



Verifier Submission
20 May 2019

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

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Verifier Holdings Pty Ltd

**Submission to ASIC on Consultation Paper 309: Update to RG 209: Credit
licensing: Responsible lending conduct**

About Verifier

Verifier is a RegTech (regulatory technology company) and a founding member of The RegTech Association. We are a permission-based consumer data exchange platform for regulated markets that applies globally accepted Privacy-by-Design principles, respecting the privacy and information security needs of consumers and income data providers alike. Our clients include banks and non-bank financial institutions.

Verifier welcomes the opportunity to make this submission in response to Consultation Paper 309: Update to RG 209: Credit licensing: Responsible lending conduct (**CP309**).

Our submission

Rather than respond directly (and exclusively) to the many questions posed by ASIC in CP309, we **attach** our recently published paper *Responsible Lending, Automated. Better Outcomes for Everyone*, and we make some additional observations and comments in the following pages.

In that paper we argue that a policy level response to expense verification is required as a matter of priority.

The views expressed in the paper are Verifier's views, informed by our work in facilitating the Expense Verification Framework Initiative. Our objective is to encourage the development of responsible lending guidance that gives industry participants the ability to evolve towards good automation – being automation that facilitates the meeting of all goals in the process (one of which is compliance).

1. Case Studies

In the course of the Expense Verification Framework Initiative, we developed and worked through a number of case studies with workshop participants (including lenders, service partners and industry associations).

These case studies demonstrate the challenges and complexities involved in using models and bank transaction data to verify expenses. We would be happy to make these case studies available to ASIC – and to work through them with you to highlight the many nuances that arise.

2. Development of Models

The next phase of Verifier's Expense Verification Framework Initiative is a data-driven study phase. This will include testing a significant volume of expense data to enable the prototyping of expense verification models in the context of applications for credit.

Models must be recognised as being important and necessary tools to enable expense verification. Since the future cannot be verified (by definition) the debate about expense verification is really one about which method is used to estimate what the person's expense indicators are. In all cases a prediction is required and therefore a model is being used, whether explicitly (as in the Household Expenditure Measure) or implicitly (for example, taking 90 days of bank transactional data). The debate is misdirected when it is suggested that models or benchmarks might not be used – there is no alternative.

Since models of one sort or another are here to stay, responsible lending guidance needs to include clarification of how the industry should assess the effectiveness of expense models. Without a working, operational definition of what 'preventing harm' means, neither HEM nor any other type of model can actually be evaluated and therefore improved upon.



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3. 'Design Box' Support and Assistance for Industry and RegTech companies

As lenders and services providers continue to work towards better, compliant user experiences online, and given ASIC's stated goal to support RegTech, the specific requirements of RegTech are worth addressing.

Unlike fintech, which is supported by test 'sandboxes' to give them time and experience to become compliant, RegTech is built to be compliant - it is compliant by design. The trick for RegTech is what does compliance look like? Often, as in the case of responsible lending, laws are drafted at a far higher level than operational reality, and uncertainty makes it hard to work out what a compliant design would be. That impacts credit licensees, but also their service partners, who are more likely to invest innovation time and effort in areas where regulatory risk is lower.

As a result, we believe that the RegTech industry needs a '**design box**' mechanism to enable the design of automated compliance solutions (including for expense verification) to be critiqued, tweaked and informed by key stakeholders – including regulators and policy-makers – in a safe environment. Without such a mechanism, investments in developing innovative solutions will be far less than the need for them.

We do not suggest that ASIC should endorse any particular RegTech solution. However, we do encourage ASIC to fully explore the design box approach – to determine whether such an approach would be beneficial for all stakeholders. We would suggest that organisations like The RegTech Association might be of assistance in supporting those conversations.

In our view, tests and criteria for the design of benchmarks and models that have been developed using a design box approach, will allow innovative solutions to emerge and will maintain a focus on meeting the intention of the law (as opposed to merely complying with the terms in which it is expressed) as was suggested by Commissioner Hayne in the Final Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (1 February 2019).

In conclusion

We would be happy to discuss any aspect of our submission with ASIC. Please contact me in the first instance.

Sincerely
Lisa Schutz, CEO
Verifier Holdings Pty Ltd