



19/05/2019

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Dear Ms Grey,

CONTROLABILL'S SUBMISSION ON ASIC CONSULTATION PAPER 309

Controlabill Pty Ltd (Controlabill) and its Directors thank ASIC for the opportunity to comment on and propose solutions for ASIC's proposal for updating their *Regulatory Guide RG 209: Credit licensing: Responsible lending conduct*.

Our most significant comments are provided in relation to questions:

- B1Q5 – responsible inquiries and verification steps
- C1Q1 – verification of consumer's financial situation

In this submission, we discuss untapped opportunities in the direct entry system and their role in providing the mechanism to separate recurring and discretionary expenditure and the development of wallet and other product solutions. In particular we show how real data can be used to produce accurate credit decisioning input.

We have no objection to any information, contained herein, being made public for the purposes of discussion and regulatory strategy development. We have no objection to ASIC sharing this information with Ministers, the RBA, the ACCC or other parties deemed appropriate.

Regards,

Bernard Wright.
Founder Director

1 Introduction

Controlabill's offering is a simple, low cost, centralised hub for customers to manage their Direct Debit Request Authorities (Authorities). Authorities drive Australia's direct entry payment system, which is growing rapidly and settling approximately 1.2 billion recurring household direct debit payments each year¹. The authority drives the relationship with the Consumer, the Bank and the Biller service provider. Authorities contains the essential information to build an accurate view of a customer's expenditure habits.

Our solution never touches the payment system, making it extremely low cost compared to others past and present. It drives significant benefits to all parties to the system and facilitates other objectives of Government and Regulators.

Controlabill's IP is able to capitalise on a wealth of consumer-led data to;

1. build a digital identity of a customer, their spending patterns and their financial situation based on real data,
2. develop accurate financial benchmarks that inform best-practice lending standards for Government agencies and credit providers.

Controlabill will demonstrate that some very basic changes made to the way we create Authorities in the direct entry system will enable improved lending decisioning. We will show how to utilise real data rather than HEM, algorithmic or other static data in budget systems or statements of position. Also, what we propose will substantially increase capabilities like process improvement and efficiency dividends. It will also create a new product innovation platform, and build customer trust through customer intimacy while also driving time savings, improved credit scores and monetary benefits to consumers including the reduction of late payment fees (currently circa \$350 per household).

2 Current situation

While the direct debit system is the fastest growing payment solution, a lack of meaningful system improvements over many decades has impaired the customer experience and satisfaction with the channel, together with much reduced innovation and market competitiveness.

Several very expensive attempts to fix this problem have either failed or not significantly met regulatory or Government policy objectives². Many years ago obtaining the authorities was transferred to billers. No Biller consortium has gathered to build a common solution that centralises recurring payments for consumers. Today, it is an expensive and inefficient process for both billers and customers. We estimate around 100 million authorities could achieve cost improvements of around \$10 per authority managed. The process we propose could be driven by many possible parties in conjunction with Controlabill. It is also possible to quickly establish a \$100m dollar business, driving efficiency dividends circa \$1bn for billers. Australia's utilisation of direct debit is growing quickly, yet we lag behind the UK and Europe in utilisation. We also lag in improvements in response times to instructions. Organisations like Bacs Payment Schemes Limited (BACS) and projects like Single Euro Payments Area (SEPA) are orchestrating continuous and systemic customer focused improvements to direct debit. Australia could quickly step out in front by implementing this initiative, bringing instructions on setting up and swapping billers online in real-time.

¹ Australian Payments Council (2018) *Framing the next generation of payments: Annual Review 2018*. Available at: https://www.auspaynet.com.au/sites/default/files/2018-11/AnnualReviewFINAL_WEB_5November.pdf.

² Example being Me and My Bank Online (MaMBO), a failed \$225m online payments project.

3 Proposed Response

We propose the creation of a piece of National Infrastructure, in consortia with Controlabill, Government, and other potential trust parties. One such trusted party is Australia Post, who operates one of Australia's largest networks and has the ability to leverage their payment abilities as well as their status as the recognised leader in digital identity.

This National Infrastructure will provide the backbone to understanding actual cash flows of customers, which is integral to making informed and compliant lending decisions. The infrastructure will be platform-based, separating a customer's recurring payments from discretionary spending while automating the Authority process for a seamless and transparent solution to managing their household expenditure. The platform would capture Authority metadata, providing customer-led insights on spending patterns and the customer's financial situation, while also allowing for digital wallet and other product development.

Our offering has been extensively researched, demonstrating extremely high levels of market attractiveness and household take up. For the consumer this is the only process where an actual operating budget can be set up in 10 minutes for the year ahead, and once set, requires no further action. Aside from being able to provide real data to a prospective lenders, this IP has many other benefits to all parties which are explained below.

3.1 Introduction

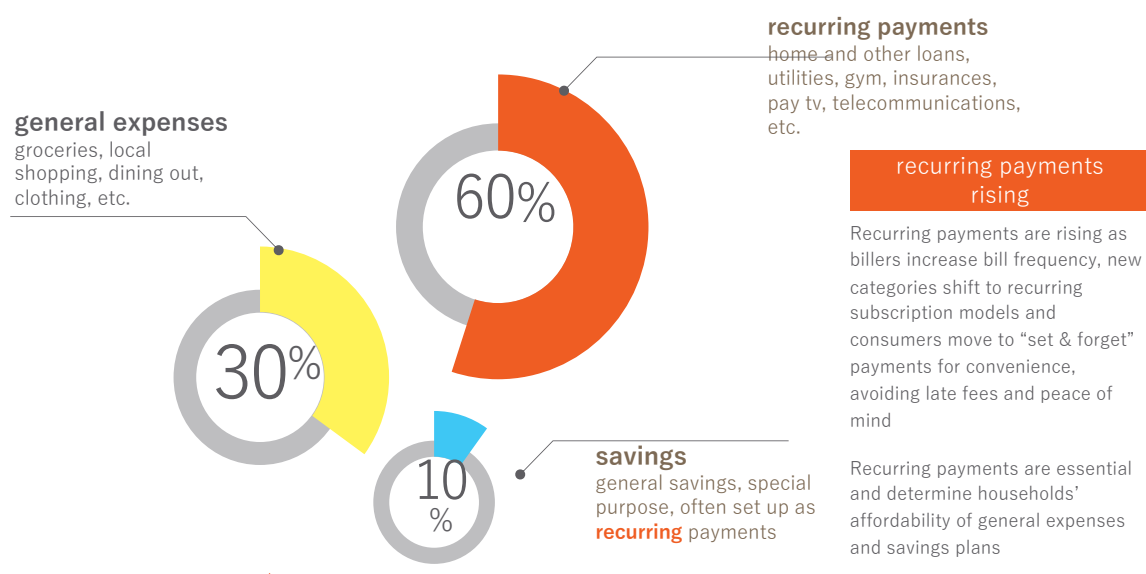
We are a very small start-up player in the payments space with patents granted and pending over this critical part of the payment system that can be used as the principal decision-making tool by lenders and consumers to cost effectively provide accurate data to enhance lending decisioning. As size and trust is a factor we are seeking a scale partner to assist in the development and roll out of the various platform resources together with marketing to the community.

We believe there is a simple low-cost method to dramatically improve lending decision making and in so doing meet several other objectives of Government and Regulators such as Bank Switching / Open Banking and stimulating competition among service providers to the benefit of Australian households. There are also significant efficiency dividends for billers and banks together with cross-sell opportunities. For the consumer, convenience and simplicity drive peace of mind and substantial dollar benefits.

3.2 Business environment

The following graphic was assembled using data from the 2016 household income and expenditure survey and while we appreciate there is no such thing as an average, the typical household is as reflected in the survey. Gathering actual data is critical to the lending decision.

Figure 1: Recurring household expenditure



The market is saturated with budgeting solutions and most of these are static and look backwards into history. Controlabill will show a simple method to not only set up a household budget that looks forward and takes only ten minutes to do, but once done will also be truly set-and-forget for the consumer.

We believe it is well understood that the direct entry system is the largest payment system in the recurring expense arena with around 8.5 million households conducting over 100 million transactions monthly (more than 1.2 billion annually) in Australia alone and growing rapidly. These statistics would suggest that the greater part of every household's recurring budget is already settled via this channel. Other channels such as BPAY and Post Billpay are reducing in size.

The maths therefore also suggests that there are circa 100 million Authorities driving this system and the information contained in them is critical to lending decisioning.

The next figure constructs a typical family budget using the same 2016 Household Income and Expenditure Survey which concluded that the typical household expenditure exceeds \$70,000. Importantly, all the elements of this hypothetical budget can be paid for by the set-and-forget direct debit system.

The figure also suggests possible savings are to be had, should permission be granted to a Broker or Comparator to use this information to get a better deal. Our research suggests savings of near to \$10,000 could be achieved per average household if only their data was better structured and in a format that permissioning it to a third party was simple. Controlabill achieves this in its process framework.

Better data also leads to potential better interest rates which is the simplest benefit to achieve.

Figure 2: Illustrative family budget with 2 incomes, 2 children, 1 dog, \$500k mortgage, 2 cars & 20 suppliers

Competitive Product	Annual Payment	Pay by Direct Debit	Compare the Market Savings Possible	Your Savings
mortgage	\$30,000	Yes	\$2,500	
medibank	\$2,000	Yes	\$400	\$388
car insurance 1	\$1,000	Yes	\$200	
car insurance 2	\$1,000	Yes	\$200	
life insurance	\$600	Yes	\$100	
Income protection	\$1,200	Yes	\$200	
Home and Contents	\$1,800	Yes	\$400	
Pet ins	\$500	Yes	\$100	
Phones	\$3,500	Yes	\$500	
Internet	\$1,200	Yes	\$300	
Pay TV	\$1,200	Yes	\$300	
Personal loan	\$5,000	Yes	\$1,000	
Car lease	\$5,000	Yes	\$1,000	
Credit cards x3	\$6,000	Yes	\$2,000	\$2,315
Electricity	\$4,000	Yes	\$400	
Gas	\$2,000	Yes	\$200	
Sub total	\$66,000		\$9,800	\$2,703
Non-competitive Payments				
Rates	\$1,200	Yes		
Water	\$1,200	Yes		
Registration	\$1,400	Yes		
subscriptions x3	\$400	Yes		
Sub total	\$4,200			
FINAL TOTAL	\$70,200			

3.3 Value-path

Direct debit is a very efficient payment mechanism for Billers but has a critical flaw when it comes to user friendliness in that it is cumbersome and time inefficient to set up, change or stop. The current process stands as a barrier to competition for the user.

While billers present to users many interpretations of the Authority in different screens on their websites and different paper forms, the information necessary to be provided in the Authority is ubiquitous with few variable components. So once basic registration detail is input, such as name and address, pay from BSB and account numbers or card number, the actual variable information is limited to items such as Biller reference numbers and this is usually all that changes most Authorities. Therefore, most of what might be repetitive information needs only to be entered once.

The following figure illustrates the difficulty of the current process which is easily overcome by holding the information in one app connected to billers by API. Doing this by API has additional benefits such as 360 degree confirmation and an almost immediate action whereas the current process can take weeks.

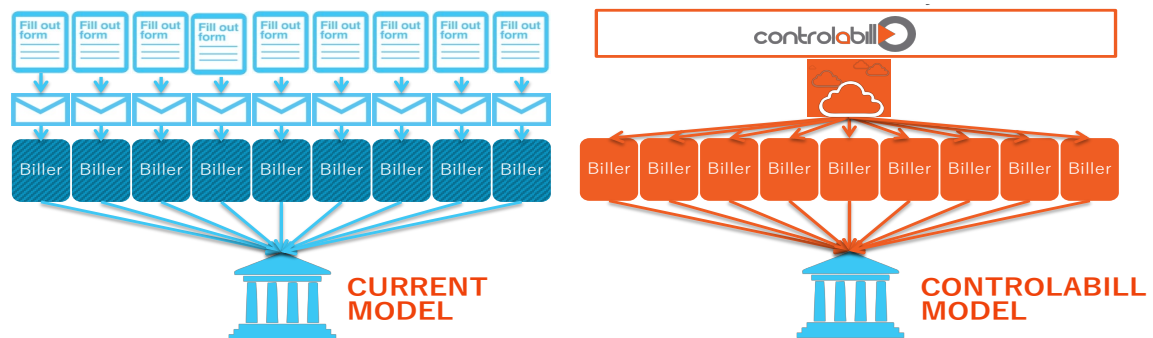
Controlabill asserts a single central hub process achieving all of the objectives of account number portability formally known as MAMBO (\$225 million spent before it was abandoned) tick and flick and subsequent processes which could be easily improved. It also achieves many of the objectives of Open Banking which is at risk of creating multiple fractured processes.

Under the current process, if a customer wishes to change their bank, a list of their direct debits needs to be obtained from the bank they're leaving (not an exact process), they then need to contact each service company (for example 20) and give them the new details and hope they are

acted on in a timely manner. This process is absolutely laborious. It is the same if you lose a credit card or wish to change service providers. Switching to a better offer is all too hard!

Under our proposal the customer puts in the new account number and sends this simultaneously to all their billers and they will get back an acknowledgement as a proof point. The change takes seconds

Figure 3: Dilemma - repetitive processes still dominate recurring payments, which are time consuming for consumers, and costly for businesses



At the heart of every lending decision must be the affordability test and the way to establish this is via an understanding of the Individual or household budget. The system we propose holds this information.

There are many benefits beyond just lending decisioning. If a household had the details of its providers and the authorities given in a central app then moving home, moving bank, moving supplier is two second task.

The establishment of a forward-looking budget is a set and forget process that takes ten minutes with a single biller set up in as little as 20 seconds. Once set up, payments are made automatically, saving late payment fees and any blemishes to a credit score.

In short, we propose the creation of a piece of simple but effective National Infrastructure in the direct debit space to centralise the initial Authority, its creation, change and cancellation.

3.4 Implementation approach

Our proposed solution would be implemented using a three-phase approach:

Phase one – Create the central authority management hub, coupled with a forward-looking budget. Phase one handles all account types that can accept a direct debit from any Bank or Credit Card issuer, either singularly or with multiple accounts at the same time. Phase one also establishes API's with billers. The data in the Customer Hub can then be permissioned to a lender for the purpose of building an accurate credit score and ability to repay decision.

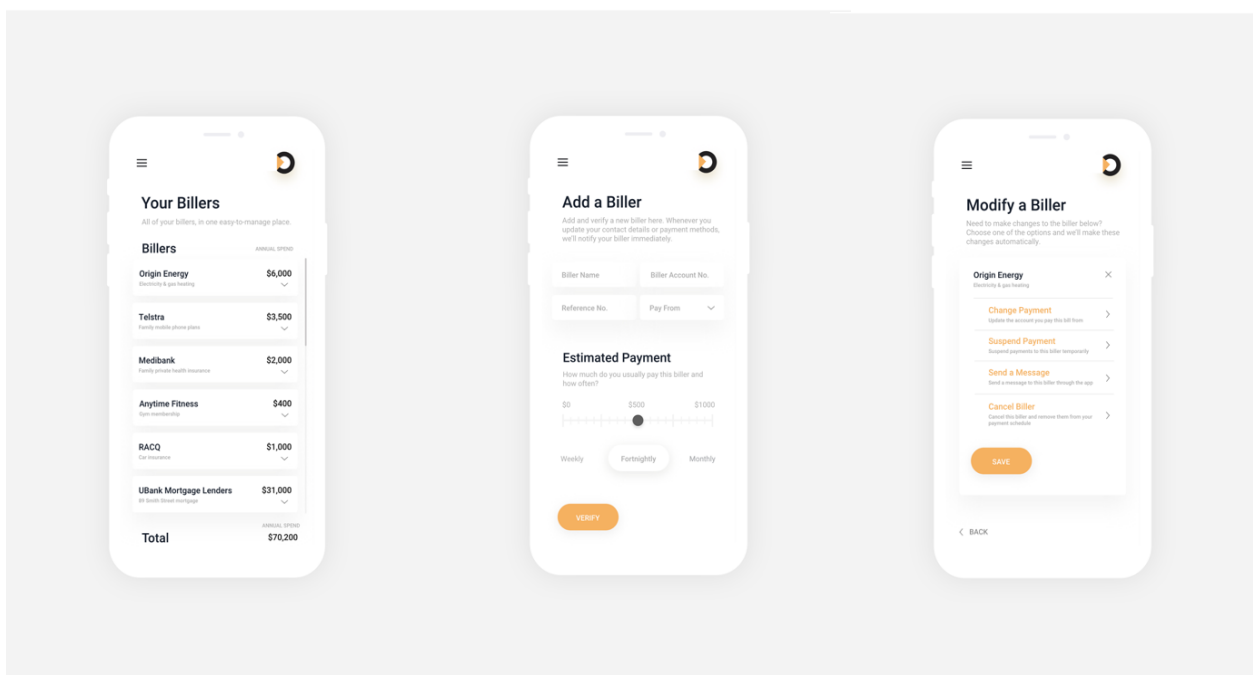
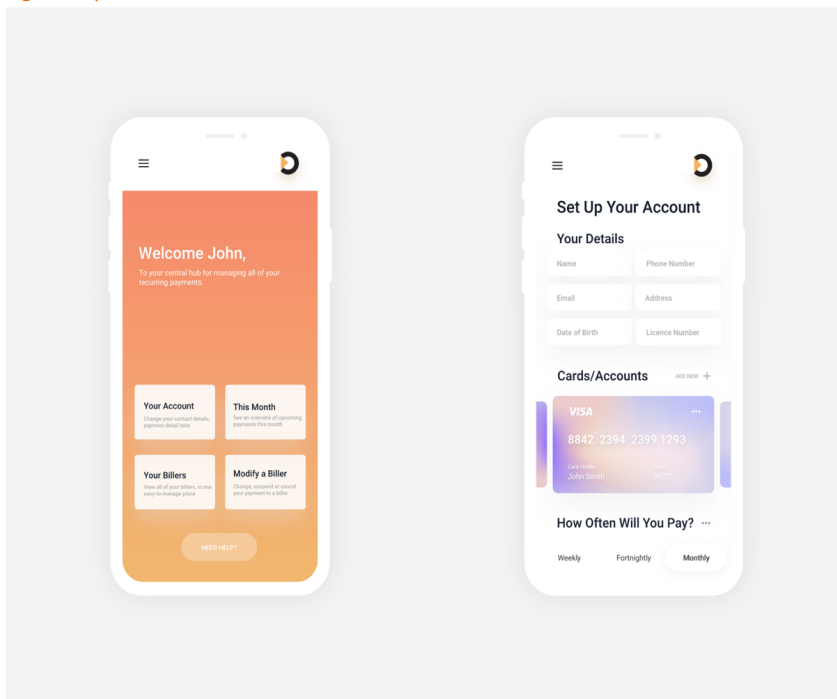
In Figure 4 below we illustrate the simplicity of the stand-alone system that doesn't need to interface with any legacy systems or payment systems other than by API

The basic screens cover: log on and authentication (not shown), home screen, initial set up, a summary screen of your billers and the amounts you pay them annually, adding a new biller and modifying an existing biller.

The system is simple to use, allowing individual biller changes or macro changes to all your billers at once. Changing banks, billers or moving home can be done in seconds.

Not shown is the verification of instructions, which is sent by billers to acknowledge the change instructions have been received and acted on (360-degree verification) Not shown also is the permissions for third party access to this data for the purpose of lending decisions.

Figure 4: phase one screens



Phase two – Develop a two-account system, ‘salary in’ account and ‘bill pay from’ account, that separates essential and recurring expenditure.

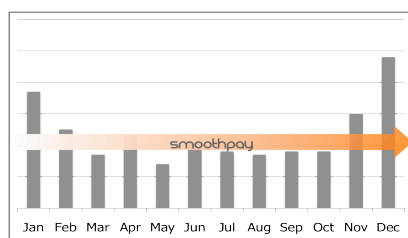
Salaries are paid, as usual, into one account but an immediate transfer of the smoothed or average amount calculated to cover all bills due is transferred to the bill pay from account. See figures 5 & 6 below. The ‘bill pay from’ account may also be supported by a temporary overdraft to manage any short-term timing differences. This separation means, the right money in the right account at the right time with no more late payment fees and impediments to credit history. The user also has the opportunity to do this weekly, fortnightly or monthly. Whatever remains in the ‘salary in’ account can be used for discretionary spending.

Not shown here is the ability to determine buffer amounts, at either the individual biller level or macro level for all of an individual’s billers. The system also allows for CPI adjustment either automatic or specified.

In the example below, we use the systems forecast household expenditure for the month to show that it could exceed the salary transfer. On other months this could be reversed therefore in some cases there could be a need for an overdraft limit, though this will be temporary.

Figure 5: Bill smoothing

Bill smoothing



Income

Transaction/DDA
Account (can be at
any bank)

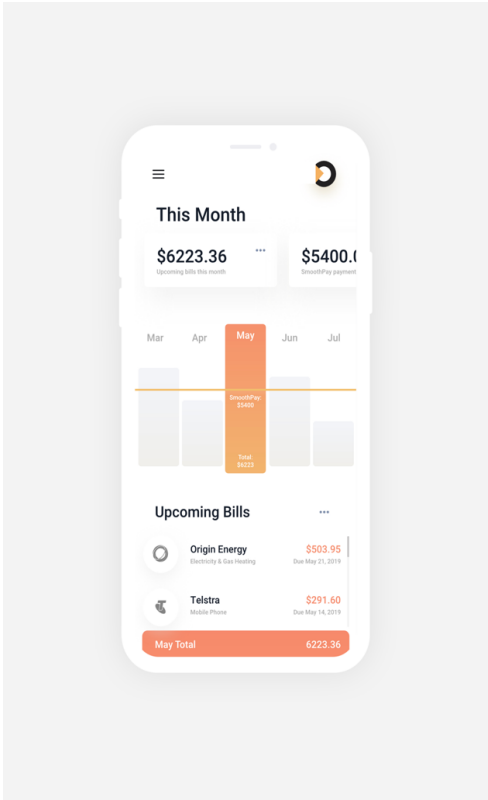
SmoothPay

Bill Pay Account

Biller 1
Biller 2
Biller 3
Biller 4
Biller n

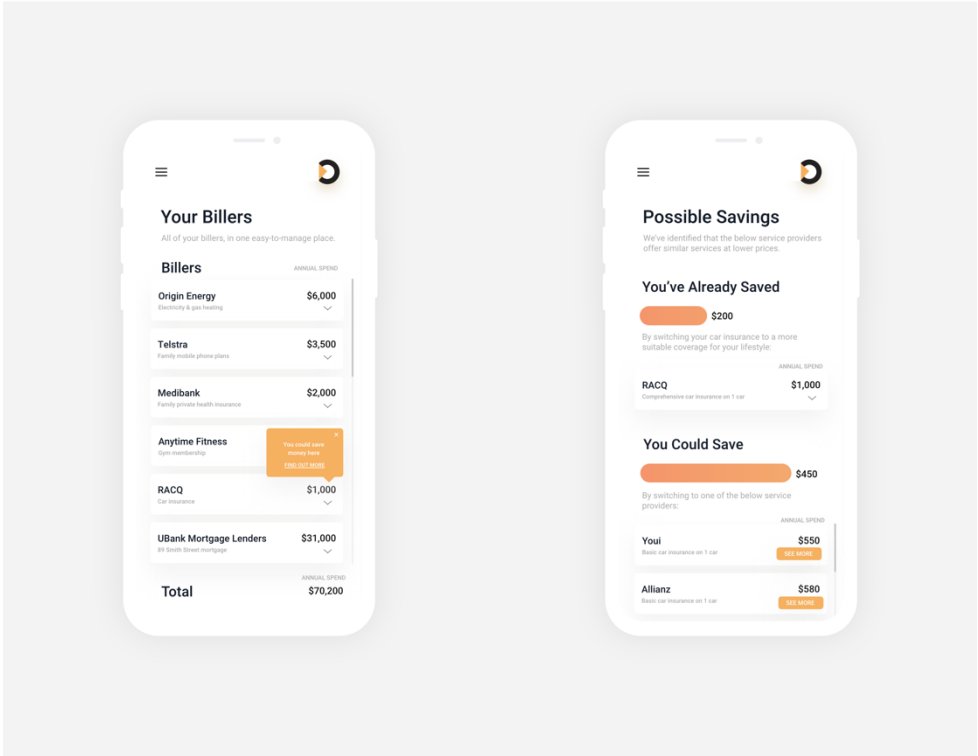
- There is significant seasonality in bills
- A few above average months can make budgeting difficult
- Smoothpay enables customers to calculate a flat amount per pay cycle and allocate this to their bill payment account
- Customers can choose a transaction/DDA account or another account with a line of credit to manage timing differences
- A flat amount per pay cycle is transferred to the bill pay account to ensure all bills are paid on time
- Centralised bill smoothing across all bills is simpler and better for consumers, billers and banks

Figure 6: Bill smoothing screen



Phase three - In figure 7 the screens manage permissions to share the information with trusted Brokers and Comparison Services to obtain better deals. Once given, the system may make competitive product suggestions and remind you of savings already made and those still to be made.

Figure 7: Competitive product suggestions for consumers to save money



Over the past few years we have observed Tick and Flick, MAMBO and now Open Banking in hundreds of millions of wasted dollars. What we propose can be established and marketed to the community for less than \$10m in start-up funding and thereafter, it can be set up to run as a profit centre. BACS in the UK have created a complete resource centre for Direct debit which could be done by BECS in this country to great community benefit, but there are product economics conflicts in Australia which don't exist elsewhere.

Our app goes further than the BACS app wherein, customers can manage the setup, change and cancellation of these Authorities, which are centrally managed by biller-owned APIs.

Encouraging Australia Post to undertake this has many further benefits to the community and somewhat less conflicts in product economics. AP brings an extensive network into play and the ability to assist consumers to set it up right around the country. AP's current capability in digital identity and home-moving services would also be augmented. AP is probably the most trusted party to independently do this.

In its deliberations ASIC might also take a view that this could be established by an independent GOC who would run this to the benefit of the Community and the Government policy. A biller consortium could manage this as an independent entity. It might run similarly to EFTPOS or Bpay as another possibility.

Lastly, of course there are a very large number of FinTech's that would benefit from running this as a separate business. For a FinTech this is an entry point into payments and its rich data without needing to get involved in the payments space, which can be complex and expensive.

Whomsoever should use our protected IP, establishment of this central approach can be achieved at a fraction of the cost of current processes, because it only improves on the authority process which is ubiquitous. We never get involved with the payment or the payment system in any way.

4 Responses to ASIC's proposals

B – Reasonable Inquiries and verification steps

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.

Response;

Controlabill's view is covered in the above solution description.

Actual verified income and expense data resides in the direct entry system and is easily accessed for the determination of a consumer's real situation. The more this solution is encouraged the more useful the data.

C – Verification of consumer's financial situation

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?

Response;

As described above.

5 Summary

Currently, there is no service that centralises the management and payment of an individual's bills. Controlabill offers an easy-to-use platform to better manage bills and establish a forward-looking budget.

We feel sure that this offering can make managing Authorities easier for Consumers and save Billers millions. We are also sure this offering can better-inform lending guidelines and conduct in the financial services market.

We hope ASIC reviews this submission in the spirit of its intent, which is for Controlabill to be able to collaborate with the Payments and Biller industries in Australia to effect change for the greater benefit of the whole community.

Yours sincerely,

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