not' approach should be rigorously applied in order to encourage improvements to current verification practices. An 'if not, why not' approach will provide a more comprehensive and accurate picture of an individual's financial situation, which is critical to more accurate credit risk decision-making, thereby enabling greater access to credit for consumers and support the lender in meeting their responsible lending obligations.

C2Q3 What are the benefits, risks and costs for consumers in this approach (including any effect on access to and cost of credit for consumers)?

We consider that consumers will benefit from the 'if not, why not' approach, as better fact-checking and verification processes will result in a greater proportion of consumers accessing appropriate credit in a manner that is efficient from both a time and cost perspective.

C2Q4 What additional business costs would be involved in this approach?

The costs of accessing different types of consumer credit-related information are now minimal and will not be a valid rationale for not meeting verification requirements in the overwhelming majority of cases.

In the case of those Australians who do not currently use internet banking and are therefore beyond the scope of automated data verification processes, alternative data collection resources, such as optical character recognition (OCR) technologies, are nonetheless available to verify consumer information in these circumstances. These solutions are now prevalent and cost effective means of collecting and digitising bank statement information.

C2Q5 In your view, what would be the effect (either positive or negative) on competition between licensees? Please provide details.

illion considers that expansion of ASIC guidance on what reasonable steps should be taken will have pro-competitive benefits between licensees. By providing greater clarity and direction, ASIC will foster an environment where credit providers will be able to make lending decisions with greater accuracy and confidence, and better understand customers within their sector. As a result, more innovative product development will introduce downward pressure on prices, increasing competition and leading to positive consumer outcomes across the financial services sector.

<u>Updating or clarification of current guidance: Use of benchmarks (p15)</u>

Proposal C3: We propose to clarify our guidance in RG 209 on the use of benchmarks as follows:

(a) A benchmark figure does not provide any positive confirmation of what a particular consumer's income and expenses actually are. However, we consider that benchmarks can be a useful tool to

help determine whether information provided by the consumer is plausible (i.e. whether it is more or less likely to be true and able to be relied upon).

(b) If a benchmark figure is used to test expense information, licensees should generally take the following kinds of steps:

> *(i) ensure that the benchmark figure that is being used is a realistic figure, that is adjusted for variables such as different income ranges, dependants and geographic location, and that is not merely reflective of 'low budget' spending;*
>
> *(ii) if the benchmark figure being referred to is more reflective of 'low budget' spending (such as the Household Expenditure Measure), apply a reasonable buffer amount that reflects the likelihood that many consumers would have a higher level of expenses; and*
>
> *(iii) periodically review the expense figures being relied upon across the licensee's portfolio—if there is a high proportion of consumers recorded as having expenses that are at or near the benchmark figure, rather than demonstrating the kind of spread in expenses that is predicted by the methodology underlying the benchmark calculation, this may be an indication that the licensee's inquiries are not being effective to elicit accurate information about the consumer's expenses.*

C3Q1 Do you consider that the proposed clarification of guidance about use of benchmarks would be useful? Why or why not?

illion agrees that benchmark figures do not provide positive confirmation of what a consumer's income and expenses actually are. We consider that benchmarks should not be used in place of verification processes to help determine whether information provided by the consumer is accurate; proper verification using all relevant data sources available is a necessary and cost-effective component in meeting responsible lending obligations.

<u>Additional guidance on specific issues: Fraud risks and impact on responsible lending obligations (p26)</u>

Proposal D2: We propose to include new guidance in RG 209 on:

(a) the role of the responsible lending obligations, and in particular the obligation to take reasonable steps to verify information provided about the consumer's financial situation, in mitigating risks involved in loan fraud; and

(b) risk factors that might indicate that additional verification steps should be taken.

D2Q1 Would specific guidance about loan fraud and the impact on responsible lending obligations of the licensee be useful? Would guidance encourage broader improvements in processes for identifying fraud and reduce the risk of consumers entering unsuitable credit contracts as a result of fraud? Why or why not?

D2Q3 What are the benefits, risks and costs for consumers in this approach (including any effect on access to and cost of credit for consumers)?

illion supports improved guidance on loan fraud and the impact on responsible lending obligations of the licensee. We also note the benefits provided through DDC technology in reducing the risk of fraud, as discussed in Part A of this submission.

Additional guidance on specific issues: Use of repayment history information (p28)

Proposal D3: We propose to include guidance in RG 209 to clarify how repayment history information may be used, including that:

(a) the occurrence of repayment difficulties on one product will not necessarily mean that a new credit product will in all cases be unsuitable for that consumer; and

(b) this information should instead trigger the licensee to make more inquiries to enable it to understand those repayment difficulties, and the likelihood that the circumstances of the consumer leading to those difficulties will mean that the consumer would also be unable to meet financial obligations under the new product being considered.

D3Q1 Would guidance about use of negative repayment history information and hardship indicators reduce the risk that credit providers consider it necessary to refuse applications for further credit products that may in fact be affordable for the consumer? Why or why not?

D3Q2 What are the benefits, risks and costs for consumers in this approach (including any effect on access to and cost of credit for consumers)?

We support the addition of ASIC guidance on use of negative repayment history information (RHI) and hardship indicators. illion believes there is a strong public interest in flagging these points so that lenders are aware of information that is vital to an accurate credit assessment (and indicates the need to ask further questions), while borrowers will be protected from taking on additional credit during periods of financial difficulty. Similarly, greater clarity on a consumer's financial circumstance will discourage lenders from refusing applications for further credit in inappropriate situations because, via Open Banking and the use of CCR, credit providers will have greater transparency over a customer's financial circumstances. The addition of this data to consumer credit reports will also serve to prevent customers from becoming over-indebted, and offer earlier opportunities to intervene in the interests of the borrower.

D3Q3 What additional business costs would be involved in this approach?

The RHI data is typically included in a credit report supplied by a Credit Reporting Body like illion. Therefore we do not anticipate any material increase in the costs being incurred by lenders to acquire this information in addition to the negative credit reporting information that they use today.