20 May 2019

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

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

Dear Ms Grey,

Consultation Paper 309: Credit licensing: Responsible lending conduct

Quantium welcomes this opportunity to comment upon ASIC Consultation Paper 309, *Update to RG 209: Credit licensing: Responsible lending conduct*, February 2019 (the **Consultation Paper**).

We first provide background about Quantium's interest in the Consultation Paper and then provide our comments. We acknowledge that this submission will be made public.

1. Quantium Background

Quantium Group (**Quantium**) is an Australian owned group of companies, with our head office in Australia and operations in India, New Zealand, South Africa and USA. Quantium is 16 years old. We currently employ around 750 people, making us the largest specialised data science business in Australia. We work with recognised brands in over 20 countries across the banking, government, insurance and many other sectors. Our work across three continents includes projects for some of the biggest banks. Our data science work involves use of business data of data partners and business data of our respective clients.

Quantium's core business is to assist our clients to better understand their customers. We do this through the provision of advanced data analytics services utilising data science and artificial intelligence capabilities. This core business is conducted using customer data, predictive models and algorithms for artificial intelligence and machine learning services that we provide to Quantium's clients to enhance the fortitude of their decision making and improve the customer experience that they offer.

We see a key differentiator of Quantium and our services as being our focus upon good data governance to ensure that: (1) data inputs are suitable for analytics use; (2) our outputs and insights are reliable and verifiable and responsibly assessed by us as fit for purpose; and (3) each Quantium client is fully informed as to the suitability of our products, data outputs and insights for use in the context for which they are designed and intended.

2. Quantium's interest in Responsible Lending and the Consultation Paper

We commend ASIC for proactively considering updating its guidance on responsible lending. Responsible lending obligations are an integral part of the regulatory framework for all consumer loans. We consider it timely that ASIC reconsiders its initial guidance, not just to address findings of the Royal Commission, but also to take into account the substantial changes in technology and data analytics capabilities and technologies since 2009 and the consumer welfare possibilities inherent in the Consumer Data Right. Specifically, the advances in data science make it possible (if not necessary) to leverage more specific ('granular') data on unique customers, including a customer's longitudinal transaction history, in lending assessments. Properly implemented with good data governance, these advances, properly implemented with good data governance, will improve responsible lending and so create benefits for lenders, consumers and Australian society. As a business that exists to drive better data driven possibilities for customers and for society, we endorse building responsible lending initiatives from a foundation that is individual consumer-centric.

3. Quantium's views on the use of data in responsible lending

The assessment of each consumer's financial situation, points of financial vulnerability, and how those vulnerabilities may change over time, requires careful, fair and respectful analysis and evaluation of a variety of sources of data and information relating to both a consumer and their household.

Business analytics enables data volunteered by a consumer to be supplemented with credit reports and other third-party data as authorised by the consumer, observed data from past transactions, benchmarks and inferences derived from comparison of the individual consumer's financial situation against a cohort or segment of inferred similar consumers.

Good human decision making is impeded by complexity and a range of relevant data points, biases and heuristics and other impacts of human frailties. Fair and respectful decision making by humans within lenders can be significantly aided by insights derived from good data. Good data insights unlock numerous benefits, including:

- The risk of discrimination or unfairness, through humans considering irrelevant criteria or not properly weighting criteria, is significantly reduced.
- The burden otherwise borne by consumers in collating and providing relevant information is ameliorated, because the lender may access alternative sources of data or substitute fair comparables.
- Reliability and repeatability of the decision-making process promotes transparency and auditability, enabling more proactive conduct risk management and facilitating enforcement.

To date there has been an emphasis upon utilisation of customer scores or other analytical inferences to deliver the benefits listed above. However, many studies point to the possibility of unfair or discriminatory outcomes from this approach (in isolation), particularly where consumers are within minority groups in relation to whom data is limited, or data relating to minority groups is affected by exogenous factors that have discriminatory effects. As noted in the Consultation Paper, the most commonly used expense benchmark reflects 'low-budget' spending and it is to be expected that many consumers would in fact have higher living expenses.[1] One consequence is that over-reliance upon scoring and aggregate consumer factors may undermine responsible lending - lenders failing to take adequate account of the individual circumstances of each consumer can lead to irresponsible lending.

Evolutions in data analytics methods and technologies now provide the opportunity for the market to embrace the use of more customer specific relevant data points to assess the financial situation of consumers.

Of course, poorly evaluated and implemented algorithmically assisted lending can also lead to unfair or discriminatory outcomes. However, the risk of poor data, poor data analytics and inappropriate reliance upon insights, can be assessed and mitigated through good data governance: there is a greater risk in not aiding humans in their decision making with the benefit of good data insights.

Our experience has confirmed the significant opportunities for lenders to use good data analytics to improve lending practices and better serve consumers. In particular, our experience with expense, income and liability classification, and analysis (as now technologically enabled through our Q.Refinery™ product) has allowed us to demonstrate (across three continents) the usefulness of capability to reliably and consistently verify a consumer's financial situation using bank statement data.

We see substantial opportunities for Quantium to assist both lenders and regulators in better collation of data points and evaluation and use of data driven insights in lending and the evolution of responsible lending.

Quantium expects to act as an experienced, reliable and trusted data analytics services provider, leveraging our best practise experience across privacy, security and assessment of whether particular data uses and applications are reliable and fair. Quantium's role may vary by financial product set, but we expect to act as an outsourced service provider to lenders, assisting lending decisions and in monitoring of reliability, quality and consistency of lending decisions.

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[1] Paragraph 51 of the Consultation Paper.

4. Quantium's comments on the Consultation Paper

The Consultation Paper addresses the issues inherent in finding the appropriate balance between reliance upon volunteered and observed consumer data, and use of scores, benchmarks or other inferences that compare a particular consumer to inferred like customers.

We agree that ASIC should provide principles-based guidance to help licensees identify reasonable factors they should consider. However, and as detailed below, we believe ASIC should provide a clearer expectation on the kinds of information that must be used for verification of a consumer's financial situation, given the increased range and quality of relevant information that is now readily available.

The Consultation Paper invites broader commentary on the likely compliance costs, the likely effect on competition, and other impacts, costs and benefits.

We make three key points:

1. ASIC's focus includes considering benefits, risks and costs for consumers of "any effect on access to and cost of credit for consumers."[2] Whilst this is important, we believe there should be greater focus on consumer protection – i.e., ensuring credit contracts are suitable for each individual consumer, so that the consumer can meet repayments and withstand reasonably foreseeable hardship.
2. Many of the questions in B1 can be addressed by lenders using data already held about existing customers, or using data readily accessible through bank statements.
3. ASIC previously decided that setting minimum standards would be relatively inflexible, not allow the industry to tailor their responsible lending processes in a way that is appropriate for their business and consumers, lead to greater compliance costs, and perhaps not be the most efficient approach for businesses.[3] However it is clear that the HEM benchmark has in effect become an unregulated industry standard, leading to these negative consequences.

In relation to B1Q4, B1Q5, C1Q1 and C1Q2:

Quantium's experience (as now technologically enabled through our Q.Refinery™ product) demonstrates the usefulness of leveraging a customer's bank statement data to support better outcomes for consumers and financial institutions through responsible lending. We therefore support ASIC making specific reference to using bank statements data as a source to confirm a consumer's:

- income - net income, frequency of payments, form of payment (salary, investment, Centrelink) variable income patterns, and possibly duration of employment
- living expenses – fixed or recurring: assess amount and frequency (e.g. housing, telephone, child support, insurance, school fees, childcare)
- living expenses – variable: asses usage, amount and frequency (e.g. utilities, regular entertainment including pay tv, sports, gambling).

We would be willing to provide ASIC with specific (anonymised) examples to support ASIC's consideration of C1Q2, should ASIC consider that useful.

In relation to C1Q3 (as well as C3):

The HEM benchmark does not include a number of expenses that would apply to many consumers,[4] because they are not included or are classified as 'non-basic' expenses.[5] By being more targeted in identification of unusual expenses (outside the normal range for similar customers), the conversations with applicants can be more specifically focussed on management of these expenses, thereby being less invasive and time consuming.

We firmly believe that additional data and analytics should be leveraged to test existing benchmarks. Quantium's expertise with bank transaction data allows us to create realistic benchmarks for expense categories at a granular level and adjusted for income, dependents and geographic location. Building benchmarks from bank

[2] B1Q6, C2Q3, C3Q3, C4Q2, D2Q3, D3Q2, D4Q3, D5Q3
[3] Paragraph 12 of the Consultation Paper
[4] Paragraph 54 of the Consultation Paper
[5] Paragraph 46 of the Consultation Paper

statements from millions of customers' actual spending behaviour would provide a more robust and high confidence benchmark than surveys or other generalisations such as the Household Expenditure Measure (**HEM**) approach.

We believe the industry should be incentivised to use scores, benchmarks and other decision aids that assist lending decisions and better assure reliability, quality and consistency of lending decisions. Provider-specific scores, benchmarks and other decision aids can now be reliably assessed as to whether these aids are fair, ethically responsible, accountable and sufficiently transparent, in order to be fit for use for responsible lending.

These benchmarks and other aids should be adopted by industry to help determine whether information provided by a consumer is plausible, and to assess where further inquiries and verification of information is required. Transparency and verifiability of lending decisions can be better facilitated, and friction preventing consumers from seeking re-evaluation of their financial circumstances, or pursuing alternative financing, can be substantially reduced.

In relation to D3Q1:

We have specific experience in leveraging customer specific negative repayment history beyond credit products (for example, in relation to utilities) and hardship indicators to reduce the risk that credit providers extend debt where a consumer would be unable to meet financial obligations.

We agree that this information should be used to enable lenders to better understand those repayment difficulties and how those difficulties have been managed. We note the power of combination of understanding customer specific repayment history and financial capacity (utilising the additional data referred to in our response to B1Q4 et al.), in ensuring licensees identify factors lenders should consider when determining whether the inquiries made (and steps taken to verify information) are reasonable.

We appreciate this opportunity to contribute to this Consultation Paper. We would welcome the opportunity to participate in industry consultations and to provide any detailed input or further clarifications as may assist the ASIC.

Please do not hesitate to contact me at ben.ashton@quantium.com.au should you wish to discuss this further.

Yours sincerely,

Ben Ashton
General Counsel and Company Secretary