REPORT 782

Hardship, hard to get help: Findings and actions to support customers in financial hardship

May 2024

About this report

This report is for all lenders that provide credit regulated under the National Credit Code, particularly for staff within compliance and hardship functions.

It sets out the findings of our review of the end-to-end policies, processes and practices of 10 large lenders in responding to home loan customers experiencing financial hardship. Overall, we found lenders were not doing enough to support their customers experiencing financial hardship.

This report also outlines how lenders should support their customers experiencing financial hardship, and provides insights into good and poor practices that ASIC observed. While the review was specific to home lending, the insights are relevant to dealing with hardship involving all types of credit.

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Examples in this report are purely for illustration; they are not exhaustive and are not intended to impose or imply particular rules or requirements.

Contents

Executive summary

Customers experience financial hardship for a range of reasons

1 Recently, increasing numbers of customers have been experiencing difficulty making repayments on their home loans ('financial hardship').

2 The reasons why a customer may experience financial hardship are many and varied. They include unemployment, injury and/or illness, and separation from a partner.

3 There can be multiple, inter-related causes for financial hardship—for example, a dual-income family may ordinarily be able to manage a period with one income but struggle to do so in a heightened cost-of-living environment.

Lenders have obligations to customers experiencing financial hardship

4 Lenders have an important role in supporting their customers experiencing financial hardship.

5 Customers can advise their lender of their inability to meet their obligations under a credit contract (a 'hardship notice'): see s72 of the National Credit Code (at Sch 1 to the *National Consumer Credit Protection Act 2009* (National Credit Act)). In response, the lender must consider whether to vary the customer's credit contract to assist the customer in meeting their obligations and notify the customer of their decision.

6 The hardship process is a critical protection for customers. It provides the customer with an opportunity to work constructively with their lender to resolve their financial hardship, potentially avoiding the need to sell their home. Selling the home is not a simple undertaking, and is associated with both financial (e.g. sales and relocation costs) and non-financial costs (e.g. stress and disruption).

7 The hardship process also provides lenders with an opportunity to restore the loan's performance in a way that avoids the costs associated with debt collection and enforcement activities.

We reviewed lenders in response to our concerns about increasing levels of financial hardship

8 In August 2023, we issued an open letter to the CEOs of all lenders advising of our heightened focus on financial hardship and our expectations of lenders in this area. We issued the letter in response to:

(a) evidence suggesting that an increasing number of consumers were experiencing financial hardship due to cost-of-living pressures; and

(b) our concern that not all lenders may be ready to ensure they appropriately respond to and support customers experiencing financial hardship.

Note: See Media Release (23-235MR) *As cost of living pressures persist ASIC calls on lenders to support customers in financial hardship* (30 August 2023).

9 The letter outlined 12 areas for lenders to focus on to ensure they meet their obligations to customers who are experiencing financial hardship, and requested that CEOs share the letter with their board.

10 The letter also advised that ASIC would be undertaking a data collection involving 30 large lenders, and a review of 10 large home lenders to understand their approach to financial hardship. This report outlines the findings of that review.

11 In 2023, the 30 lenders in our data collection recorded:

over 444,000 hardship notices, given in relation to

over 296,000 accounts

approx. 187,000 of these hardship notices related to

over 116,000 home loan accounts

54% increase in the number of hardship notices relating to home loans in Q4 2023 (compared to Q4 2022)

12 The review of 10 large home lenders was undertaken in late 2023 and involved:

(a) reviewing responses provided by each of the lenders to a questionnaire about their approach to financial hardship;

(b) reviewing the policies, processes, procedures and other documents for each of the lenders;

(c) reviewing eight customer case studies for each of the lenders;

(d) analysing data obtained through our data collection;

(e) reviewing responses to a hypothetical customer exercise; and

(f) on-site visits to each of the lenders.

13 Further information about our approach—including the names of the lenders who formed part of this review—is provided in Appendix 1.

We found an inadequate focus on the customer in financial hardship policies, processes and practices

14 We found that lenders were not doing enough to support customers experiencing financial hardship. In the worst cases, lenders ignored hardship notices, effectively abandoning customers who needed their support.

15 The nature of financial hardship means that many customers who give a hardship notice will be at an increased risk of harm, particularly where a lender fails to act with appropriate levels of care. This is because financial hardship itself can contribute to customers experiencing heightened stress. This stress can negatively impact their decision making and ability to navigate complex processes. Lenders' policies, processes and practices should take this into account.

16 Despite this, we saw numerous examples where customers were not treated with sufficient care and given the support they needed. This led to poorer outcomes for those customers as well as unnecessary confusion, stress and anxiety. Key issues we observed were that:

- *lenders did not make it easy for customers to give a hardship notice*—they did not provide adequate information about hardship assistance, and they did not consistently identify and act on hardship notices;
- *assessment processes were often difficult for customers*—around 35% of customers withdrew or were declined due to non-response after giving a hardship notice (often because of unnecessary barriers placed in the way of customers obtaining assistance), and assistance was not always tailored to the customer's circumstances;
- *lenders did not communicate effectively with customers*—in particular, outcomes of hardship assessments (to decline or approve assistance) were poorly communicated and communications during and at the end of the assistance period were inconsistent; and
- *vulnerable customers often were not well supported*—we saw multiple examples where lenders failed to identify, and provide appropriate support to, customers experiencing vulnerability.

17 An inadequate focus on the customer, and customer experience and outcomes (compared to financial risk and operational efficiency) appeared to underlie many of the poor practices that we observed. In particular, there was inadequate focus on the challenges that customers in financial difficulty may be experiencing.

18 There were also issues with the arrangements the lenders had in place to support the function, including in relation to systems and data, training, and complaints management. Of note, there was evidence of resourcing issues at some lenders, which was contributing to poor customer experiences and outcomes.

19 The practices of the lenders we reviewed varied significantly. In general, banks performed better than non-banks, and larger banks better than smaller banks. However, there was more work for all of the lenders to do. Lenders must ensure they consistently meet their obligations and support their customers experiencing financial hardship.

20 Table 1 summarises the main findings from our review.

Table 1: Summary of findings

Section	What we reviewed	Findings
Section B: Establishing a customer-centric hardship function	We assessed whether lenders had in place arrangements to ensure their hardship function operates in a way that ensures there is appropriate focus on customer experience and outcomes throughout the hardship process. This included looking at the operating model, oversight and internal reporting, and how lenders assessed effectiveness (including quality assurance). Ensuring that the hardship function operates in a customer-centric way is important. Customers in financial difficulty are at an increased risk of harm if a lender does not exercise appropriate levels of care.	We found that the hardship function had an inadequate focus on customer experience and outcomes. All lenders had a hardship team that sat within a broader business unit that included the lender's collections team. However, some lenders gave insufficient focus to hardship-related objectives (e.g. supporting customers with sustainable solutions to their financial difficulty) relative to collections-related objectives (e.g. maximising the performance of the lending portfolio through management of arrears). Some lenders did not have a single person or team responsible for the end-to-end hardship process. This sometimes resulted in poor 'hand-offs' between different teams and contributed to poor customer experiences. For most lenders there was limited oversight and internal reporting that focused on customer experience and outcomes. Most of the reporting focused on financial risk or specific non-financial risk issues, rather than customer experience and outcomes generally. Most lenders did not have specific performance measures relating to the hardship function and, even where they did, those measures had a financial risk focus and/or did not cover customer experience and outcomes. Most of the lenders had in place a quality assurance program to ensure that their hardship function was effective and that they were treating customers fairly. However, there were significant limitations to the effectiveness of the programs. These limitations related to: • the selection of cases and interactions; • the scope of quality assurance; • the methodology; and • reporting of quality assurance insights.

Section	What we reviewed	Findings
Section C: Ensuring customers know hardship assistance may be available	We assessed what steps lenders were taking to ensure that customers are aware that hardship assistance may be available, and when and how to request that assistance. Ensuring that customers know when and how to give a hardship notice increases the chance that customers will seek assistance early. Early assistance increases their chance of financial recovery and minimises poor outcomes that may arise from missed payments (e.g. accrual of arrears and reporting of missed payments to credit reporting bodies).	We found that there were issues with the information lenders provided to customers about hardship assistance. For most lenders, the majority of customers gave hardship notices before falling into arrears. However, there was some variance between lenders. Some lenders had a relatively high share of customers in arrears at the time they gave a hardship notice. All lenders sent out general communications to customers to make them aware that hardship assistance is available and how to access that assistance. However, the nature, frequency and quality of the communications varied, and was sometimes overly focused on hardship arising from specific life events. Some lenders had strategies in place to identify and proactively communicate with customers who were at risk of experiencing financial stress, before those customers fell into arrears. All lenders had in place strategies to communicate with customers after a missed payment event. However, these strategies varied across lenders, and for some lenders did not ensure timely communication with customers after the missed payment.
Section D: Making it easy for customers to give a hardship notice	We assessed the arrangements lenders had in place to allow customers to give a hardship notice. This included assessing the channels available and assessing whether customer-facing staff are trained and have procedures in place to identify and respond to hardship notices. This is important for making it easy for customers to give hardship notices, and for lenders to ensure that they meet their obligations in relation to hardship notices.	We found that there were issues with how lenders received hardship notices from customers. Positively, all lenders allowed customers to give a hardship notice through a range of channels. However, there were a range of issues relating to how hardship notices were identified by lenders. This included staff at some lenders being too focused on life events or a short-term issue, and some staff not being aware of what assistance could be provided by the hardship team. The issues extended to how customer-facing staff referred hardship notices to the specialised hardship team—there were gaps at some lenders that could lead to customers not getting the assistance they needed and the lenders failing to meet their obligations. We also found issues with the identification and referral of hardship notices by collections teams.

Section	What we reviewed	Findings
Section E: Making the assessment process efficient, easy and appropriate for the customer's circumstances	We assessed whether lenders were making the assessment process as efficient and easy as possible for customers, while balancing this against the need to make reasonable inquiries to ensure the assistance provided is suitable for a customer. This is important because customers in financial hardship will often be experiencing significant stress, uncertainty and anxiety about their financial situation and/or other personal circumstances. As a result, they may find it difficult to engage with complex processes and need the assessment to be undertaken in an efficient manner.	We found that lenders' assessment processes were often stressful and frustrating for customers. Further, approximately 35% of customers dropped out of the hardship process after giving a hardship notice. There were significant issues with how hardship notices were managed by some lenders. We saw examples of poor case management, such as failures to keep customers updated and customers needing to repeat their circumstances (causing frustration and distress). We also saw examples of customers not being treated with empathy. The approach to assessing hardship notices varied across the lenders. In better cases, lenders tailored the process to the circumstances of the customer (including tailoring the information collected and using streamlined assessment processes). However, some lenders had unnecessary barriers in their assessment process. This included inflexibility in how information was collected. Customers had to complete detailed application forms (rather than giving information over the phone) and provide extensive supporting documentation, even for short-term assistance. We also saw issues with the quality of written requests for information, how the information was used by lenders, and how lenders followed up on the requests.
Section F: Working with customers to develop sustainable solutions	We assessed how lenders take into account a customer's individual circumstances and, where possible, work with the customer to develop sustainable solutions to the customer's hardship. Working constructively with customers to develop sustainable solutions ensures that the assistance provided is helpful to the customer, and does not ultimately place the customer in a worse position.	We found that lenders often didn't tailor assistance to customers' individual circumstances. All of the lenders took into account a range of factors when deciding whether to provide hardship assistance and the type of assistance to provide. However, in some cases, lenders adopted overly standardised approaches to determining whether to provide assistance and what assistance to provide. These approaches focused too much on individual factors, rather than a customer's overall financial position. This creates a risk that customers are not given appropriate assistance or were given inappropriate assistance. Where assistance was provided by lenders to customers, that assistance was generally short term. In some cases, there were opportunities for lenders to take into account customer's individual circumstances and provide greater certainty where appropriate. Lenders differed significantly in how they provided assistance in relation to arrears. Many lenders took standardised approaches that did not always take into account the individual circumstances of the customer.

Section	What we reviewed	Findings
Section G: Communicating the outcome of a hardship notice to customers	We assessed the communications that lenders had with customers to advise the outcome of a hardship notice. This included reviewing the content of those communications. Lenders must provide these communications to meet their obligations. They are also important in helping customers make informed decisions about how to proceed (e.g. whether to proceed with hardship assistance where approved, or whether to make a complaint where declined).	We found that lenders did not always communicate the outcomes of hardship notices well to customers. Positively, all lenders had in place arrangements to communicate the outcome of a hardship notice to the customer in writing, and this was usually accompanied by a conversation with the customer. However, the quality of communications varied significantly. Lenders were not always clear about the effect of the hardship assistance when advising customers that they had approved their hardship notice (e.g. the fact that interest and arrears would accrue). They also did not always clearly articulate what would come next, and provided inconsistent and sometimes inaccurate information about credit reporting impacts. Lenders did not provide adequate written reasons when communicating declines to customers. They also provided inconsistent information about a customer's right to complain to the Australian Financial Complaints Authority (AFCA), and did not adequately tailor correspondence to the customer's individual circumstances.
Section H: Communicating with customers during and at the end of a hardship assistance period	We assessed what contact lenders had during the period of hardship assistance to ensure that the assistance provided remained appropriate and continued to meet the customer's needs. We also assessed what contact lenders had with customers as their assistance period came to an end, to understand their financial circumstances at that time, consider whether any further assistance is required, and ensure they understand what will happen next. Communications with the customer should be clear and effective. This will maximise the likelihood the customer resumes meeting their obligations at the end of the hardship assistance period.	We found that lenders' approaches to communicating with customers during and at the end of a hardship assistance period varied. Some lenders did not have a structured approach for contacting customers who failed to meet the terms of the financial hardship arrangement. This created a risk that insufficient attempts were made to bring a broken arrangement to a customer's attention. In addition, some lenders did not have in place a structured approach to communicating with customers at the end of a hardship assistance period. This created a risk that customers do not understand what is required of them on expiry of the hardship assistance and therefore fall back into arrears. Approximately 40% of customers provided with hardship assistance to reduce or defer payments fell into arrears right after the end of the assistance period. In over a third of these cases, the customer gave another hardship notice within three months after the assistance ending (instead of before the assistance ending).

Section	What we reviewed	Findings
Section I: Supporting customers experiencing vulnerability	We assessed whether lenders had in place arrangements to identify where customers may be experiencing vulnerability (beyond their financial difficulty) and processes in place to offer additional support and care to these customers. Identifying vulnerability and providing appropriate care and support minimises the risk of harm as a result of the customer's vulnerability.	We found that lenders did not consistently support customers experiencing vulnerability. Most lenders had an organisation-wide policy and training on how to identify and handle customers experiencing vulnerability. This was sometimes supplemented by specific training for the hardship team. However, in some cases this was overly focused on specific forms of vulnerability, meaning that lenders may not provide customers experiencing other forms of vulnerability with that additional care and support. In some cases, lenders failed to identify a customer's vulnerability in a timely manner or at all. This was particularly challenging where lenders did not adopt a case-management approach or had in place streamlined assessment processes. Even where lenders identify customers' vulnerability, we are concerned that lenders are not treating these customers with extra care or providing additional support in practice. We saw a range of issues with how lenders had handled hardship notices from customers experiencing vulnerability, which made the process more difficult and distressing for these customers than necessary.
Section J: Arrangements supporting the hardship function	We assessed whether lenders had in place the systems, resourcing, training and other arrangements to enable the hardship function to operate effectively. Where these arrangements are not effective or not in place, they can have a significant impact on the overall customer experience and outcomes.	We found that: • some lenders' systems had limitations, which meant they were not capturing important data points relating to customer experience and outcomes, and some lenders had dated and highly complex systems that were contributing to regulatory breaches; • some lenders did not appear to be taking into account the customer experience in determining the adequacy of resourcing, and we saw evidence of resourcing issues for some lenders; • all lenders had in place training for the hardship team—however, we saw limited content to help staff members understand the types of assistance available and make fair decisions that took into consideration a customer's individual circumstances (including providing sustainable solutions); • some lenders did not appear to have in place adequate processes to ensure hardship-specific complaint requirements were met, and most lenders were unable to point to how they had used complaints to inform improvements to policies and processes; and • there were significant weaknesses in the risk and control environment relating to hardship for some lenders (including two lenders who had not documented their risks and mitigating controls relating to hardship).

Lenders are taking positive steps to improve their approach to financial hardship, but more needs to be done

21 The lenders who were part of this review engaged constructively with ASIC throughout. The lenders also acknowledged the importance of supporting their customers experiencing financial hardship.

22 Most of the lenders also recognised that further work is required to ensure they consistently support their customers experiencing financial hardship and were committed to doing so.

23 At the time of our review, at least 7 of the 10 lenders that we reviewed had in place significant programs of work to improve their approach to financial hardship. In some cases, these were pre-existing improvement programs while in other cases the lenders were commencing or expanding their improvement programs in response to our work. Examples of some of the improvements are outlined in Example 1 (and in some cases are detailed later in this report).

Example 1: Examples of improvements to hardship policies, processes and practices recently implemented and/or underway

- In 2023, a lender expanded their financial hardship solution options so that they can better tailor support to suit the needs of individual customers—this included the introduction of interest-only repayment periods, simplified arrears capitalisations, and loan term extensions as part of the hardship process. Other lenders have also been reviewing their solutions options or are intending to do so because of our review.
- As a result of our review, several lenders who previously required a customer to complete an application form or provide supporting documentation for every hardship notice have introduced more flexibility to these requirements or are considering doing so.
- Several lenders informed ASIC of improvements they were making or had made to written communications to customers, as well as when and how they communicate with customers during and at the end of a hardship assistance period. In 2023, a lender introduced in-app notifications that updated customers on the progress of their hardship notices.
- Most of the lenders were members of the Australian Retail Credit Association (Arca) and were working with Arca to develop common scripting and templates to use to inform customers of the impact of financial hardship arrangements on credit reporting.
- Most lenders intend to improve their quality assurance process after the review of the case studies revealed several issues that they would not have identified through their existing quality assurance practices.

24 While it is positive that the improvement programs are underway, we note that some of the improvements were still in progress or had only recently been completed. Accordingly, at the time we undertook our review, the impact of some of the improvements was not yet observable.

We will issue feedback to lenders who were part of our review and monitor how they address that feedback

25 We will be issuing individual feedback to lenders who were part of this review. We will ask the lenders to prepare an action plan outlining how they intend to respond to our feedback. For some lenders, we expect that the improvement programs referenced in paragraph 23 will address some (but not all) of our feedback. We will be following up with the lenders to monitor their progress in completing the actions outlined in their action plan.

26 Separately, we are engaging with a small number of additional lenders who we have identified as outliers based on data received as part of our data collection. We will provide individual feedback to those lenders and also ask those lenders to prepare action plans to respond to any issues that we identify.

27 We are also considering further regulatory action in relation to some of the issues identified through our project.

28 We are due to continue receiving hardship data from the 30 lenders until 30 June 2024. We intend to extend the data collection beyond this date to at least 30 June 2025, to better support ASIC in monitoring how lenders are supporting customers experiencing hardship and the extent to which lenders address some of the issues outlined in this report.

All lenders should self-assess against the findings from this review and take steps to improve their practices

29 Lenders need to do more to support their customers experiencing financial hardship. If customers aren't well supported, they are at increased risk of harm. This includes, in the worst cases, potential loss of their home.

30 We urge lenders to consider our findings and improve how they support their customers. With an increasing number of customers experiencing financial hardship, it is critical that lenders make this a priority.

31 Based on our review, we have refined the areas that we expect lenders to focus on to ensure they support customers and meet their obligations to customers who are experiencing financial hardship: see 23-235MR. Table 2 outlines these areas, as well as practical actions for lenders.

32 The practical actions in the right-hand column represent steps that lenders can take to support customers in relation to each of the focus areas, informed by the findings from this review. These steps are provided to assist lenders in self-assessing their practices. The nature and extent to which some of the practical actions are applicable may vary between lenders.

Table 2: How lenders can improve support for customers experiencing financial hardship

Area for focus	Practical actions that lenders can take to support customers
Manage the hardship function in a customer-centric way The hardship function is established and managed in a way that ensures there is a focus on customer experience and outcomes.	Lenders should: • ensure that there is a sufficient focus on customer experience and outcomes in the purpose and key performance indicators for the hardship team(s), as well as for the staff and managers; • have someone with responsibility for the end-to-end hardship process, including ensuring that hand-offs between teams are working effectively; • ensure that there is oversight of the hardship function by senior management, and that senior management is provided with sufficient information relating to customer experience and outcomes; • have arrangements in place to assess whether the hardship function is operating effectively, including by monitoring key performance measures and customer experience and outcomes; and • implement quality assurance arrangements that look at the end-to-end hardship (and, if applicable, collections) process from a customer's perspective. The purpose should be assessing whether the hardship function is operating effectively and identifying continuous improvement opportunities.
Ensure customers know hardship assistance may be available Customers are aware that hardship assistance may be available, and when and how to request that assistance.	Lenders should: • make information available through a range of channels about the availability of hardship assistance and how customers can request that assistance. This may include providing information: – in home loan statements; – in periodical communications with customers; – through customer service channels; and – prominently on the lender's website; • ensure that the information provided is clear that customers can give a hardship notice whenever they are unable to meet their obligations under their loan, and that the financial hardship does not need to be related to a particular life event or change in circumstances. The information should also encourage customers to reach out early, ideally before they miss a payment; • where practicable, use data to identify customers who may be at risk of experiencing financial hardship and undertake targeted communications; and • communicate with customers in a timely manner after a missed payment to provide them with information about the availability of hardship assistance and how to give a hardship notice.

Area for focus	Practical actions that lenders can take to support customers
Identify and respond to hardship notices Customers find it easy to give a hardship notice, and are able to use multiple channels. All customer-facing staff are trained and have procedures in place to identify and respond to a hardship notice.	Lenders should: • identify all the potential channels through which a hardship notice may be given and ensure there are adequate systems, processes and training in place to manage those notices; • train all customer-facing staff to identify hardship notices. This includes educating staff: – that customers do not need to use particular terminology in order to give a hardship notice; – to check with the customer where it is unclear whether the customer has given a hardship notice; and – broadly about the hardship process and the types of assistance that the hardship team can provide; • ensure that staff understand that a customer can give a hardship notice even when their change in circumstances is long term or permanent, and even when they have not experienced a life event (e.g. where the customer cannot meet repayments due to a rise in living expenses); • have in place arrangements to record a hardship notice at the first point it is given, and effective processes in place for transfers between customer-facing staff and the hardship team (to manage compliance with obligations and to minimise the need for the customer to repeat their circumstances and find the right team); • ensure that collections staff make reasonable inquiries about why the customer has failed to make a payment when carrying out collections activities. If the customer advises that they are unable to meet their obligations, then this must be treated as a hardship notice; and • have in place arrangements to monitor whether all customer-facing staff are correctly identifying, recording and referring hardship notices.
Make the assessment process efficient and easy The process for assessing a customer's hardship notice is as efficient and easy as possible, while also balancing this against the need to make reasonable inquiries to ensure any assistance provided is suitable for a customer.	Lenders should: • manage hardship notices so that customers are dealt with empathetically, do not need to repeat their circumstances and are kept updated on the progress of their hardship notice; • collect information about a customer's financial situation, the reason for the customer's financial hardship and how the customer intends to recover from the situation (if applicable) to enable the identification of assistance options (where applicable) that will help the customer with their financial difficulty; • ensure that there is sufficient flexibility in policies and processes to deal with customers with diverse needs. This includes allowing customers to provide information over the phone, and having arrangements to limit or waive requests for information and supporting documentation where appropriate; • scale requests for information and supporting documentation, taking into account the customer's individual circumstances. In general, it is likely to be appropriate to collect less information for first time, short-term assistance, particularly where there is a clear resolution to the reason for the hardship;

Area for focus	Practical actions that lenders can take to support customers
Make the assessment process efficient and easy *(cont.)*	• only request information and/or supporting documentation that is relevant to assessing a customer's ability to meet their financial obligations and/or to determining what (if any) assistance to provide; • tailor written requests for information and supporting documentation to a customer's individual circumstances and ensure that requests are clear about what is required from the customer; • ensure that all information and supporting documentation provided by customers is assessed and used to determine what assistance (if any) to provide the customer to address their financial difficulty (including to ensure any assistance provided is sustainable). This includes probing information where necessary; and • have arrangements in place to follow up requests for information and/or supporting documentation. This should generally include making multiple contact attempts using more than one communication channel well in advance of issuing a decline notice.
Work with customers to develop solutions that match their circumstances Lenders genuinely consider a customer's request and individual circumstances. Where possible, lenders work with customers to develop a sustainable solution to their financial hardship. Lenders should tailor solutions for customers where a standardised 'one-size-fits-all' approach may not meet a particular customer need.	Lenders should: • ensure that the standard solution set is sufficiently broad and flexible to suit a wide range of customer circumstances. There should also be processes for staff to escalate where the standard solutions are not appropriate; • even when a customer requests a specific type of hardship assistance, determine whether that assistance is appropriate for the customer's circumstances and educate customers about other options that may be available; • ensure that arrangements are affordable for the customer and not likely to cause them significant financial stress. In doing so, the lender should take into account: – other essential expenses and liabilities that the customer may have, and provide some allowance for unexpected and/or discretionary expenses; and – that it is generally better for the customer to pay what they can, as this is likely to be better for the customer's longer term financial situation and may provide more flexibility if the customer's hardship situation takes more time than expected to resolve; • consider whether there is longer term assistance that can be provided to allow the customer to repay the loan where the customer's change in situation will last an extended amount of time or be permanent; • take into account a customer's individual circumstances in determining how to deal with arrears that accrue as a result of a financial hardship arrangement; and • provide customers the details of, or referrals to, financial counselling or other support where appropriate.

Area for focus	Practical actions that lenders can take to support customers
Clearly communicate the outcome of a request for assistance Lenders communicate the outcome of a hardship notice to customers in a way that enables customers to make an informed decision about how to proceed (e.g. how to comply with a financial hardship arrangement if approved, or whether to make a complaint where declined).	Lenders should: • where possible, speak with customers before approving or declining a hardship notice to ensure they understand the decision and effects on them; • ensure approval letters to customers include details of how the hardship assistance will affect the customer's loan and repayments over the short and long term, and signpost to the customer what they need to do and what they can expect going forward; and • ensure decline letters to customers include reasons that allow the customer to understand why they have been declined, provide clear and accurate information about the customer's rights to make a complaint to AFCA, and make the customer aware of their options (including providing details of relevant support services). Letters should also encourage continued dialogue between the customer and lender towards a solution.
Communicate during and at the end of the assistance period Lenders contact customers as needed during a hardship period. As the period of assistance comes to an end, lenders contact customers to understand their financial circumstances at that time, consider whether any further assistance is required, and ensure they understand what will happen next.	Lenders should: • have in place arrangements to determine whether and when to communicate with customers during the assistance period; • have a structured approach to communicating with customers who break the terms of the hardship assistance and provide sufficient time for the customer to remedy the term; and • have a structured approach to communicating with customers as their assistance period comes to an end to understand their financial circumstances at the time, consider whether further hardship assistance is required, and ensure they understand what will happen next (including what they need to do in relation to any arrears that may exist at the end of the assistance period).
Identify and support customers experiencing vulnerability Lenders identify where customers may be experiencing vulnerability and take extra care and provide additional support to these customers.	Lenders should: • have in place arrangements (including training) to ensure that staff identify whether a customer giving a hardship notice may also be experiencing vulnerability. This should not be limited to identifying particular 'types' of vulnerability; and • take extra care and/or provide additional support to customers giving hardship notices who may be experiencing vulnerability. This may include adopting a case-management approach, handling by specialist or more experienced staff, providing flexibility in the process for giving a hardship notice, or providing referrals to external services.

Area for focus	Practical actions that lenders can take to support customers
Have sufficient supporting arrangements Lenders have in place adequate systems, resourcing, training, compliance and other arrangements to enable the hardship function to operate effectively.	Lenders should: • ensure there are adequate systems and technology to manage the end-to-end hardship process, including adequate data capture of key fields to support compliance with legislative timeframes and to monitor customer experience and outcomes; • monitor customer experience and outcome measures to ensure there is adequate resourcing for the hardship function, and have in place a plan for responding to increased volumes of hardship notices; • ensure the hardship team receive regular training on the hardship obligations and how to assess and manage hardship notices, including the types of hardship assistance available and taking the customer's individual circumstances into consideration; • have in place processes to meet hardship-specific complaints requirements and handle hardship-related complaints fairly and objectively; • use hardship-related complaints to inform continuous improvement of the hardship function, including by conducting root cause analysis; and • have in place arrangements to ensure compliance with the hardship obligations, including regular reviews of compliance with those obligations.

A Snapshot of financial hardship in Australia

Key points

Financial hardship is where a customer is unable to meet their obligations under a credit contract.

The regulatory framework for financial hardship consists of the hardship provisions in the National Credit Code, a lender's general licensee obligations under the National Credit Act, and commitments made under industry codes of practice.

The 30 lenders included in our data collection received over half a million hardship notices in the review period. Customers most often provided hardship notices in relation to home loans, and the most common reasons for hardship were overcommitment, reduced income, medical issues and unemployment.

Overview of financial hardship

33 Financial hardship is where a customer is unable to meet their obligations under a credit contract (i.e. making repayments).

34 Financial hardship can be experienced by anyone and the reasons why a customer may experience financial hardship are many and varied. Financial hardship often, but not always, follows an unexpected event or change in circumstances. This may include:

(a) a change in the customer's individual circumstances (such as following unemployment, injury and/or illness, or separation from a partner); or

(b) an unexpected event (such as a natural disaster, or other damage or malfunctioning of property that affects the customer's income or expenses).

35 There can be multiple, inter-related causes for financial hardship—for example, a dual-income family may ordinarily be able to manage a period with one income (e.g. due to injury and/or illness) but struggle to do so in a heightened cost-of-living environment.

36 Many credit contracts—including home-loans—involve a long-term relationship between a customer and their lender. The customer's ability to meet their repayment obligations is likely to change over the course of the credit contract, as unexpected events and changes in individual circumstances occur.

Regulatory framework for financial hardship

37 The National Credit Code provides a framework for customers to advise their lender of their inability to meet their obligations.

38 If a lender is given 'notice' by a customer that they are or will be unable to meet their obligations under a credit contract (a 'hardship notice'), the lender must decide whether to agree to change the contract.

39 This decision will have one of two outcomes:

(a) *the lender agrees to change the contract*—if this occurs, the lender must give the customer written notice stating that the change has been agreed and setting out the details of the change; or

Note: A lender is not required to provide this notice if they agree to a change in the credit contract that defers or otherwise reduces the obligations of the debtor under that contract for a period not exceeding 90 days—see s72(4A) of the National Credit Code.

(b) *the lender does not agree to change the contract*—if this occurs, the lender must give the customer written notice that includes reasons for their decision, contact details for the AFCA scheme and the customer's rights under that scheme.

40 A lender is not required to agree to change the credit contract—for example, if they do not believe there is a reasonable cause for the customer's inability to meet their obligations or they reasonably believe the customer would not be able to meet their obligations under the contract even if it were changed.

41 The lender can request information from the customer to assist with determining whether to vary the credit contract.

42 There are prescribed timeframes for the lender to advise the customer of their decision, which recognises the time sensitivity when dealing with customers experiencing financial hardship.

43 The framework under the National Credit Code must be considered in conjunction with a lender's general licensee obligations under the National Credit Act, including to do all things necessary to ensure that the lender's credit activities are engaged in efficiently, honestly and fairly.

44 In addition to the legal framework outlined above, some lenders have adopted industry codes of practice through which they make commitments as to how they will deal with financial hardship. These include the:

(a) Banking Code of Practice, administered by the Australian Banking Association;

(b) Customer Owned Banking Code of Practice, administered by the Customer Owned Banking Association; and

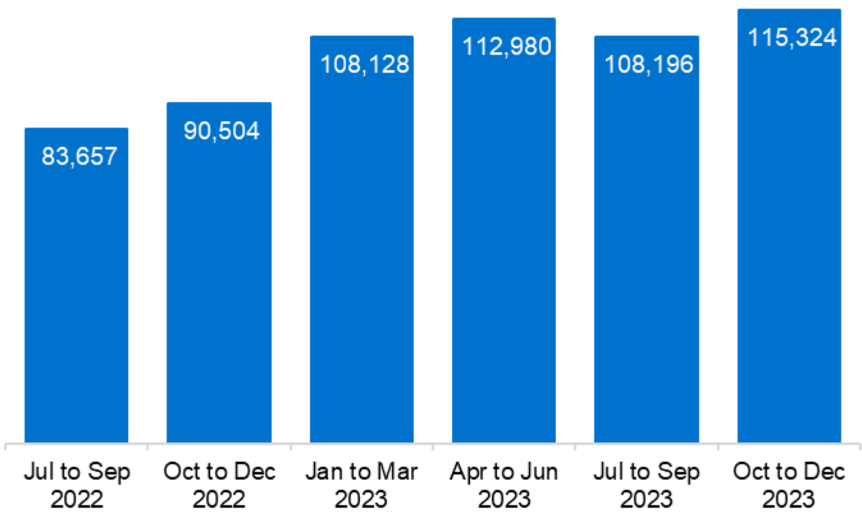
(c) Mortgage & Finance Association of Australia (MFAA) Code of Practice, administered by the MFAA.

45 Further, for lenders who participate in comprehensive credit reporting, the *Privacy Act 1988* and *Privacy (Credit Reporting) Code 2014* set out the information that lenders are required to disclose to credit reporting bodies for customers who have entered into a financial hardship arrangement.

Financial hardship in numbers

46 Between 1 July 2022 and 31 December 2023 (the review period), the 30 lenders in our data collection collectively received more than half a million hardship notices from over 361,000 customers involving over 382,000 accounts.

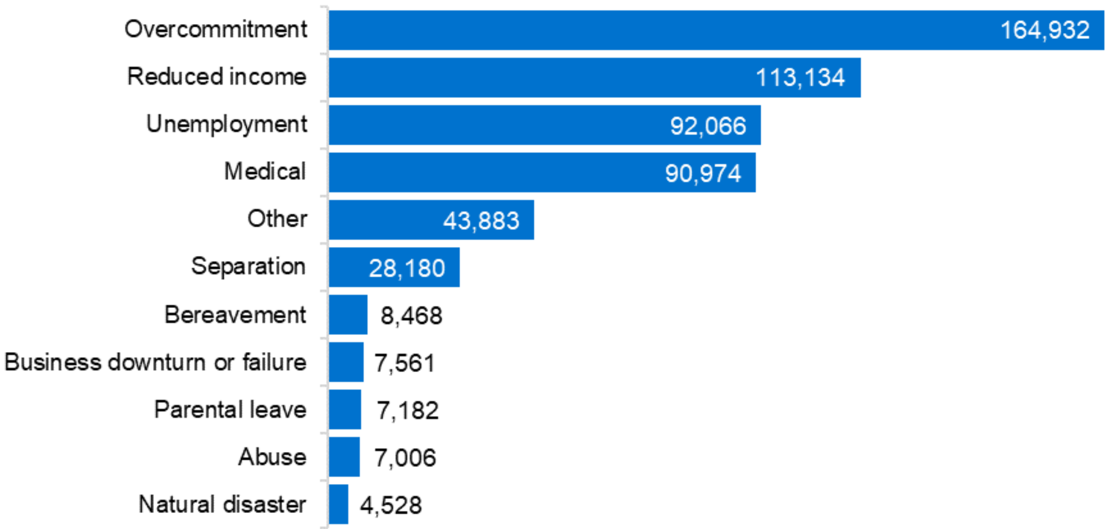
Figure 1: Number of hardship notices by quarter



Note: See Table 14 in Appendix 2 for the data in this figure (accessible version).

47 The most common reason customers gave a hardship notice is overcommitment, which is where the customer's financial hardship is due to expenses or liabilities (e.g. unexpected expenses or an ongoing increase in expenses or liabilities). Other common reasons include reduced income, unemployment and medical issues.

Figure 2: Hardship notices by reason for hardship

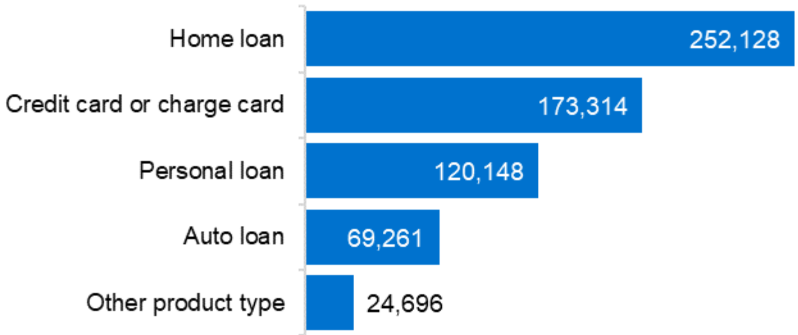


Note 1: See Table 15 in Appendix 2 for the data in this figure (accessible version).

Note 2: Customers could have more than one reason for hardship when giving a hardship notice.

48 Customers gave hardship notices most frequently in relation to home loans, which made up over 40% of overall hardship notices. This was followed by credit cards (28%) and personal loans (19%): see Figure 3.

Figure 3: Hardship notices by product type

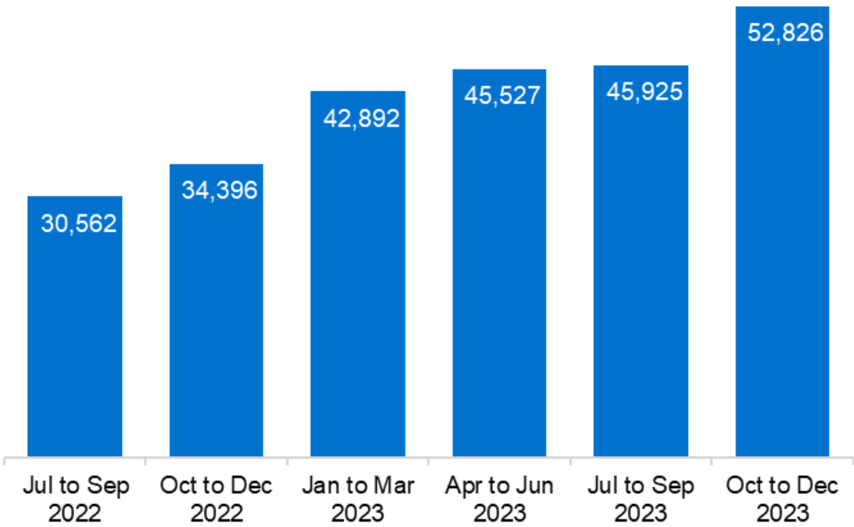


Note: See Table 16 in Appendix 2 for the data in this figure (accessible version).

Home loan hardship notices

49 During the review period, customers gave approximately 252,000 hardship notices relating to home loans. These related to approximately 167,000 customers and 144,000 accounts. The number of hardship notices increased throughout the review period, which coincided with a period of increasing interest rates and cost-of-living pressures: Figure 4.

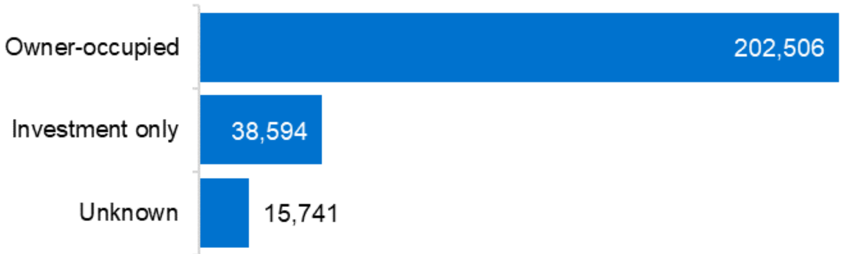
Figure 4: Hardship notices relating to home loans by quarter



Note: See Table 17 in Appendix 2 for the data in this figure (accessible version).

50 Over 80% of hardship notices for home loan accounts were in relation to owner-occupied home loans: see Figure 5.

Figure 5: Hardship notices relating to home loans by property purpose

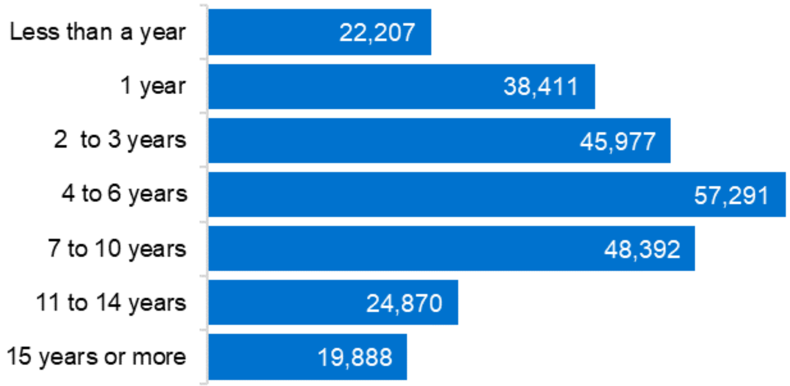


Note 1: See Table 18 in Appendix 2 for the data in this figure (accessible version).

Note 2: Customers may give a hardship notice for more than one account as part of a single hardship notice.

51 During the review period, more than half the hardship notices related to home loans that had been open for more than five years: see Figure 6. This is consistent with the fact that some of the most common causes for hardship (such as unemployment, illness and/or injury, and separation) can happen at any time, including long after a loan has been originated.

Figure 6: Hardship notices relating to home loans by account age at hardship notice date

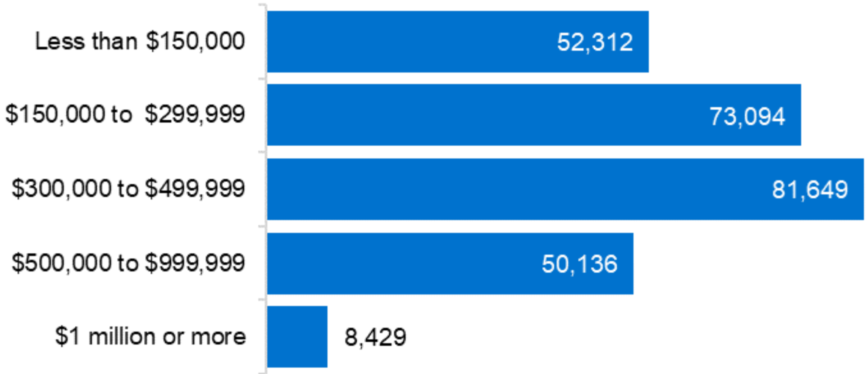


Note 1: See Table 19 in Appendix 2 for the data in this figure (accessible version).

Note 2: Customers may give a hardship notice for more than one account as part of a single hardship notice.

52 The most common home loan balance for customers giving a hardship notice was between $300,000 and $500,000: see Figure 7. The median account balance for home loan customers giving a hardship notice was around $312,000 (and the mean was approximately $367,000).

Figure 7: Hardship notices relating to home loans by account balance



Note 1: See Table 20 in Appendix 2 for the data in this figure (accessible version).

Note 2: Customers may give a hardship notice for more than one account as part of a single hardship notice.

B Establishing a customer-centric hardship function

Key points

We found that the hardship function had an inadequate focus on customer experience and outcomes.

All lenders had a hardship team which sat within a broader business unit that included the lender’s collections team. However, some lenders gave insufficient focus to hardship-related objectives (e.g. supporting customers with sustainable solutions to their financial difficulty) relative to collections-related objectives (e.g. maximising the financial performance of the lending portfolio through management of arrears).

Some lenders did not have a single person or team responsible for the end-to-end hardship process. This sometimes resulted in poor hand-offs between different teams and contributed to poor customer experiences.

For most lenders there was limited oversight and internal reporting that focused on customer experience and outcomes. Most of the reporting focused on financial risk or specific non-financial risk issues, rather than customer experience and outcomes generally. Most lenders did not have specific performance measures relating to the hardship function and, even where they did, those measures had a financial risk focus and/or did not cover customer experience and outcomes.

Most of the lenders had in place a quality assurance program to ensure that their hardship function was effective and that they were treating customers fairly. However, there were significant limitations to the effectiveness of the programs that we saw. These limitations related to:

- the selection of cases and interactions;
- the scope of quality assurance;
- the methodology; and
- reporting of quality assurance insights.

What we looked at

53 We reviewed whether lenders had in place arrangements to ensure their hardship function operates in a way that ensures there is appropriate focus on customer experience and outcomes. To assess this, we focused on the following areas:

(a) the operating model of lenders (see paragraphs 54–61);

(b) oversight and internal reporting (see paragraphs 62–71);

(c) measurement of effectiveness (see paragraphs 72–73); and

(d) quality assurance arrangements (see paragraphs 74–87).

Operating model

54 All the lenders we reviewed had established specialised teams to receive and handle hardship notices from customers. In most cases, this was a centralised team that dealt with all hardship notices involving retail customers although some lenders had exceptions for customers meeting certain criteria (e.g. customers with exposures exceeding certain values that were dealt with by a more specialised team).

55 Some lenders had only recently moved to a centralised model (with hardship notices previously being dealt with by different teams based on brand or product). In addition to improving efficiency, reasons cited by lenders for these changes included simplification, driving consistency and improving oversight over the way that hardship notices were managed across their organisation.

56 For all lenders, the hardship team sat within a broader business unit which included the lender's collections team. While there were understandable reasons for this (including the relationship between collections and hardship, the commonality in systems used by these teams and some overlap in staff skills and experience), we found that for some lenders there appeared to be insufficient focus being given to the hardship-related objectives of the overall business unit: see Example 2.

Example 2: Insufficient focus being given to hardship-related objectives

For five of the lenders, the hardship team reported into a role that was titled 'General Manager, Collections and Recoveries', 'Collections Manager', 'Head of Collections' or 'Head of Group Credit Management'. Another lender had a combined the hardship and collections team (where staff would deal with both hardship and collections related matters), which was known as the 'Loss Mitigation' team.

Further, the position description for the 'Head of Collections' role (which one of the hardship teams reported into) for one of the lenders outlined that: '

> The purpose of the Head of Collections role is to successfully maximise the performance of lending portfolios through the effective Leadership of the Collections Team and the management of arrears in line with company, industry and investor expectations and measures.

By contrast, at one of the lenders where there was a clearer focus on the hardship function, the position description for the head of the hardship and collections teams ('Head of Assist') described the purpose of their role as:

> Helping our customers in times of need including natural disasters, life events or hardship. Support our customers through leading and developing a skilled workforce of specialist people to deliver fair and consistent outcomes, whilst balancing the need to collect. Aim is to exceed regulatory and community expectations.

57 The lack of focus on the hardship-related objectives for some lenders was also evident in other ways. For example, the focus of lenders' internal reporting on collections and financial risk (see paragraphs 62–71) rather than hardship, and in some of the performance measures for the business unit and/or managers, which did not give adequate consideration to customer experience or outcomes.

Practical action lenders can take to support customers

Lenders should ensure that there is a sufficient focus on customer experience and outcomes in the purpose and key performance indicators for the hardship team(s), as well as for the staff and managers.

Responsibility for end-to-end customer journey

58 Across all lenders, we found that there were teams outside the hardship team who played an important part in the overall customer journey—for example, staff in contact centres or branches who may receive a hardship notice or provide information to customers about the availability of hardship assistance.

59 We looked at whether there was someone with responsibility for the overall customer journey, including ensuring that the right information was being provided to customers and that hand-offs worked effectively between teams (e.g. customers being referred to the right team first time and not needing to repeat their circumstances).

60 Some lenders operated consistently with this by having the hardship team (or the broader business unit) involved in providing training and developing and approving procedural material used outside the hardship team. For a small number of lenders, we also saw that hardship teams (or the broader business unit) monitored and/or provided feedback to other teams where issues were identified (e.g. with how hardship notices were being identified and referred to the hardship team).

61 For other lenders, we found that no single person or team was responsible for the end-to-end customer journey. In these cases, it would be for each team to ensure they operate in accordance with the applicable organisation-wide policies and procedures of the lender. This can contribute to inconsistent and poor customer experiences: see Example 3.

Example 3: Risks of not having a person with responsibility for the end-to-end customer journey

We identified that procedural documentation for staff in the contact centre had incorrect information about what assistance the hardship team could provide to customers. That documentation advised that the hardship team could not help with things such as reducing interest rates, stopping payments from falling due and providing periods of interest-only repayments. These were all things the hardship team at that lender could provide.

The lender's hardship team was unaware that this incorrect information was being provided to contact centre staff until we raised it with them. They were also unaware of other issues that we had identified with the procedural information being provided to frontline staff, including differences in the definition of hardship in procedural guidance to branch staff compared to contact centre staff.

We identified a range of contributing causes at this lender including:

- lack of organisation-wide policy with clear roles and responsibilities;
- there not being an individual with end-to-end oversight and responsibility across the hardship customer journey; and
- issues with the way that controls were implemented across the hardship process.

Practical action lenders can take to support customers

Lenders should have someone with responsibility for the end-to-end hardship process, including ensuring that hand-offs between teams are working effectively.

Oversight and internal reporting

62 We reviewed the oversight arrangements of the hardship function and the internal reporting that supported that oversight. This included oversight by senior management down to oversight at a business unit and/or operational level.

Senior management oversight and reporting

63 For most lenders, we found that the main form of senior management oversight of the hardship function was reporting through the organisation's risk and/or credit committees.

64 In general, there was limited reporting to senior management relating to the hardship function to these committees, particularly reporting covering customer experience and outcomes. The reporting to credit and risk committees generally focused on financial risk measures such as the overall number of customers applying for hardship assistance, the number of customers entering and exiting the hardship process, the reasons for hardship and what this means for the health of the lending portfolio. The reporting to risk committees also included coverage of non-financial risk issues such as assessments of the risk and control environment and/or specific operational risk events, but generally with limited focus on customer experience and outcomes.

Example 4: Inadequate focus on customer experience and outcomes in reporting to senior management and board

One of the lenders advised that reporting relating to the hardship function may be considered by their executive committees (including a credit risk committee and a risk and compliance committee), as well as by their board and its committees.

The lender provided copies of recent reporting to these forums relating to the hardship function. We found the reporting relating to the hardship function included coverage of:

- the financial risk associated with increasing volumes of hardship notices and longer term financial hardship arrangements due to the changing macroeconomic environment;
- a recent review the lender undertook of the hardship function which, as well as referencing intended benefits to customer experience, also included a reference to the reduced costs associated with the changes the lender was seeking to make; and
- ASIC's financial hardship review as part of the Regulatory Risk team's update to relevant forums.

The information provided by the lender did not demonstrate any reporting relating to customer experience or outcomes for customers experiencing hardship to the executive or board committees. Through the review, we identified a range of issues (including high levels of customers dropping out of the hardship process and the lender taking a long time to finalise decisions in response to a hardship notice) which should have been brought to the attention of the above forums.

65 In addition, we found that some lenders had reported to senior management committees (e.g. an executive committee) and/or the board on an ad-hoc basis, for example in response to particular requests or events.

66 Overall, for most lenders, we found it difficult to see how the reporting gave senior management the information they needed to oversee that the hardship function was operating effectively and to be able to identify potential issues at an early stage to ensure corrective action is undertaken. The lack of reporting also raised questions about whether the hardship function was getting the appropriate level of focus and oversight.

Practical action lenders can take to support customers

Lenders should ensure that there is oversight of the hardship function by senior management, and that senior management is provided with sufficient information relating to customer experience and outcomes.

Business unit level oversight and reporting

67 We found that most lenders had a range of business unit and operational level committees and forums commensurate with their size and scale to oversee the hardship function.

68 At larger lenders, there were often several committees or forums at a business unit level each with different focuses. The most common types of business unit level committees or forums that we saw are shown in Table 3.

Table 3: Types of business unit-level oversight forums

Oversight forum	Focus
Risk meeting	New and existing risks, operational risk events (including regulatory breaches), quality assurance results, control self-assessment and risk review activities, and other risk matters.
Operations meeting	Operational issues such as resourcing and operational performance and consideration of exceptions reporting.
Credit risk forum	Current and emerging credit risk trends and patterns (including overall volume of hardship notices and arrears rates).
Complaints or customer meeting	Complaints (particularly external dispute resolution (EDR) complaints) and, in some cases, other customer signals such as customer feedback results.
Escalated or complex cases meeting	Providing guidance in relation to complex or otherwise escalated cases (for example, cases later in the collections or enforcement process or involving customers experiencing a high degree of vulnerability).

69 Although it was positive to see some forums that had a specific customer focus (e.g. the complaints meetings), it was not always clear to us that lenders were 'joining the dots' between the various forums (e.g. between discussions about complaints and quality assurance results). We have provided details in Example 5 of one lender which we found was more active in seeking to bring together those insights.

Example 5: Business unit level forum bringing together hardship-related insights

One of the lenders had in place a monthly 'Service Excellence' forum with representatives from across the hardship function (including both the business as well as second line risk and compliance). This forum included coverage of:

- quality assurance results;
- customer survey analysis (including customer quotes);
- updates on recent process changes/initiatives and how well these are being embedded;
- complaints; and
- operational insights (including staff training insights)

70 At smaller lenders, there were typically fewer forums with a broader focus (e.g. a single operational meeting that covered a range of topics).

71 Across both smaller and larger lenders, we found that there was generally more focus on financial risk and operational risk measures than customer experience and outcomes.

Monitoring effectiveness of the hardship function

72 We asked the lenders how they monitored to ensure their hardship function is operating effectively and delivering fair customer outcomes. The lenders referred to a range of ways that they sought to do this, which are summarised in Table 4.

Table 4: Approaches to monitoring effectiveness of the hardship function

Approach	Description
Operational reporting	Most lenders advised they reviewed operational reporting, covering metrics such as the volume of hardship notices, approval rates, and cure/exit rates. Most of the reporting that we reviewed contained limited information about customer experience or outcomes.
Monitoring and review of exceptions	Most lenders indicated they used exceptions reporting to monitor the effectiveness of the function. The exceptions reporting differed across lenders and included reporting on matters such as: • customers whose requests have not been dealt with in accordance with required timeframes; • long-dated matters (e.g. where a customer has been in a collections or hardship process for an extended period of time); and • customers breaking financial hardship arrangements.
Review of complaints	Most lenders advised they reviewed complaints (particularly complaints made to AFCA). The approach to this varied across lenders—further information is provided at paragraphs 364–366.
Quality assurance	Most lenders referred to quality assurance activities as a way that they monitored the effectiveness of the hardship function. The specific quality assurance activities and the way these were carried out varied across lenders: see paragraphs 74–87.
Periodic reviews	Some lenders advised that they undertook periodic reviews of the hardship function (or aspects thereof). These included: • reviews conducted by the hardship team into key thematic issues identified; • reviews undertaken by second line risk and compliance functions; and • audits undertaken by internal audit functions.
Customer surveys	Three lenders advised that they undertake customer surveys after interactions with the hardship team. The scores and the individual feedback quotes were used to provide a view about effectiveness and identify opportunities for improvement.
Financial counsellor feedback	Some lenders advised that they meet periodically with financial counselling organisations to exchange insights and seek feedback on any issues in the lender's approach to considering hardship notices. One of the lenders advised that they also have a process for directly seeking feedback from individual financial counsellors who have represented customers.
Pre-enforcement file reviews	Two lenders advised that, before commencing mortgage enforcement action, they reviewed matters on an end-to-end basis from a fairness perspective. This included looking at whether there was more that could be done in providing hardship assistance to the customer and providing these insights to the hardship team.

73 Despite the range of activities that lenders advised they undertook to monitor effectiveness, we note that most of the lenders did not have in place specific performance measures relating to the hardship function. Even where they did, those measures had a financial risk focus and/or did not cover customer experience and outcomes. Example 6 provides of one of the better examples that we saw, but which still had scope for the incorporation of measures relating to the customer experience.

Example 6: Key risk indicators relating to the hardship function

The lender had a set of key risk indicators for their collections and hardship business unit which were reported to their financial risk committee. In 2023, they refreshed the key risk indicators, taking into account the changing macroeconomic environment, and added and updated a number of hardship-related key risk indicators. These included the:

- hardship approval rate
- deferral rate
- kept arrangement rate, and
- hardship re-entry rate (after 3 and 6 months) and rate of default within 12 months of capitalisation of arears.

While it was positive to see metrics relating to the hardship function, we note these related only to the solutions provided to the customer. They did not cover other aspects of the hardship process (e.g. relating to the way that hardship notices are handled). For example:

- complaints, quality assurance or customer survey results;
- information relating to timeliness (such as call waiting times and time to provide decisions to customers);
- information relating to dropouts from the hardship process; and
- whether customers were in arrears or not at the time they gave a hardship notice (and therefore whether communications are working effectively).

We note that most of this information was formally reported in other ways (e.g. to the lender's operational level customer excellence forum).

Practical action lenders can take to support customers

Lenders should have arrangements in place to assess whether the hardship function is operating effectively, including through monitoring key performance measures and customer experience and outcomes.

Quality assurance

74 The majority (8 out of the 10) of the lenders we reviewed had a quality assurance program for the hardship function.

75 The types of quality assurance activities undertaken varied across the lenders. Table 5 summarises the most common quality assurance activities that we saw (some lenders undertook multiple quality assurance activities as part of their quality assurance program).

Table 5: Most common quality assurance activities across the lenders

Activity	Description
Call quality assessment	Eight of the lenders that we reviewed had a process of reviewing individual calls (or other interactions) with customers.
Case management quality assessment	Five of the lenders had a process of reviewing hardship cases—the scope of this review (e.g. what parts of the process) differed across lenders.
Post-complaint quality assessment	One lender advised that they had a process of undertaking a quality assessment if a complaint was made by a customer.
Credit decision review	Five lenders had a process which was focussed on reviewing the decisions that had been made, generally from a credit standards perspective.

76 For most lenders, we found that the quality assurance program was primarily designed or operated in a way to enable the lender to monitor the conduct of staff (i.e. whether staff were operating in accordance with the organisation's policies and processes) for training and performance management purposes, rather than monitoring the effectiveness of the hardship function.

Selection of cases and interactions

77 We found that the number of hardship cases or interactions reviewed by lenders each month was relatively small. In most cases, the target was between two and six assessments per staff member per month (with the number often varying depending on staff capability, experience or previous quality assurance results) and the specific cases or interactions would be selected at random.

78 Three of the lenders indicated that they undertook some form of risk-based selection of cases or interactions. However, for two of these, the risk-based selection only applied to their credit decision reviews and the criteria was financial risk-focused (e.g. focusing on cases where assistance was provided to the customer rather than declines).

79 Given the relatively small number of assessments being undertaken, in some cases, it was not clear to us whether the quality assurance was providing meaningful assurance as to whether the hardship function is working effectively. We note that risk-based selection could help to ensure that quality assurance assessments are focusing on interactions and cases that are most likely to provide meaningful training, coaching and continuous improvement opportunities.

Scope of quality assurance

80 We found that none of the lenders had a quality assurance process that operated over a customer's end-to-end hardship journey (e.g. from when the lender first becomes aware the customer is experiencing financial hardship to when the customer ultimately exits financial hardship).

81 In most cases, lenders only had a quality assurance process that focused on individual customer interactions (e.g. a single phone call) or individual decisions without reference to the customer's overall experience. Even where lenders had quality assurance processes that looked at the case management relating to a hardship notice, these were limited to only looking at the process for assessing and managing the hardship notice once it had come to the hardship team and only that specific hardship notice.

82 From our review of case studies, we observed that issues very often arose in the way that hand-offs worked between teams and individuals, how follow-up action was taken, or how automated processes operated rather than issues with individual interactions: see Example 7. These issues were not always identified by a quality assurance process focused on individual interactions.

Example 7: Issues not identified during quality assurance assessment

The customer had experienced family violence which forced them to move out of their property and in with relatives. They had been provided with previous assistance and were now going through court proceedings to sell their property. We saw the following issues with the handling of this customer's account:

- The lender's hardship team failed to take action on the customer's hardship notice, even after the customer made it clear they required further assistance. Instead, the lender's hardship team asked the customer to call back after their court hearing and to send further correspondence to the collections team. The customer's account was now under the collections team's management, given the previous hardship assistance had ended. A missed repayment was reported to credit reporting bodies for that month.
- The lender issued a request for information that was very broad and not tailored to the customer's circumstances (despite the lender's policy stating that the types of documentation required will vary depending on the customer's situation and there is discretion to not require documents where a customer is experiencing vulnerability).
- The lender did not consider providing the customer with an extension until after their hardship assistance had expired, even though they were made aware in a check-in call two months earlier that the customer needed additional time to sell.
- The lender initially did not stop direct debits correctly when the customer called to give a hardship notice, resulting in the customer later calling the lender to reverse the direct debit as they had no money to pay for essential expenses.

The lender's quality assurance process focused more on individual interactions (e.g. 'Was the caller identified in line with [the lender's] guidelines?') and specific parts of the process. It was not focused on the overall customer experience. In a quality assurance assessment involving this account, the lender gave it a 'pass' without noting any issues or comments in the quality assurance checklist about how the account had been handled.

Methodology of the quality assurance activities

83 All lenders with a quality assurance program had a documented methodology for undertaking their quality assurance assessments. This consisted of a checklist or scoring sheet that outlined a range of matters that were to be considered when performing the quality assurance assessment.

84 The matters considered as part of the quality assurance processes varied between lenders and depended on the type of quality assurance activity. While we observed some good practices (such as considering whether staff made the adequate inquiries to understand a customer's situation), we found that most of the quality assurance activities focused on assessing the actions or omissions of staff members rather than considering the experience and outcome from the customer's perspective. While this is important to monitoring staff performance (to identify training or coaching needs), it is less likely to identify issues with the way that the lender's policies and processes are operating in practice.

85 There are opportunities for lenders to incorporate more consideration of the customer's experience and outcomes—for example, by considering whether there were any barriers placed in the way of the customer requesting or receiving assistance (e.g. needing to repeat their circumstance on multiple occasions, unnecessary information requests being issued, or conflicting information being provided). One of the lenders had recently implemented a quality assurance activity to try to bring this greater focus on the experience and outcome from the customer's perspective: see Example 8.

Example 8: Quality assurance coverage of customer experience and outcomes

One lender implemented a new case quality assessment process in September 2023 that operated in addition to their existing interaction-based quality assessment process. The purpose was described as being 'to assess the customer journey, identify, and rectify gaps and patterns in the hardship journey'.

The methodology had a section titled 'customer experience', which required the assessor to consider a range of customer experience-related factors. These included:

- whether the lender had responded to the customers' needs in a timely manner;

- whether the lender placed unnecessary barriers in front of the customer;
- whether there was any inconsistency in responses provided;
- what the key takeaways were from the customer journey (including looking at whether the lender had understood the customer's situation);
- whether there were any root causes they should explore (including assessing whether there are internal processes or systems causing issues, knowledge gaps or issues with communications channels); and
- whether the solutions offered to the customer were suitable for the customer's situation (including considering whether the customer's situation has been cured).

Reporting of quality assurance insights

86 Most lenders reported the results of their quality assurance program periodically (monthly or quarterly). However, the contents of this reporting varied across lenders. In some cases, this reporting focused primarily on the pass/fail rates for individual staff members or teams and the individual staff coaching and training opportunities or outcomes arising from this.

87 One of the better lenders that we reviewed used the results of quality assurance assessments to prepare a monthly 'Operational Insights' report. The report outlined the results and key themes from the quality assurance assessments that had been undertaken during that month, and showed the trends over time for customer experience outcomes. The report also identified the status of process improvement and team training opportunities that had been identified as a result of the quality assurance assessments.

Practical action lenders can take to support customers

Lenders should implement quality assurance arrangements that look at the end-to-end hardship (and, if applicable, collections) process from a customer's perspective. The purpose should be assessing whether the hardship function is operating effectively and identifying continuous improvement opportunities.

C Ensuring customers know hardship assistance may be available

Key points

We found that there were issues with the information lenders provided to customers about hardship assistance.

For most lenders, the majority of customers gave a hardship notice before falling into arrears. However, there was some variance between lenders. Some lenders had a relatively high share of customers in arrears at the time they gave a hardship notice.

All lenders sent out general communications to customers to make them aware that hardship assistance is available and how to access that assistance. However, the nature and frequency of the communications varied, and was sometimes overly focused on hardship arising from specific life events.

Some lenders had strategies in place to identify and proactively communicate with customers who were at risk of experiencing financial stress, before those customers fell into arrears. All lenders had in place strategies to communicate with customers after a missed payment event. However, these strategies varied across lenders, and for some lenders did not always ensure timely communication with customers after the missed payment.

What we looked at

88 We reviewed what steps lenders were taking to ensure that customers are aware that hardship assistance may be available, and when and how to request that assistance.

89 Ensuring that customers are aware that hardship assistance may be available:

(a) *increases the chance that customers will seek that assistance early before they fall into arrears*—This in turn increases the likelihood that the customer can recover their financial situation in a timely manner and reduces the likelihood of poor outcomes as a result of missed payments (e.g. collections activity and the reporting of negative repayment history information to credit reporting bodies); and

(b) *helps reduce the likelihood that customers respond to their financial difficulty by making decisions that ultimately leave them in a poorer position*—This is demonstrated by Example 9 where the customer, who was unfamiliar with the hardship assistance options provided by the lender, was considering taking out another loan to pay their arrears even though the lender had other options (such as capitalisation of arrears).

Example 9: Risk of customer seeking other loan products to respond to financial hardship

The customer sent an email to the generic customer service email address. They advised that, because of domestic violence and illness, they had been unable to earn an income and had fallen into arrears of approximately $5,000 on their investment property mortgage. The customer had moved into the investment property to escape their situation and was now trying to deal with both the ongoing repayments and the arrears.

The customer wrote:

> The rental appraisal for this property is $900 per week so at this point I think it would be best for me to move out and put tenants in place. If I were to do this is there any way the arrears could be absorbed into the balance of the loan? Or given the circumstances is there anything else that can be done? I am trying to get a loan elsewhere for $5366 owing however given I have lost my source of income due to this awful situation I'm finding it very hard.

The lender in this scenario recognised the customer's hardship notice and provided the customer with a one-month deferral. The customer was to resume their fortnightly repayments (as they anticipated they would resume employment); however, the start of the repayments was then deferred by the lender based on the customer's updated circumstances.

90 As part of our review, we analysed data provided by the lenders and examined how lenders seek to ensure customer awareness of hardship assistance options through:

(a) general non-targeted communications to customers (see paragraphs 93–97);

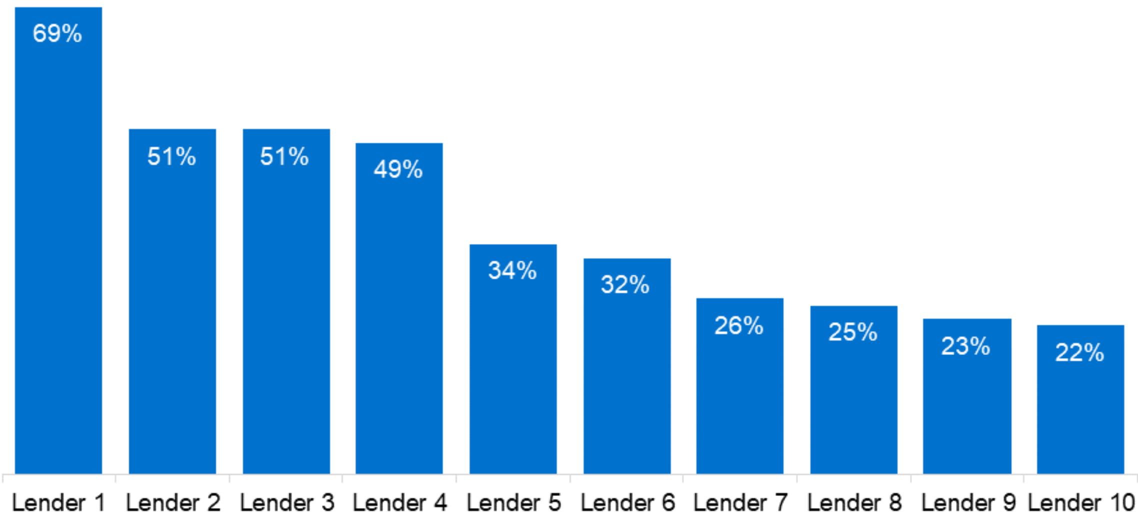
(b) targeted communications before customers fall into arrears (see paragraphs 98–99); and

(c) targeted communications to customers in early-stage arrears (see paragraphs 100–102).

Insights from data analysis

91 We analysed the data provided by lenders to determine what proportion of customers were in arrears at the time they first gave a hardship notice (based on the most recent month of repayment history and applying a grace period). Positively, for most lenders the majority of customers gave a hardship notice prior to falling into arrears: see Figure 8.

Figure 8: Proportion of customers in arrears at the time of their initial hardship notice by lender



Note 1: See Table 21 in Appendix 2 for the data shown in this figure (accessible version).

Note 2: Lenders have been anonymised in the order of the metric used in the figure. This means the lender named 'Lender 1' in this figure may not be the same lender as the 'Lender 1' in another figure.

Note 3: Due to the way data has been collected, for the purposes of this and other figures, a customer is counted as in 'arrears' only if the account is more than 14 days overdue (i.e. after applying the same grace period that applies for comprehensive credit reporting purposes).

92 Figure 8 shows variance in proportion of customers who were in arrears at the time of giving a hardship notice. We observed some relationship between the practices of lenders (discussed in this section) and the results in Figure 8—for example, we saw that some lenders with more active communications strategies had a lower proportion of customers in arrears at the time they provided a hardship notice. However, we note that the results may also be influenced by other factors, including whether hardship is being consistently identified as part of collections processes.

Communications to customers generally

93 All lenders advised that they provided information to their customers to make them aware that hardship assistance is available and how to access that assistance. However, the nature and frequency of the communications varied across lenders.

94 In some cases, this information was provided through ongoing ('business as usual') communications while in other cases the information was communicated in response to particular events (e.g. increases to the interest rate of the loan). The main approaches we saw are summarised in Table 6.

Table 6: Lenders' approaches to communicating about hardship assistance

Approach	Description
Information on lender's website	All lenders had information available on their website relating to financial hardship. The information on the lenders' websites varied, but generally at least included details about how to give a hardship notice and links to other information that may be helpful for the customer (e.g. details of the National Debt Hotline). Not all lenders had information about what the process would involve and/or the type of assistance that may be available. Positively, we found that all the lenders had a link on their home page to their financial hardship page (although the prominence varied across lenders). We also found that the hardship assistance page for most lenders was accessible via internet search engines.
Inclusion of messaging with home loan statements	Some lenders included information about the availability of hardship assistance on home loan statements. In some cases, this was a regular inclusion while in other cases this information was only included in response to particular events.
Inclusion of messaging with interest rate increase notifications	Some lenders included information about the customer's ability to give a hardship notice in notifications they sent to customers advising of increases to their interest rate. This appeared to be a recent initiative in response to the recent succession of interest rate rises.
In-branch messaging	Some lenders with a branch network provided information about financial hardship within their branches—this included information on electronic displays, posters and information brochures.
Interactive voice response system messaging	Some lenders provided information about hardship in the interactive voice response system that customers reached when calling the lender and/or while waiting on hold.
Communications to customers in response to events and current circumstances (e.g. cost of living pressures, COVID-19 pandemic)	Some lenders had sent communications to customers in response to specific events or circumstances—for example, some lenders had sent communications during 2023 in response to interest-rate increases and broader cost of living pressures to advise customers that hardship assistance is available and how to request that assistance.

95 We note that some lenders had also contributed to building awareness through other means—such as during media appearances and contributing to messaging through industry associations.

Practical action lenders can take to support customers

Lenders should make information available through a range of channels about the availability of hardship assistance and how customers can request that assistance. This may include providing information:

- in home loan statements;
- in periodical communications with customers;
- through customer service channels; and
- prominently on the lender's website.

96 In some cases, we found that that the communications of lenders tended to focus on specific life events (e.g. such as unemployment or suffering an illness or injury). There is a risk that this leads to customers not understanding they can give a hardship notice whenever they are unable to meet their obligations under their loan and that the request does not need to be related to a particular life event or change in circumstances.

97 We saw that some lenders had increased their communications to customers about financial hardship as a direct response to recent events such as the COVID-19 pandemic and recent cost-of-living pressures. While this was positive to see, we note that customers can experience financial hardship at any time (irrespective of external factors). Given this, it is important that lenders ensure there is sufficient information being made available to customers about hardship on an ongoing basis.

Practical action lenders can take to support customers

Lenders should ensure that the information provided is clear that customers can give a hardship notice whenever they are unable to meet their obligations under their loan, and that the financial hardship does not need to be related to a particular life event or change in circumstances. The information should also encourage customers to reach out early, ideally before they miss a payment.

Proactive communications to customers experiencing financial stress (before falling into arrears)

98 We asked lenders what strategies they had in place to promptly identify customers who may be at risk of experiencing financial stress and to communicate with those customers to make them aware how to give a hardship notice and the options that may be available.

99 There was a high degree of variance in the responses provided by lenders, with the sophistication of responses generally scaling based on the size of the lender (with major banks having in place more comprehensive strategies to identify and communicate to customers who may be at risk of experiencing financial stress and some smaller lenders having no strategy in this area). Table 7 summarises the strategies that lenders had in place.

Table 7: Lenders' strategies to identify and communicate with customers at risk of financial hardship

Customer type	Strategy description
Customers affected by natural disasters	Some lenders advised that they would first identify customers in areas affected by the natural disaster. They would then attempt to contact the customers, using a range of channels, to make them aware of support options and provide details of how to give a hardship notice.

Customer type	Strategy description
Customers affected by other major events	Similar to the above, in the case of a major event (e.g. administration or liquidation of a construction company or the closure of a large employer), some lenders used their data (e.g. from origination or transactional data) to identify potentially affected customers and implemented tailored strategies to contact customers.
Customers rolling off fixed rates or interest only periods	Most bank lenders advised that they had in place strategies to contact customers who were rolling off interest only periods and/or fixed rate periods onto significantly higher interest rates. These customers were typically provided information about options available which included details about how the customer could give a hardship notice. Some lenders also identified those customers who were at higher risk of financial difficulty (using some of the indicators outlined below) and adopted a more intensive contact strategy such as making outbound calls at set times in the lead up to the interest only and/or fixed rate expiry (e.g. six months in advance of rolling off, two months in advance of rolling off and so on up until and after the expiry).
At-risk customers	Five bank lenders provided details of work they had undertaken to identify and communicate to customers using a range of early-warning indicators. These lenders used a range of leading and lagging early-warning indicators that were refreshed periodically to assign a risk rating to customers. While the specific indicators varied across lenders, some included: • customers with high loan-to-valuation ratios (LVRs) or debt-to-income ratios; • customers whose interest rate had increased beyond the serviceability buffer applied at the time the loan was taken out; • customers with certain loan characteristics (e.g. construction loans); • availability of a repayment buffer or offset balances (and the change in these amounts); • repeated late payments and/or recent prior delinquency; • new unsecured lending or negative repayment history information for accounts with other lenders; and • changes to transactional data (e.g. reduction in income and/or commencing to receive Centrelink payments). Lenders then adopted a risk-based communications strategy and communicated with customers across multiple channels including phone, text message, email and in-app messages. For lower-risk customers, this generally meant phone, text messaging and in-app messaging with relevant information. Lenders made attempts to call higher-risk customers to discuss their situation and make them aware of the options available (including to giving a hardship notice).

Practical action lenders can take to support customers

Lenders should, where practicable, use data to identify customers who may be at risk of experiencing financial hardship and undertake targeted communications.

Communications with customers in early-stage arrears

100 Missing a payment is one of the stronger indicators that a customer may be experiencing financial hardship and require assistance to meet their obligations.

101 All of the lenders had a collections strategy that commenced on the first missed payment event. These strategies varied across the lenders, but included letters, email, text messages, and phone calls being sent or made to the customer, which brought the outstanding repayment amounts to the customer's attention. In better cases, we saw that these communications would advise customers that hardship assistance is available and how to request that assistance: see Example 10.

102 The timing for the communications varied across lenders—for example, some lenders would attempt to contact the customer by text message or email at first, and only attempt to call the customer after some time had passed (e.g. after 30 days or a second missed payment). By contrast, other lenders attempted phone contact earlier (as early as five days after the missed payment) and sought to establish whether the customer required hardship assistance. Some lenders also used risk-based communications strategies, which meant that customers that were segmented as higher-risk (such as high LVR loans, repeat late payments or the customer previously receiving hardship assistance) were prioritised for earlier contact by phone.

Example 10: Early-stage arrears contact results in customer giving a hardship notice

The customer returned a call made by the lender's collections team regarding missed repayments on the customer's loan. The customer informed the lender they were intending to sell their property and asked if the lender could put a hold on repayments until the property was sold.

The collections officer identified this as a hardship notice and warm transferred the customer to the hardship team to manage this hardship notice.

Note: A 'warm transfer' is where the initial staff member explains the customer's circumstances to the hardship team over the phone before transferring the customer. This minimises the need for the customer to repeat their circumstances and ensures that the hardship notice is captured by the hardship team.

Practical action lenders can take to support customers

Lenders should communicate with customers in a timely manner after a missed payment to provide them with information about the availability of hardship assistance and how to give a hardship notice.

D Identifying and responding to hardship notices

Key points

We found that there were issues with how lenders received hardship notices from customers.

Positively, all lenders allowed customers to give a hardship notice through a range of channels. However, there were a range of issues relating to how hardship notices were identified at lenders. This included staff at some lenders being too focused on life events or a short-term issue, and some staff not being aware of what assistance could be provided by the hardship team.

The issues extended to how customer-facing staff referred hardship notices to the specialised hardship team—there were gaps at some lenders that could lead to customers not getting the assistance they needed and the lenders failing to meet their obligations.

We also found that issues with the identification and referral of hardship notices by collections teams.

What we looked at

103 We reviewed the arrangements lenders had in place to allow customers to give a hardship notice, and to meet their obligation to identify and respond to hardship notices given by customers.

104 To determine whether lenders were meeting their obligations and making it easy for customers to give a hardship notice, we reviewed the:

(a) channels available for customers to give a hardship notice (see paragraphs 106–108);

(b) identification of hardship notices by customer-facing staff (see paragraphs 109–119);

(c) referral of hardship notices by customer-facing staff to the specialised hardship team (see paragraphs 120–133);

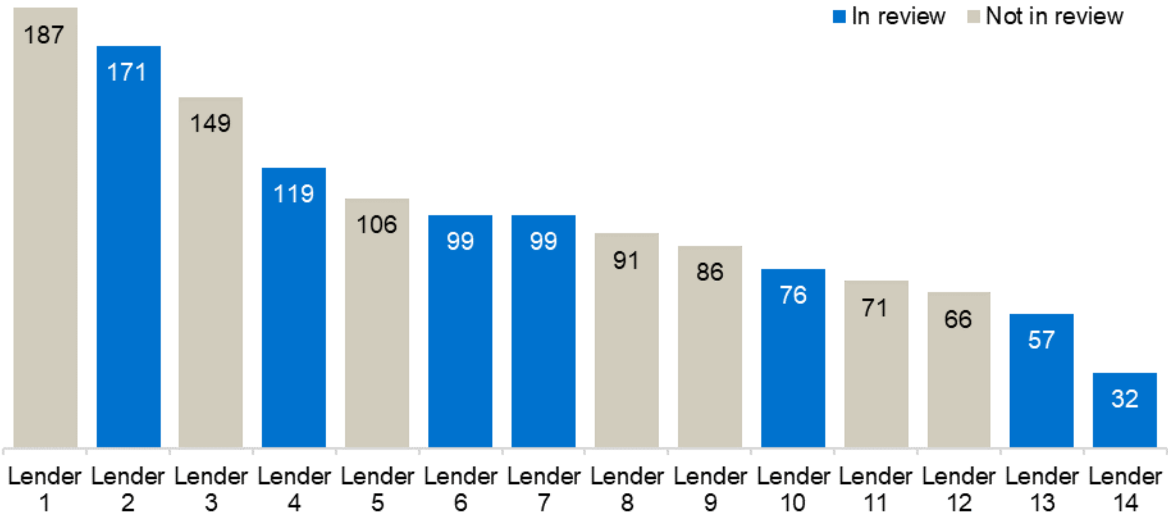
(d) identification and referral of hardship notices by collections teams (see paragraphs 134–139); and

(e) monitoring and assurance activities undertaken to ensure hardship notices were being identified and referred to specialised hardship teams (see paragraphs 140–142).

Insights from data analysis

105 We observed some differences in the number of hardship notices that had been recorded by lenders, even when adjusted for book size. Figure 9 shows that the number of hardship notices relating to home loans per billion dollars in home loans for bank lenders ranged from 32 to 187. While some of this difference will be due to portfolio characteristics, the extent of the difference means some of the variation likely also relates to differences in the identification of financial hardship and hardship notices.

Figure 9: Number of home loan-related hardship notices per billion dollars in home loans (all banks in ASIC's data collection)



Note 1: See Table 22 in Appendix 2 for the data in this figure (accessible version).

Note 2: Based on the Monthly Authorised Deposit-taking Institution Statistics published by Australian Prudential Regulation Authority (APRA), which is only available for authorised deposit-taking institutions (ADIs). We also observed significant variances across the non-ADIs.

Channels available to give a hardship notice

106 We found that most lenders had a range of preferred channels through which customers could provide a hardship notice direct to the specialised hardship team. This included the following:

(a) *Telephone*—All the lenders allowed the customer to contact the hardship team by phone to give a hardship notice. Some of the lenders had a direct phone number for the hardship team while others required customers to be transferred through a general customer service or collections team.

(b) *Email and online messaging*—Some lenders had either a dedicated email address for the hardship team or an online messaging service (accessible via the lender's online portal) that could be used to contact the hardship team.

(c) *Online application form*—Some lenders had an online application form that customers could lodge to give a hardship notice.

(d) *Mail*—Some lenders provided details for customers to give a hardship notice by mail.

107 Although lenders had their preferred channels for receipt of hardship notices, a customer can give a hardship notice to anyone at the lender to trigger the lender's obligations under the National Credit Code. These channels may include:

(a) inbound and outbound calls and emails involving other teams—for example, loan servicing teams and other specialist teams (e.g. those dealing with collections, complaints and/or deceased estates);

(b) written inquiries through online systems—for example, 'message us' and live chat functions as well as online feedback forms;

(c) in-person—for example, through attendance at a bank branch or discussions with mobile bankers and relationship managers; and

(d) third-party agents—for example, debt collection agents.

108 Overall, we found that lenders had recognised that a hardship notice could be received through a wide range of channels and in most cases had considered how those notices would be referred to the hardship team to manage. However, there were some channels where lenders had given less consideration to what they would do if a hardship notice came through that channel (e.g. relating to live chat).

Practical action lenders can take to support customers

Lenders should identify all the potential channels through which a hardship notice may be given and ensure there are adequate systems, processes and training in place to manage those notices.

Identification of hardship notices

109 Customers do not need to use particular terminology or formally apply for hardship to give a hardship notice and therefore trigger a lender's obligations under the National Credit Code. All that is required to trigger these obligations is that a customer notifies a lender of their inability to meet their obligations under the credit contract.

110 In some cases, it may not be clear whether a customer is giving a hardship notice because they do not explicitly say that they cannot meet their obligations or request hardship assistance. Rather, the customer may provide information from which it can reasonably be inferred that they cannot meet their obligations (e.g. a customer advising they had a change in circumstances and wanting to know what their options are for their loan): see Example 11.

Example 11: Initial failure to identify implicit hardship notice

The customer called the lender and explained that they had been on maternity leave, had missed some repayments and hadn't been able to catch up. They were now back at work but not earning as much. The customer was looking for any ideas the lender had that might help them and queried whether fixing their interest rate will help.

The lender did not query the reduced income further and directed the customer to their mobile app and explained how they can request a fixed interest rate via the app (which the customer completed on the call). The lender noted that the arrears that were owing may affect the customer's application to fix the rate and asked the customer if they could clear the $400 that was owing. The customer said they were unable to do so. The lender provided the customer with a number to call to help deal with arrears. This number was for a team that handled both collections and hardship. However, the agent did not mention hardship during the call and the primary reason for giving the number to the customer was that they could enter an arrangement to the clear the arrears so it would not affect their application to fix the interest rate.

The customer called the number given the next day and during this call, the agent recognised that the customer may need a financial hardship arrangement and attempted to warm transfer the call to the hardship team. However, the wait times were too long and the customer was instead cold transferred. The customer dropped out at this point without speaking with the hardship team. Two months later, the customer submitted a hardship notice online due to their reduced income.

Practical action lenders can take to support customers

Lenders should train all customer-facing staff to identify hardship notices. This includes educating staff:

- that customers do not need to use particular terminology in order to give a hardship notice;
- to check with the customer where it is unclear where the customer has given a hardship notice; and
- broadly about the hardship process and the types of assistance that the hardship team can provide.

111 We reviewed the policies, process and training provided by lenders to their staff to support them in identifying hardship notices. We found particular issues relating to:

(a) a focus on life events (see paragraphs 112–273);

(b) a focus on assistance being short-term (paragraphs 115–117); and

(c) the knowledge of customer-facing staff about the assistance that can be provided by the hardship team (see paragraphs 118–119).

Focus on life events

112 We found that the policies and processes of some lenders focused on financial hardship arising from life events (e.g. unemployment or medical illness) and in some circumstances suggested that an event of this nature needed to exist for a customer to be experiencing financial hardship.

113 We recognise that providing information to staff about examples of situations where financial hardship might exist can be useful as a practical tool to help staff in identifying financial hardship. However, there is no requirement for the customer to experience a life event or other change in personal circumstances in order to give a hardship notice. For example, a customer may also give a hardship notice in situations where they are unable to meet their obligations because of an unexpected expense (e.g. needing to make repairs to their home or vehicle) or because of an increase in interest rates or essential expenses.

114 Through our review, we saw examples where lenders did not identify a hardship notice until the customer disclosed a particular life event: see Example 12.

Example 12: Failure to query implicit hardship notice

The customer called the lender's hardship and collections phone number and said they wanted to speak about 'doing a better rate or better repayment option at the moment, because it is getting a bit out of control'. The agent did not query this further (i.e. whether the customer is able to meet their repayments going forward) and instead performed a cold transfer to the lending services team.

The customer spoke to the lending services team and said that they have 'only had the loan for six months and repayments have gone through the roof and it is getting a bit out of control'. They wanted to know if there was anything the lender could do about it. The lending services team did not make any further inquiries, and instead advised the customer that they would put in a request for a rate review to the retentions team.

The customer called the hardship and collections number again two and a half months later because they did not receive the outcome of the rate review request. During this call, the lender identified a hardship notice relating to parental leave, although there were also indicators of earlier overcommitment: see Example 29.

Focus on financial hardship being short term

115 We found that the policies and processes of some lenders indicated that, for the customer to be in financial hardship, the customer's situation must be short-term and/or temporary: see Example 13.

Example 13: Lenders inappropriately limiting the availability of hardship assistance

One lender's hardship policy stated: 'Conversations in which borrowers say that they are unable to make any payments under the credit contract, for reasons which the borrowers will not be able to resolve in the short to medium term, should not be treated as a hardship notice.' Not only does this inappropriately limit hardship assistance to the short or medium term, but it is also incorrect and places the lender at risk of not meeting its obligations under the National Credit Code.

Another lender's hardship standard stated that 'financial hardship is where a customer advises they are, or may be, unable to meet their contractual repayments due to an event or change' and also that the 'hardship trigger must have occurred within the last 12 months'.

116 Under the National Credit Code, there is no requirement for a customer's situation to be short term or temporary for a customer to give a hardship notice. While a longer term issue may affect the assistance the lender can provide, the lender must still assess the hardship notice and respond in accordance with the National Credit Code (and there will often be assistance that can be provided even in longer-term cases of hardship).

117 During the on-site reviews, we queried lenders on how they reconciled the statements that financial hardship must be short term or temporary with their obligations under the National Credit Code. Lenders advised these limitations to short-term or temporary situations were not adhered to in practice, and they relied on team member's judgement. However, we note that limiting the scope of financial hardship and/or a 'hardship notice' in policies, procedures and training could create confusion and result in inconsistent practices and the lender failing to meet its obligations under the National Credit Code.

Practical action lenders can take to support customers

Lenders should ensure staff understand that a customer can give a hardship notice even when their change in circumstances is long term or permanent, and even when they have not experienced a life event (e.g. where the customer cannot meet repayments due to a rise in living expenses).

Assistance that could be provided by the hardship team

118 During our on-site reviews, we spoke with a range of staff from lenders' customer-facing teams (such as from the customer contact centre, branches, and collections teams). We found there were varying levels of understanding of what the hardship team does and the types of assistance they can provide. This was also clear in the case studies we examined, including one where a customer-facing staff member advised the customer, who was trying to understand their options before they were transferred: 'I don't know what the hardship team can and can't do, that's not my area.'

119 Given that customer-facing staff's primary role is to refer customers experiencing hardship to the specialised hardship team, we do not expect these staff to be experts in financial hardship. However, these staff should have a reasonable understanding of what the hardship team does and the types of assistance they can provide. This is important in helping staff to understand when a referral to the hardship team might be useful, and also in helping them have conversations with customers and making referrals.

Referrals between frontline teams and the hardship team

120 Once a lender has identified that a customer has given a hardship notice, it was the process of all lenders to refer that customer to the lender's specialised hardship team to consider the customer's situation and determine what if any assistance could be provided.

121 We identified issues with how this worked in practice, particularly relating to filtering of requests by customer-facing staff and gaps in internal processes for making referrals.

Filtering by customer-facing staff

122 We saw lenders adopt different approaches for how quickly customers were referred to the hardship team after receiving a hardship notice.

123 Six lenders advised that their process was to immediately refer a customer to the hardship team as soon as a customer gave a hardship notice.

124 We found that the other lenders required or gave discretion to customer-facing staff to have conversations of varying levels of detail with the customer about their circumstances. The result of this is that well-meaning staff would sometimes attempt to resolve the customer's issues before making a referral to the hardship team: see Example 14.

Example 14: Customer-facing staff attempting to resolve customer's concern before making a referral to the hardship team

A representative from one lender's contact centre said that if a customer called up the contact centre and stated that they could not meet their repayment obligations and wanted to switch to interest-only repayments, they would look to see what options they could provide first (e.g. look at pricing and to see if the customer was on the right kind of loan before they would transfer to the hardship team).

That lender's branch staff advised that they would also take steps to see if there are any specific fees that they could refund on the spot to provide immediate relief. They also said that they would sometimes offer a financial health check.

125 We note that there are several risks involved with customer-facing staff having detailed conversations with customers when a hardship notice is given before referring the customer to the lender's specialist hardship team. In particular:

(a) *there is lack of guidance to inform discussions*—In most cases, there was no guidance to the customer-facing staff members about how to have the conversation with the customer about their financial hardship, which creates a risk of them suggesting inappropriate options to the customer that deters the customer from following through with talking to the hardship team (even though they may have given a valid hardship notice);

(b) *customer-facing staff are limited in assistance they can provide*—Customer-facing staff were generally limited in the assistance they could provide and customers may form an incorrect conclusion that whatever assistance they receive from the customer-facing staff is the only assistance that can be provided to them (when discussion with the hardship team could result in additional, more tailored, assistance provided);

(c) *discussion with customer-facing staff acts as an extra step to getting assistance*—In circumstances where the customer clearly communicates they are unable to meet their obligations, having detailed conversations with staff (including 'financial health checks') can act as an unnecessary barrier to the customer getting the assistance they need, including potentially resulting in a situation where the customer then needs to repeat their circumstances again to the hardship team; and

(d) *non-compliance with legislative obligations*—Delaying a referral delays recording hardship notice into the lender's system so that they can ensure they meet their regulatory obligations in respect of that notice (e.g. to provide a notice of their decision).

Gaps in referral mechanisms

126 We found that lenders had different approaches to how they would refer hardship notices from the customer-facing staff to the specialised hardship team.

127 For most lenders, the approach to referring customers depended on the channel through which the customer gave the hardship notice. Some of the approaches that we saw carried a risk that the hardship notice may not be recorded and actioned, which could lead to a lender breaching their obligations under the National Credit Code. Some of the approaches also carried an increased risk of customers needing to repeat their circumstances, which can cause frustration (including potential dropout from the process) and lengthen the time for a customer to receive an outcome.

Phone

128 Most lenders advised that when a customer gave a hardship notice over the phone to customer-facing staff (e.g. the contact centre) they sought to undertake a warm transfer. In these cases, the initial staff member would explain the customer's circumstances to the hardship team over the phone before transferring the customer, minimising the need for the customer to repeat their circumstances and ensuring that the hardship notice would be captured by the hardship team.

129 For other lenders and for the lenders above where a customer could not be warm transferred (e.g. if the customer declined to be warm transferred, there were extended waiting times for the hardship team, or the hardship team's hours did not align with the contact centre's hours) we saw three main approaches adopted by lenders:

(a) customer-facing staff sending a referral (by email or a workflow system) to the hardship team to get in contact with the customer—this approach ensured that the lender captured the hardship notice;

(b) cold transfer where the customer's call would be placed into a queue and the customer would need to wait on the phone until a staff member in the hardship team becomes available—the risk with this approach is that if the customer either hangs up (e.g. due to an extended wait time) or the call drops out, and then the customer's hardship notice may not have been captured;

(c) customer-facing staff providing the customer with details of how they can contact the hardship team—this carries a heightened risk that a hardship notice may not be appropriately recorded and managed if the customer does not call the hardship team (e.g. due to frustration with the process).

130 While we identified some instances where transfers were performed well, we also identified some examples where there was a poor customer experience: see Example 15.

Example 15: Issues with phone-based referral

The customer was on maternity leave and received an email as part of the lender's cost-of-living communication strategy. The email provided information on available options, including an option to make interest-only repayments on the mortgage for three months. They called the contact centre and the call centre agent identified that the customer needed to speak with the hardship team. However, the agent incorrectly transferred the customer to another team.

This was a cold transfer and the customer had to explain again what they were looking for. The team they were transferred to advised that their team do not offer interest-only repayments. The agent called some different teams while the customer stayed on hold. The agent reverted to the customer to say that they were not eligible for interest-only repayments; however, they would transfer the customer to the hardship team for further discussion on options. The customer was transferred to the hardship team at this point and received the correct information from that team.

Branch and in-person

131 In better cases, we found that there were processes in place for the branch staff to put the customer directly in contact with the hardship team in the branch. One way that this was done was by taking the customer to a private room (if they were not already in one), and the branch staff member calling up the hardship team and providing information about the customer's situation before handing the phone over to the customer: see Example 16.

Example 16: Customer connected to the hardship team and provided a phone call while in the branch

The customer was made redundant several months earlier and was using the redundancy payout to make their mortgage repayments. They were actively seeking employment and were to receive a Centrelink payment in the meantime. The customer attended their branch and a branch staff member brought them into an office and made a call to the hardship team with the customer on speaker phone. The customer provided their statement of financial position (outlining their income and expenses) over the phone and was provided with a two-month deferral during the same telephone call.

132 As an alternative, some lenders advised that they would record the interaction into a workflow management system, which would result in the customer being contacted by the lender's hardship team.

133 We saw some poorer examples where the branch would provide the customer with details of how they could contact the hardship team in their own time at home, and the hardship team was not advised that the customer had come into the branch and given a hardship notice. For a time when this has led to a poor customer experience, see Example 17.

Example 17: Branch staff advising customer they needed to contact the hardship team

The customer was experiencing domestic violence and called the lender (as advised by branch staff), as they were unable to meet their repayments on their own and their repayments had doubled.

On the phone to the hardship team, the customer said:

> When I spoke with our bank manager from [name of branch], he said to give you guys a call in terms of what we could do in terms of changing the repayments for the next few months.

It was not clear why the branch staff advised the customer that they needed to call the bank (as opposed to the branch staff ensuring that the hardship notice was captured and referred to the hardship team in the branch). This also meant that the customer needed to repeat their circumstances again.

Practical action lenders can take to support customers

Lenders should have in place arrangements to record a hardship notice at the first point it is given, and effective processes in place for transfers between customer-facing staff and the hardship team (to manage compliance with obligations and minimise the need for the customer to repeat their circumstances and find the right team).

Referrals between collections and hardship team

134 Most of the lenders that we reviewed had separate teams for collections and hardship, with any hardship notices identified during collections activities referred to the hardship team for assessment and handling. However, we are concerned that hardship notices are not being consistently identified by collections staff and referred to the hardship team.

135 One of the roles of the collections team is to engage with customers who have fallen into arrears to understand the reasons for the customer falling into arrears and to work with the customer to bring their account up to date. In many cases, the customer may have fallen into arrears and be contacted by a lender's collections team even though they can meet their obligations under the credit contract. This can include where:

(a) a direct debit has not been set up correctly;

(b) the customer has forgotten to make a payment;

(c) the customer has an issue related to the timing of their pay cycle; or

(d) the customer has made a decision to prioritise other non-essential expenses.

136 It is common for lenders to provide some form of assistance (e.g. extra time to pay in the form of a 'promise to pay' arrangement and waiving fees) in these circumstances even though the customer has not given a hardship notice.

137 However, there are also many situations where, as part of collections activities, a customer may advise the lender of their inability to meet their obligations under the credit contract (e.g. by meeting their ongoing repayments or clearing arrears that have accrued).

138 We found that there was some inconsistency and ambiguity as to when collections staff would refer customers to the hardship team. For some lenders, it appeared that the primary trigger for collections staff referring a customer to the hardship team was the anticipated duration of the financial difficulty, rather than the customer advising they are unable to meet their obligations: see Example 18.

Example 18: Failure of collections to identify hardship

The customer had a casual job and had held his home loan for over 18 years.

The customer called the collections team in mid-January and explained they had taken time off work due to the floods in their area, had fallen behind in their repayments and needed to skip a weekly repayment. On hearing that skipping the next repayment would affect their credit score, they decided not to go ahead and said that they can 'always borrow the money'.

The customer called the collections team in early February seeking information on their arrears and explained that they were 'not in a good headspace', had taken a week off work and wouldn't get paid as a result. They wanted to see if their weekly repayment could be put on hold for a week but were worried about the effect on their credit score. As part of the call, the agent asked whether the customer wanted them to process the direct debit for the weekly repayment and the customer responded 'I just said to you about five minutes ago; I haven't worked a whole week because I haven't been well, so I am not going to get paid next week and I am going to have to work out how to do it. I will find it somehow.' The customer then ended the call.

The customer called the collections team in late March and stated that they wanted to put their weekly repayment on hold. Their roof still needed to be repaired from the storm and they needed the repayment to be deferred for a week. The agent asked about the customer's ability to make the payment the following week (skipping this week) and the customer stated that they would try. They also asked what other options were available if the roof repairs cost more than expected. The agent responded by saying the customer could enter a 'promise to pay' arrangement, where they would pay a little bit extra to bring the balance owing up to date over a period of time. In the end, the agent put the customer's payment on hold by one week.

In mid-May, the customer received an outbound call from collections. The customer stated that they had not been well for the last couple of weeks and couldn't work. They confirmed they wouldn't be able to catch up for three or four weeks. This call was the first time an agent of the lender referred to the hardship team, but the customer was first put through to another collections team. The agent said in the transfer, 'Not sure if [they need] hardship assistance or an arrangement; think [they are] going to struggle for a little while.' The customer spoke with the collections agent, who placed the customer on a payment arrangement (not hardship assistance) and told the customer that repayment history information would be reported against the arrangement. The customer was unhappy about this.

In early June the customer called the collections team and stated that they had taken time off work to care for their mother and that they spoke to a friend who advised them that they may be able to make interest-only repayments on their mortgage. The customer asked the lender for some mortgage relief, or else to make interest-only repayments for a month or two. The agent advised that if the customer was seeking interest-only repayments, they should attend the branch first. If the branch said no, the agent would be able to arrange hardship assistance. This is despite this lender's hardship team offering interest-only solutions.

On the same day, the customer attended the branch but the branch advised them to call the collections team. The customer then called the collections team and they were transferred through to the hardship team.

The customer had to repeat their circumstances four times on this day as a result of being referred to the branch and the branch referring them back to the collections team.

The hardship team took a statement of financial position over the phone and provided the customer with a reduced repayment arrangement for three months.

The customer's weekly repayment was not stopped, however. They had to call the lender asking for this to be reversed as soon as possible.

139 We are concerned that in undertaking collections calls, there is insufficient focus by lenders on understanding the reason why a customer has failed to make a payment and identifying whether the customer may be experiencing hardship. This is made worse in some cases where collections staff focus on the immediate payment of arrears, rather than ensuring the customer is able to sustainably meet their obligations: see Example 19.

Example 19: Customer advocate review finds issues with identification of hardship notices

One lender's customer advocate undertook a thematic review of 20 randomly selected customer files where customers were provided with a 'non-hardship arrangement' (mainly by the lender's collections team). The review stated:

> Non-hardship arrangements are arrangements to pay a lesser amount than payable under the contract, but the customer's late payments or arrears are reported to the relevant credit reporting body. These arrangements generally lower a customer's credit rating and late, partial or missed payments remain on a customer's repayment history information for 2 years.
>
> I identified 9 cases where hardship notices and/or triggers were not acted on by [lender]. This resulted in customers being placed into non-hardship arrangements where they should have been placed into hardship arrangements. The likely consequences being that customers credit score are reduced, they could agree to an arrangement that they can't afford and the stress the customer is already feeling will be compounded.

Failing to identify hardship notices also carries a risk of non-compliance with the lender's obligations under s72 of the National Credit Code. Customers may not receive reasons for why the lender has not agreed to vary the credit contract and of the customer's right to complain to AFCA (if applicable).

The lender's hardship team agreed with the customer advocate that, in five of the nine cases, they failed to identify a hardship notice and provide an appropriate hardship arrangement in response. However, they assessed that the other four cases required further consideration.

The customer advocate review report stated that staff:

> consistently placed emphasis on customers self-determining the maximum they could pay towards the debt, with focus on eroding any arrears, rather than working with the customer with empathy and respect, to consider their overall financial position and working together on an appropriate short-term or long-term solution.

Practical action lenders can take to support customers

Lenders should ensure that collections staff make reasonable inquiries about why the customer has failed to make a payment when carrying out collections activities. If the customer advises that they are unable to meet their obligations, then this must be treated as a hardship notice.

Monitoring and assurance relating to receipt of hardship notices

140 We found that that the monitoring and assurance undertaken to ensure hardship notices were being correctly identified and referred by customer-facing staff varied significantly across lenders and based on channel. These assessments are important because, from our review of case studies, we are concerned that hardship notices are not consistently being identified and referred in accordance with lenders' policies and procedures.

141 For interactions by phone, most lenders undertook quality assurance assessments of a sample of calls handled by customer-facing staff. However, the quality assurance methodologies did not always require the assessor to consider and record whether the customer had given a hardship notice, and whether that hardship notice was handled correctly. This was the case even for higher risk areas, such as collections and loan variations. The approach was generally similar for written correspondence (e.g. for online messages and chat).

142 For in-person interactions (e.g. in a bank branch), most lenders did not carry out structured quality assurance assessments or other monitoring and assurance activities. While we recognise the challenges of undertaking monitoring in an in-person environment, there are things that lenders can do such as observations of interactions, analysis of data, and use of mystery shopping: see Example 20.

Example 20: Approaches to monitoring branch identification of hardship notices

One lender monitored at a regional level the numbers of hardship notices that were referred through its branch network, recognising that some regions would have higher numbers of referrals than others. That lender told us that if they saw inconsistencies in the numbers of referrals coming through at the regional level, this would act as a prompt for them to talk to certain regions to understand any drivers for the inconsistency. The lender had started to report these figures on a quarterly basis to an internal committee to strengthen the level of oversight over these figures.

That same lender advised that they required their branch managers to conduct regular observations of branch staff during interactions with customers to confirm staff are interacting with customers in line with obligations. While the checklist used by the lender did not contain an explicit reference to hardship, it did ask whether any 'vulnerability triggers' were identified. It also included a link to the vulnerability procedure, which referenced financial hardship as a form of vulnerability.

A different lender advised they had a mystery shopping program for their branch network that periodically included content regarding hardship.

Practical action lenders can take to support customers

Lenders should have in place arrangements to monitor whether all customer-facing staff are correctly identifying, recording and referring hardship notices.

E Making the assessment process efficient, easy and appropriate for the customer's circumstances

Key points

We found that lenders' assessment processes were often stressful and frustrating for customers. Further, approximately 35% of customers dropped out of the hardship process after giving a hardship notice.

There were also significant issues with how hardship notices were managed by some lenders. We saw examples of poor case management, such as failures to keep customers updated and customers needing to repeat their circumstances (causing frustration and distress). We also saw examples of customers not being treated with empathy.

The approach to assessing hardship notice varied across the lenders. In better cases, lenders tailored the process to the circumstances of the customer (including tailoring the information collected and using streamlined assessment processes).

However, some lenders were placing unnecessary barriers in their assessment process. This included inflexibility in how information was collected. Customers had to complete detailed application forms (rather than giving information over the phone) and provide extensive supporting documentation, even for short-term assistance. We also saw issues with the quality of written requests for information, how the information was used by lenders, and how lenders followed up on the requests.

What we looked at

143 We reviewed how lenders ensure that the process for assessing a customer's hardship notice is as efficient and easy as possible, while balancing this against the need to make reasonable inquiries to ensure any assistance provided is suitable for a customer.

144 This is important because customers in financial hardship will often be experiencing significant stress, uncertainty and anxiety about their financial situation and/or other personal circumstances. Their situation may make it difficult for them to navigate a complex process to obtain assistance.

145 In reviewing lenders, we assessed the data provided from lenders (see paragraphs 146–155), responses to a hypothetical customer exercise (see paragraphs 156–158), and lenders' approaches to:

(a) managing hardship notices (see paragraphs 159–166);

(b) collecting information about the customer's situation (see paragraphs 168–176);

(c) requesting supporting documentation (see paragraphs 177–184);

(d) assessing information and supporting documentation (see paragraphs 185–186); and

(e) following up on requests for information and supporting documentation (see paragraphs 187–190).

Insights from data analysis

146 Our analysis of data provided by the lenders shows that the experience for customers varies significantly between different lenders and that, in some cases, the process is not simple, efficient or easy for customers.

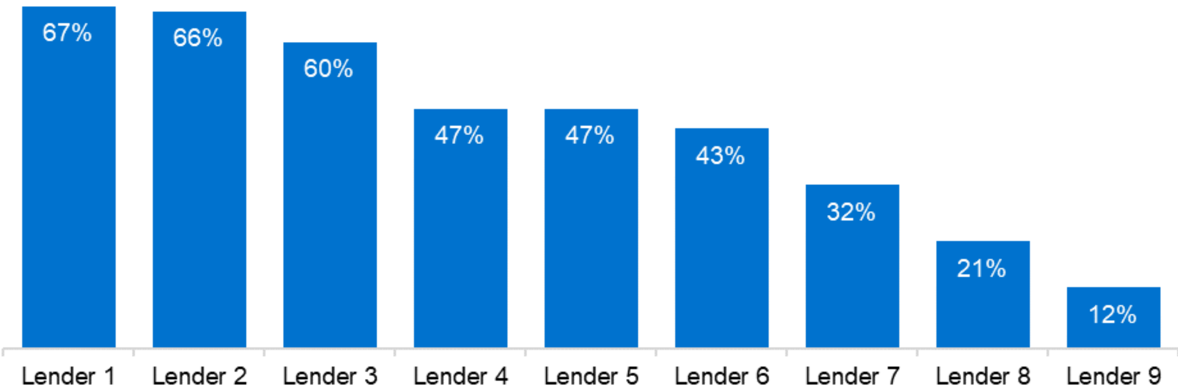
Customers dropping out or disengaging with the hardship process

147 One indicator that a hardship assessment process may not be efficient or easy for customers is where, after giving a hardship notice, a customer ultimately 'drops out' or disengages with the hardship process of a lender.

148 Our analysis of data provided by the lenders found that approximately 35% of customers dropped out of the process on at least one occasion, either because they withdrew their hardship notice or were declined for not responding (e.g. to an information request). Approximately 23% of hardship notices overall resulted in a withdrawal or decline due to non-response.

149 The dropout rate differed significantly between lenders. This is demonstrated in Figure 10, which shows that the dropout rate ranged from around 12% to 67%. In most cases, there was a strong relationship between the dropout rate and the policies and procedures adopted by lenders.

Figure 10: Customer dropout rate by lender



Note 1: See Table 23 in Appendix 2 for the data in this figure (accessible version).

Note 2: One of the ten lenders has been excluded due to limitations in the data collected.

150 We found that, of the customers declined due to non-response, 42% gave another hardship notice within three months after the decline. Over 63% of those were ultimately approved. Of concern, the majority of these customers whose hardship notices were subsequently approved had adverse repayment history information recorded in the period between the two hardship notices that could have been avoided had the lender approved their initial hardship notice.

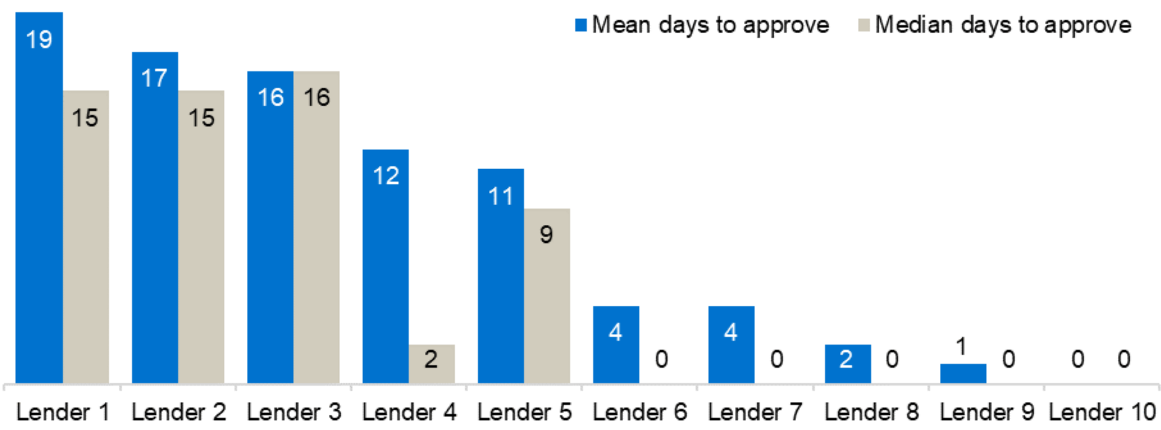
Timeliness of decisions

151 Another indicator of whether the hardship assessment process is simple, efficient and easy is how long it takes for a lender to make a decision on whether to provide assistance after a customer gives a hardship notice.

152 Our analysis shows this differs significantly across lenders. Demonstrating this, Figure 11 shows the mean and median time taken to approve a hardship notice for each of the lenders part of our review.

153 Five of the lenders had a median approval time of zero days, which is because most of the hardship notices they receive are approved on the same day that the request is made (usually through streamlined processes discussed later in this section). By contrast, the lenders who generally took longer to approve tended to require more information from customers in order to assess their hardship notice.

Figure 11: Mean and median days to approve by lender



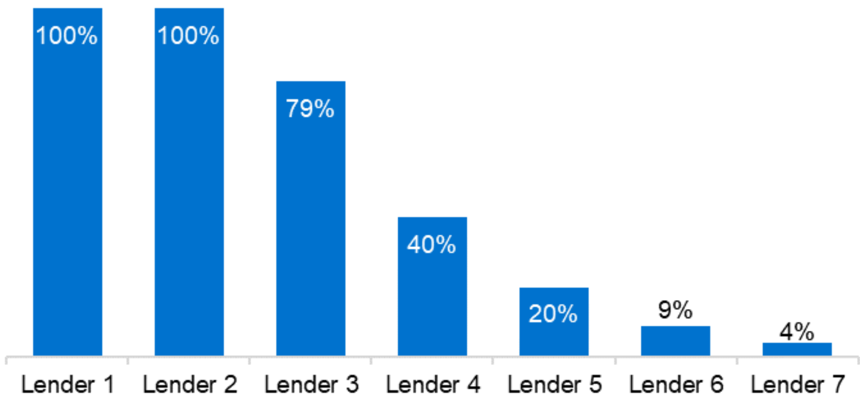
Note: See Table 24 in Appendix 2 for the data in this figure (accessible version).

154 The proportion of requests that took more than 30 days to approve for each lender ranged from around 0% to 22%. This is a long time for a customer to wait for help and may lead to the customer resorting to other options to afford essential expenses.

Requests for information

155 We also observed from our analysis of the data a significant difference in the proportion of customers from whom lenders requested further information (i.e. beyond any information collected as part of the initial interaction): see Figure 12.

Figure 12: Proportion of hardship notices with information requests by lender



Note 1: See Table 25 in Appendix 2 for the data in this figure (accessible version).

Note 2: Data about requests for information for hardship notices was not available for 3 of the 10 lenders in our review.

Experience of a hypothetical customer

156 One of the hypothetical scenarios we gave to lenders involved a customer who was struggling to make payments while the co-borrower was on parental leave (expecting to return to work in four months) and waiting for a childcare place to become available.

157 All the lenders advised they would provide some form of assistance to this customer (generally a deferral or reduced payment arrangement for three or four months). However, the process that the customer would need to go through to obtain this assistance differed across the lenders. Specifically:

(a) five of the lenders would provide the customer the assistance on the spot and over the phone after asking questions to understand the customer's situation without requiring the customer to provide any further information or documents;

(b) two of the lenders would require the customer to complete a statement of financial position (which could generally be done over the phone) but not require the customer to provide supporting documents; and

(c) three lenders would ask the customer to complete an application form (or statement of financial position) and provide supporting documents.

158 Where lenders required supporting documents, that request differed across the lenders:

(a) one lender required evidence from the employer of the return-to-work date and part time arrangements;

(b) another required evidence of current income benefits and evidence the customer's parental leave benefits were expiring; and

(c) one required a return-to-work letter with start date and evidence of no childcare availability.

Managing hardship notices

159 Four lenders adopted a case-management approach to managing hardship notices. Under this approach, a single staff member would manage the end-to-end hardship process for that customer (in some cases, just for the specific hardship notice and in some cases also for any subsequent hardship notices involving that customer).

160 The other six lenders had a worklist or activity-based approach for at least some of the hardship notices. The way that this approach operated differed somewhat across lenders, but generally meant that customers would deal with different staff members across the hardship process: see Example 21.

Example 21: Activity-based approach to managing hardship notices

Most customers who were up to date or in early arrears would be dealt with by the lender's activity-based hardship team. Under this model:

- if a customer called up to give a hardship notice, they would be connected to the first available staff member who would generally collect information from the customer and provide a decision in that same call;
- if the customer called up at any point (e.g. to change their arrangement or seek further assistance), then they would be connected to the first available staff member who will handle that matter;
- the lender had a process to undertake check-ins with customers during the hardship assistance period. The calls would be made as part of an automated dialler campaign (and therefore will be handled by whoever was working on the dialler queues that day); and
- the lender attempted to contact the customer by letter, text message and automated dialler campaigns at the end of the hardship assistance period.

161 Five of the six lenders that used an activity-based approach also adopted a case-management approach in certain circumstances:

(a) four of the lenders adopted a case-management approach in some cases when the customer required extra care because they were experiencing vulnerability;

(b) four of the lenders adopted a case-management approach for third party representatives (e.g. financial counsellor);

(c) one lender adopted a case-management approach for hardship notices where the hardship was longer-term; and

(d) one of the lenders adopted a case-management approach for some brands but an activity-based approach for another brand (this lender was in the process of moving to a case-management approach for all brands).

162 We saw examples of both the case-management and activity-based approach working well. The benefits we saw with the case-management approach included continuity in the relationship with the customer resulting in customers not needing to repeat their circumstances and, in some cases, a more personalised approach being adopted (e.g. by tailoring methods of communicating with the customer). By contrast, activity-based approaches when implemented effectively supported the delivery of consistent customer experiences in accordance with the lender's policies and procedures.

163 However, in some cases, we found that the intended benefits of the case-management approach were not being realised. This included where customers had to deal with another staff member in circumstances where the assigned case manager was not available and there were inadequate notes about the customer's situation (meaning the customer had to repeat their circumstances and/or received conflicting information). It also included situations where the case manager was not proactive and/or did not take sufficient ownership in managing the case: see Example 22.

Example 22: Issues with implementation of a case-management approach

The customer called seeking a deferral on their line of credit facility so that they could meet other expenses. The customer's line of credit facility had been active with the lender for around 21 years.

Although the lender adopted a case-management approach in going through the process of giving a hardship notice and having that notice assessed, the customer still needed to speak with at least four different people within the hardship team. The customer needed to repeat their circumstances on several occasions when dealing with members of the hardship team.

The customer's initial notice was declined on the basis that the lender did not have sufficient information to make a decision, even though they had multiple conversations with the customer about their situation and the customer was engaged with the process.

After contact by the customer, the lender opened a new hardship notice. Almost two months after the initial hardship notice was given, the lender's case manager ultimately advised the customer that there were no hardship options for line of credit facilities and asked the customer for their consent to withdraw the hardship notice. The customer was also told to speak to their local branch to talk about other options.

After speaking with the branch—who were not able to assist—the customer ultimately made a complaint to the lender's internal dispute resolution (IDR) team. During this call, customer advised that they:

- were unhappy with the lenders 'operational procedures' and administration of the matter;
- felt as though they had 'been left in the dark a lot of the time', hadn't received a lot of information from them, and that they were given 'hope' on a number of occasions (but later advised that they were not eligible for the assistance they sought);
- felt that they had been 'jumped from one person to the next to the next' and their expectation was that 'you would have just one person you deal with';
- were frustrated that each time they 'have to go through [their circumstances] all over again just like now' and that 'it's all there in the paperwork, in the notes … surely I shouldn't have to go through it over and over again';
- felt the outcome was unfair because 'I've been paying the account for so long and the one time I ask for some leniency I am smacked in the face and told I'm not eligible';
- were frustrated it had taken this long to reach an outcome when the lender knew from the start that they were seeking assistance in relation to a line of credit facility; and
- were 'offloaded' to the branch even though that is where they had first started and who had advised they needed to speak with the hardship team.

Based on ASIC's review of material relating to this case, there was merit to the customer's complaint about the lender's handling of their hardship notice.

The customer lodged a complaint with AFCA after the call with the lender. The lender ultimately offered to resolve the matter by reducing the customer's interest on the facility to 0% for a four-month period.

164 Where a lender adopts an activity-based approach, it is important that they have adequate systems, policies and processes to support that approach. This includes taking adequate notes of interactions and ensuring that staff have the time and systems they need to be able to understand the customer's situation and the lender's interactions with the customer. This may also include adopting a case-management approach where customers have more complex circumstances or needs.

165 During our review of case studies, we saw some issues with how lenders had implemented the activity-based approach, which led to poor customer experiences and outcomes. One of these is provided at Example 23.

Example 23: Issue with execution of an activity-based approach

The customer had a history of engagement with the lender's collections and hardship teams in relation to arrears. The arrears had accrued due to separation from their partner, and they were attempting to clear the arrears themselves.

The customer called the lender asking what options they had, because they were unable to clear the arrears. The lender advised that the account would be placed under hardship and that lender would be in contact to conduct an over the phone assessment for hardship assistance.

The lender attempted to call the customer 21 days after the customer initially made their request, but were not able to reach the customer and therefore left a message for the customer to call back. The lender issued a decline letter to that customer by mail that same day. The letter wrongly stated that the reason for the decline was they had reviewed the customer's circumstances and did not believe the customer could continue to meet their obligations after a period of hardship assistance. The customer was actually declined because the lender required further information to complete their assessment.

The staff member left notes on the customer's file to advise that if the customer called, the person who received the call should request certain information about the customer's situation (such as plans to recover their financial situation) to make an assessment.

Two weeks later the customer rang up the lender's hardship team to advise that they intended to sell their property. The staff member advised they would note this on the customer's file. They did not ask any questions other than to query whether the property was already on the market. The customer was frustrated by this question, advising they hadn't listed yet because they had to find somewhere else to live first and needed to find the money for fees to sell the house. The lender did not use this as an opportunity to query whether customer required any assistance, and instead advised: 'It's all good—I'll update on your file that you are thinking to put the property on sale and it'll be on the market in the next two or three weeks.'

In the intervening period, the customer appears to have received the decline letter relating to the previous hardship notice.

Two days later after the earlier call, the customer called to query the decline letter. After the staff member identified the customer, they asked 'How can I help?' There did not appear to be an attempt to review the customer's file before asking this which appeared to frustrate the customer. The customer raised a number of concerns during this call including that:

- they had made multiple calls to the lender and had only the one missed call from the lender and were therefore unhappy to receive the decline letter suddenly; and
- they had multiple conversations with the lender and so the lender should have been aware of their circumstances before issuing the decline.

166 Example 23 also demonstrates a lack of empathy by the lender in dealing with the customer. This was a common issue across the case studies that we reviewed, for both case-management and activity-based approaches.

167 We note that staff who are understanding and empathetic may allow customers to be more open about their situation. This openness can increase the chances of the lender and customer finding a sustainable solution.

Practical action lenders can take to support customers

Lenders should manage hardship notices so that customers are dealt with empathetically, do not need to repeat their circumstances and are kept updated on the progress of their hardship notice.

Collecting information about the customer's situation

168 All of the lenders sought to obtain at least some information about the customer's financial situation, the reason for the customer's financial hardship and how the customer intends to recover from the situation as part of the assessment process. This generally included obtaining a detailed overview of the customer's income, expenses and liabilities (a 'statement of financial position') except sometimes as part of streamlined processes (where the lender might only ask more general questions about the customer's income, expenses and liabilities).

169 Better lenders had provided staff with training and/or provided staff with conversation guides to assist staff in having conversations with customers about the information provided.

Practical action lenders can take to support customers

Lenders should collect information about a customer's financial situation, the reason for the customer's financial hardship and how the customer intends to recover from the situation (if applicable) to enable the identification of assistance options (where applicable) that will help the customer with their financial difficulty.

Application forms and approach to collecting information about the customer's situation

170 Although all lenders collected information from customers about the customer's situation, we saw significant differences in how lenders went about collecting that information. In better cases, lenders were flexible and would collect this information over the phone in the initial call where possible to avoid the need for the customer to return information in writing.

171 By contrast, when a customer spoke with the financial hardship team at other lenders, the customer would be instructed that they needed to complete an

application form before the lender could consider their request further. The customer would then be sent (by email and/or mail) details of how to complete the application form.

172 These application forms were up to six pages in length and contained a large number of detailed questions about the customer, their financial situation, their reason for hardship and their recovery plans. These application forms needed to be returned by email or mail, or in some cases completed online.

173 This approach would be adopted regardless of the customer's circumstances (e.g. only needing short-term assistance) and whether the lender already held the required information (e.g. from a previous application or from information the customer provided in the phone call with the lender). We also saw the practice being adopted even where there may be limitations in the customer's ability to complete the written application form. We saw that this approach could sometimes impose a significant barrier in the way of customers obtaining assistance: see Example 24.

Example 24: Written application form presenting a barrier to customer receiving assistance

An older customer was dealing with a range of medical issues and living alone away from family.

The lender had previously provided the customer with hardship assistance, which had since finished. The customer was sent correspondence advising them to re-apply for assistance and thereafter sent a decline due to non-response. The lender already had details about the customer's financial situation on file from the previous hardship notice.

Shortly after the above, the lender's collections team made an outbound call to the customer. The customer advised that they thought they already had a deferral in place. After the lender advised there was no active financial hardship arrangement in place, the customer asked for further assistance. The lender advised that they would send out an application form that the customer needed to complete. The lender took 6 days to send this information to the customer and advised the customer they had 21 days to reply to that email. The customer did not return the application form and was declined assistance on the basis that the requested information was not provided.

Three weeks after the decline was issued, the lender's collections team made another outbound call to the customer. The customer again advised they would like to give a hardship notice and so the lender responded by sending the application form for the customer to complete. The customer was again declined on the basis that the requested information was not provided.

One month later, the lender's collections team made another outbound call to the customer. The customer again advised they thought there was a financial hardship arrangement in place. After the lender advised there was no arrangement in place, the customer gave another hardship notice and asked for the hardship team to give him a call back in 30 minutes. The call did not happen within that timeframe and the customer was sent a further email with the application form to complete.

Two and a half weeks later, the customer called the lender asking to speak to the hardship team. They were unable to complete the online form within the required timeframe due to ill health. The customer's call could not be transferred because the hardship team was not available.

The lender's hardship team ultimately managed to contact the customer by phone two days later where they took the customer's details (including financial circumstances) over the phone. However, the agent did not offer to help complete the application form at the outset despite the customer's distress on the call. Following the provision of some supporting evidence, the lender agreed a serviceability period arrangement with the customer (which the customer has met).

While it was positive that the lender eventually took the customer's details over the phone, this could have been done much earlier. The significant delay in the customer receiving assistance meant that the customer received ongoing collections calls and had missed repayments reported to credit reporting bodies. The lender conducted a risk hindsight review following the agreement to provide a serviceability period arrangement; however, none of the above issues were identified.

Practical action lenders can take to support customers

Lenders should ensure that there is sufficient flexibility in policies and processes to deal with customers with diverse needs. This includes allowing customers to provide information over the phone, and having arrangements to limit or waive requests for information and supporting documentation where appropriate.

Streamlined assessment processes

174 Most of the lenders that we reviewed adopted streamlined or simplified processes, taking into account the individual circumstances of the customer. The specific process differed between lenders, but usually meant that a customer who only required shorter term assistance and/or who was seeking assistance for the first time could be provided assistance immediately over the phone without the need for the customer to provide any supporting documentation. See Example 25 for the streamlined assessment process in operation at one lender.

Example 25: Streamlined assessment process at a lender

A lender had a streamlined assessment process to support customers who require short-term, first-time assistance. This process allows hardship assistance to be granted without the requirement to complete a full statement of financial position, provide any supporting documentation or seek manager approval. To qualify:

- this must be the first hardship notice on the account within the last 18 months;

- the reason for hardship assistance must be unemployment, reduced income, injury, illness, death, divorce and/or separation; and
- the hardship event must not be indefinite, and the customer must not require more than four months of support to return to normal payments.

In this case, the staff member may provide the customer a deferral or payment arrangement of up to three months.

This process is not available if the reason for hardship relates to overcommitment (such as general cost of living pressures or increased interest rates). This is because the lender considers it important to gain a fuller understanding of the customer's financial situation by obtaining a statement of financial position (which they would generally do over the phone).

175 This approach recognises that in many cases when a customer first requests assistance they will be dealing with other stressors in their life that require their attention (e.g. unemployment) and may struggle to navigate a complex process. Lenders indicated that a benefit of the streamlined approach is that the provision of hardship assistance upfront with minimal barriers provides the customer with 'breathing space' to focus on addressing the cause for their financial difficulty (e.g. finding a new job) in the first instance.

176 The lenders that adopted streamlined approaches had lower dropout rates than other lenders.

Practical action lenders can take to support customers

Lenders should scale requests for information and supporting documentation, taking into account a customer's individual circumstances. In general, it is likely to be appropriate to collect less information for first time, short-term assistance, particularly where there is a clear resolution to the reason for the hardship.

Requesting supporting documentation

177 In some cases, lenders may require customers to provide documentation to support a hardship notice. Depending on the customer's circumstances and the nature of the documentation sought, these requests can be onerous for the customer to comply with.

178 Lenders should consider a customer's individual circumstances and limit requests for supporting documentation to those documents genuinely required to determine whether a customer is unable to meet their obligations and/or what (if any) assistance would be appropriate to provide: see also s72(2) of the National Credit Code.

Trigger for requesting supporting documentation

179 We identified that three of the lenders had a blanket process of requiring customers to provide supporting documentation as part of the application process regardless of the customer's individual circumstances (though generally with exclusions for exceptional circumstances).

180 By contrast, most other lenders had a policy of limiting requests for supporting documentation to only those situations where it was necessary to understand the customer's individual circumstances. Some of the triggers that we saw for these lenders to request supporting documentation from customers included:

(a) the customer seeking longer term assistance—the supporting documentation would help the lender to confirm that the arrangement is sustainable for the customer and would not place the customer in a worse position;

(b) the customer making repeat requests for assistance—the supporting documentation would help the lender confirm that the customer has a realistic plan for recovering their financial situation; and

(c) the customer agreeing to take certain steps (e.g. selling a property)—the supporting documentation would help the lender confirm the customer was taking the agreed steps; and

(d) certain types of arrangements for which the lender had specific eligibility criteria (e.g. waivers)—the supporting documentation would demonstrate the customer's eligibility for that arrangement.

Breadth of supporting documentation requests

181 Seven of the lenders that we reviewed tailored information requests to the circumstances of each customer. For example, in the case of a customer experiencing hardship due to not being able to work due to an injury, the only documentation that the lender would request is a medical certificate outlining the customer's expected return to work date.

182 By contrast, the other lenders had standardised requests that they would issue to all customers when issuing an information request. In some cases, these standardised requests required the customer to provide a large number of documents: see Example 26.

Example 26: Generic request for information and supporting documents

A lender generally issued the following information request to customers without any further tailoring:

To allow [us] to assist you it is necessary to seek some information from you relating to your current situation. We have therefore enclosed a

> Statement of Financial Position and Privacy Statement form for you to complete and return.
>
> In addition to these forms, we may also require documents to support your hardship request. For example, please provide the following documents:
>
> - Most recent consecutive payslips/income statements for the last 2 pay cycles or any other documentary evidence of income for both.
> - If self-employed, 6 months BAS or income statements
> - Recent consecutive bank statements covering the last 3 months for your personal transaction accounts for both.
> - Most recent credit card/loan statements for any credit card or loans held
> - If your application relates to an illness, please provide a medical certificate or similar as well as confirming when it is likely that you will be in a position to return to your pre-illness employment hours and duties
> - Certificate of Currency, confirming building insurance is up to date
> - Any other supporting documentation relating to your current financial situation (Council rates notices, fines, overdue accounts etc…).
>
> We reserve the right to request further evidence depending on our assessment of the documents provided.

183 In these cases, it appeared that lenders were attempting to cover the field by requesting all possible documents that may be relevant to their decision instead of considering a customer's individual circumstances to determine whether any information needs to be obtained and if so, what information. However, this approach makes the assessment process more onerous for customers and increases the risk of customers dropping out.

Practical action lenders can take to support customers

Lenders should only request information and/or supporting documentation that is relevant to assessing a customer's ability to meet their financial obligations and/or to determining what (if any) assistance to provide.

Quality of written requests for information and supporting documentation

184 In almost all cases, requests for supporting documentation were made in writing. However, through our review of the case studies, we found that the quality of written communications to customers was mixed. Common issues included:

(a) failing to tailor the request to the customer's circumstances and/or to reflect a conversation that was held with the customer (even where the lender had a policy of tailoring requests in this way);

(b) inconsistencies between requests (see Example 27);

(c) placing the onus on the customer to determine what documents are necessary to provide in order for the lender to assess the customer's application; and

(d) failing to clearly articulate the consequences of not providing the requested information and/or documentation.

Example 27: Inconsistency in information request given to customer

The customer called to give a hardship notice because of a period of unemployment they would experience while undertaking an unpaid teaching placement.

The lender emailed the customer after the call to advise that they required further information to assess the customer's hardship notice. This email directed the customer to complete an online application form and provide the following documents:

- any relevant supporting documents that may assist the lender's assessment;
- proof of income;
- confirmation of job offer (if any); and
- a recovery plan.

The online form, on the customer selecting their reason for hardship, asked for a different set of documents:

- a separation certificate;
- a letter of termination from employer; or
- their Centrelink registration.

This type of inconsistency makes it harder for the customer to understand what is required and may lead them to believe they must provide more information than needed.

Practical action lenders can take to support customers

Lenders should tailor written requests for information and supporting documentation to a customer's individual circumstances and ensure that requests are clear about what is required from the customer.

Assessing information and supporting documentation

185 In better cases, we found that lenders had in place processes to assess the information provided and to probe any information that was implausible or unrealistic. At one lender, the lender had a spreadsheet calculator which would identify if the information was below expenditure benchmarks so that could be probed with the customer. One of the major banks had an even more sophisticated approach using a range of data sources: see Example 28.

Example 28: Lender's use of data to support hardship assessment process

The lender's hardship management system was connected to the lender's credit risk engine (also used for loan origination). When a hardship notice and statement of financial position is entered, the system provides information to the hardship staff member managing the hardship notice showing whether:

- the customer appears to have disclosed all income and expenses based on their transactional data;
- based on data from credit reporting bodies, the customer has any additional liabilities that they have not mentioned;
- the customer's expenses are consistent with the Household Expenditure Measure (HEM) expected expenses for that customer; and
- the customer has any higher-risk transactions (e.g. payments to payday lenders, debt collection agencies or gambling businesses).

This information is used to inform the lender's conversations with customers.

186 By contrast, we saw some instances where information appeared to be collected by the lender to 'tick a box' rather than to determine the most appropriate solution for the customer: see Example 29.

Example 29: Failure to query information provided by customer

The customer advised they would like to switch to interest-only repayments. They were struggling with interest rate increases and had started maternity leave the day before.

The customer was emailed the application form (including a statement of financial position) to complete along with a list of documents to provide.

The customer provided a statement of financial position as part of their application, which had unrealistically low expenses. The supporting documents also showed the customer had:

- recently made a significant number of repayments to a buy now pay later (BNPL) provider, which were not disclosed in the statement of financial position, as well as payments to a payday lender and a debt collection firm; and
- another BNPL account (disclosed in the statement of financial position) which was at 98% utilisation and being used for everyday expenses.

Despite the clear indications that the customer was overcommitted, these matters were not queried with the customer. The lender proceeded on the basis that the customer's reason for hardship was the period of maternity leave rather than overcommitment.

The customer was ultimately given a three-month deferral, which did not appear to be responsive to the customer's situation. They ultimately requested and received further assistance at the end of that period (a temporary interest-only period, as initially requested).

The lender also did not provide the customer with information about financial counselling or other support services (despite the benefit that there would be for the customer in doing so).

Practical action lenders can take to support customers

Lenders should ensure that all information and supporting documentation provided by customers is assessed and used to determine what assistance (if any) to provide the customer to address their financial difficulty (including to ensure any assistance provided is sustainable). This includes probing information where necessary.

Following up on requests for information and/or supporting documentation

187 All lenders advised us that they would follow up on requests for information and/or supporting documentation. However, we found that the approaches differed across lenders.

188 Seven lenders had implemented a structured communications strategy where communications were made using a range of channels during the 21-day period that the customer had to provide a response to the request. The communications strategies varied in terms of the number of contact attempts made, the timing of those contacts and the channels used: see Example 30.

Example 30: Structured communications strategy for following up infromation requests

One lender had a comprehensive structured communications approach to following up information requests. The approach included the following regular communications across a range of channels:

- a reminder message was visible in the customer’s mobile banking app until the requested information was provided;
- a reminder text message was sent to the customer on day 6 after the request for documents was made;
- a reminder letter was sent to the customer on day 10;
- calls were attempted (using a dialler system) on days 12, 14 and 16;
- a final reminder text message was sent to the customer on day 17; and
- a decline letter was issued on day 21.

This communications approach was not used in circumstances where the customer was experiencing vulnerability that meant the general approach was not suitable (e.g. experiencing family violence). In these cases, the lender adopted a tailored approach, taking into account the specific circumstances for that customer.

By contrast, another lender had a structured communications approach that only involved the use of text messages before the decline. Their approach involved:

- a reminder text message at day 7 and 15; and
- a phone call at day 21 to advise the customer that their application was declined due to insufficient documentation, with a 14 day ‘grace period’

to return the documents (this being the period of time before the lender would recommence collections activity).

The lender has since changed their communications approach to increase the frequency of contact attempts and use multiple channels.

189 Customers have different communications preferences, and their circumstances may mean that some channels are better than others. Given this, it is important that a lender's communications strategy involves the use of a range of channels to attempt to contact the customer where further information is required. Example 31 shows how issues can arise where a lender focuses too much on a single communication channel.

Example 31: Customer is declined without realising that a phone attempt had been made to contact them

The customer called to advise that their partner had given birth and because they did not have any paid parental leave they could not make their repayments. The customer asked for a three-month deferral and advised they would be able to recommence repayments after that period as their partner would return to work. The lender cancelled direct debits and advised the customer they would be contacted within two to three weeks.

The lender's notes indicated that an unsuccessful attempt was made to call the customer to seek further information about the customer's circumstances (with a voicemail left requesting that the customer to call back). No other attempts were made by the lender to contact the customer. The lender then proceeded to issue a letter declining the customer's hardship notice after 21 days.

The customer subsequently received a call from the lender's debt collection firm in relation to the account. The customer advised they had understood that a financial hardship arrangement was in place and they are concerned about the effect on their credit report. The customer lodged a complaint in relation to this, which ultimately resulted in hardship assistance being provided and a correction to the customer's credit report.

190 We found that some lenders did not have a documented strategy for communicating with customers to follow up requests for information. In these cases, lenders left it to the staff member managing the hardship notice to determine when and how to follow up customers (with varying levels of guidance around this). We saw this leading to some cases where customers were not followed up at all.

Practical action lenders can take to support customers

Lenders should have arrangements in place to follow up requests for information and/or supporting documentation. This should generally include making multiple contact attempts using more than one communication channel well in advance of issuing a decline notice.

F Working with customers to develop sustainable solutions

Key points

We found that lenders often didn't tailor assistance to customers' individual circumstances.

All of the lenders took into account a range of factors when deciding whether to provide hardship assistance and the type of assistance to provide. However, in some cases, lenders adopted overly standardised approaches to determining whether to provide assistance and what assistance to provide. These approaches focused too much on individual factors, rather than a customer's overall financial position. This creates a risk that customers are not given appropriate assistance or were given inappropriate assistance.

Where assistance was provided by lenders to customers, that assistance was generally short term. In some cases, there were opportunities for lenders to take into account customer's individual circumstances and provide greater certainty where appropriate.

Lenders differed significantly in how they provided assistance in relation to arrears. Many lenders took standardised approaches that did not always take into account the individual circumstances of the customer.

What we looked at

191 We reviewed how lenders determine whether and what assistance to provide to customers. As part of this, we considered the extent to which lenders adopted 'one-size-fits-all' approaches, compared to more flexible approaches that tailored assistance to ensuring a sustainable solution based on the customer's individual circumstances.

192 We assessed the data provided by lenders (see paragraphs 196–202), responses to a hypothetical customer exercise (see paragraphs 203–205) and:

(a) the factors used by lenders in deciding what (if any) assistance to provide (see paragraphs 206–231);

(b) the duration of assistance provided by lenders (see paragraphs 232–233);

(c) how lenders dealt with arrears that existed or accrued during a period of hardship assistance (see paragraphs 234–245); and

(d) whether lenders made referrals to financial counselling services where appropriate (see paragraphs 246–247).

Types of assistance provided by lenders

193 Through our review, we identified a wide range of types of assistance that lenders may provide customers to support them through their financial hardship. Table 8 to Table 10 outline the main types of assistance that we saw provided along with a description of these forms of assistance and the purpose of that assistance.

Table 8: Hardship assistance—Arrangements relating to ongoing repayments

Type of assistance	Description
Deferral	A temporary period where customer stops making all payments under the loan (usually with interest and arrears still accruing). This is also known as a moratorium or postponement. This type of assistance is generally used where a customer does not have the capacity to make any repayments towards their credit contract.
Payment arrangement	A temporary period where customer makes reduced payments under the loan (usually with interest and arrears still accruing). This is also known as a reduced payment arrangement. This solution is commonly used where a customer has the capacity to make only some of the normal repayments towards their credit contract.
Interest-only repayments	A temporary period where the customer will only repay the interest on the loan as it becomes due. This would usually mean that arrears would not accrue during the assistance period.
Term extension	An extension of the term of the loan (e.g. from 22 years to 25 years) so that the principal is repaid over a longer period, therefore reducing current repayment amounts. This solution was most commonly applied in conjunction with another solution—for example, along with a deferral and/or capitalisation of arrears: see Table 9.

Table 9: Hardship assistance—Arrangements relating to arrears

Type of assistance	Description
Capitalisation of arrears	Arrears are added to the loan balance and repaid across the remaining loan term. This is also be known as re-ageing. This may be used where the customer can meet the ongoing fortnightly or monthly repayments under their credit contract but needs assistance with arrears that have accrued. Capitalisation of arrears was offered by all of the lenders reviewed. However, those lenders implemented this in significantly varying ways: see paragraphs 235–245.
Arrears payment arrangement	An arrangement for the customer to make more than their usual monthly payments over a period of time to repay arrears that have accrued.

Type of assistance	Description
Serviceability period	An agreement for the customer to make payments for a period to prove serviceability prior to varying the credit contract to capitalise arrears.

Table 10: Hardship assistance—Other arrangements and solutions

Type of assistance	Description
Interest rate reduction	A reduction of the interest rate applying the loan, either for a defined period or an ongoing basis.
Supported sale of property	Some lenders offered assistance to customers who have decided to sell their property to address their financial situation. The type of assistance varied across lenders but was aimed at supporting the customer to sell the property (and maximise their returns in doing so) and/or relocate from the property. The assistance offered by lenders included making payments for minor improvements to prepare the property sale (e.g. painting), moving expenses, and rental bonds and first month rental payments.

194 We saw that that the arrangements outlined could be offered individually or in conjunction with other arrangements as part of a broader solution.

195 There were other types of assistance that some lenders also provided less commonly—for example, settling for an amount less than the amount owing under a loan, debt waivers, and life tenancies. These were generally reserved for the most exceptional situations.

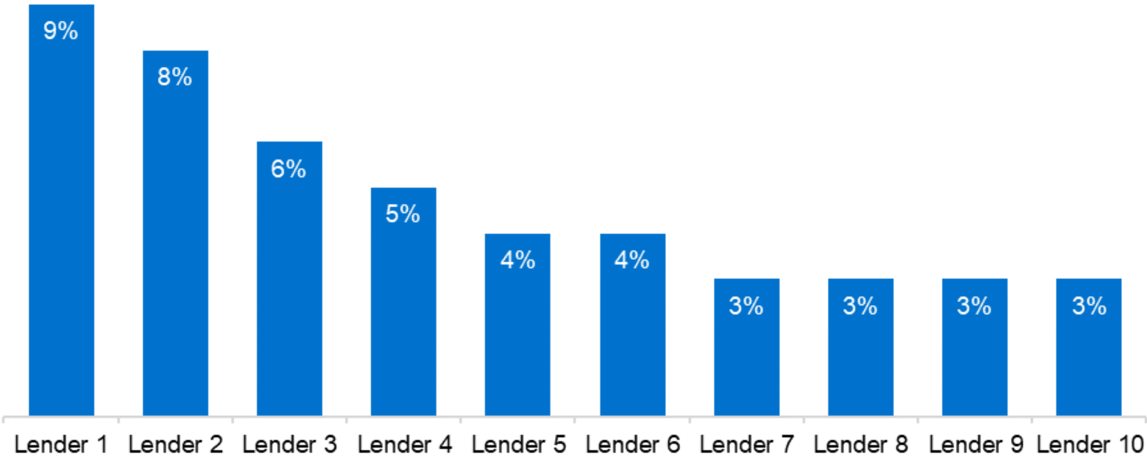
Insights from data analysis

Approval rates for hardship notices and decline reasons

196 We found that approximately 71% of hardship notices were approved and resulted in some assistance given, with the approval rate varying for different reasons for hardship.

197 Apart from the 23% of requests being withdrawn or declined due to a customer not providing information requested by the lender to complete their assessment (see Section E), we found that 6% of requests were being declined for another reason. This proportion varied between the lenders in our review, ranging from 3% to 9%: see Figure 13. We note that there were higher decline rates among some home lenders included in our data collection but not included in our review (this included a lender with a decline rate of 39% and another with a decline rate of 36%).

Figure 13: Proportion of hardship notices declined due to a reason other than non-response from the customer



Note: See Table 26 in Appendix 2 for the data in this figure (accessible version).

198 The way that the reason for a decline was captured varied significantly across lenders, which means we could not obtain granular information about the reasons for declines. However, based on the data that we were able to collect and the information provided by lenders as part of the review, the most common reasons for lenders declining customers were:

(a) the customer did not respond to a request for information (see Section E);

(b) the lender assessed that there was no solution that they could provide that would solve the customer's financial hardship;

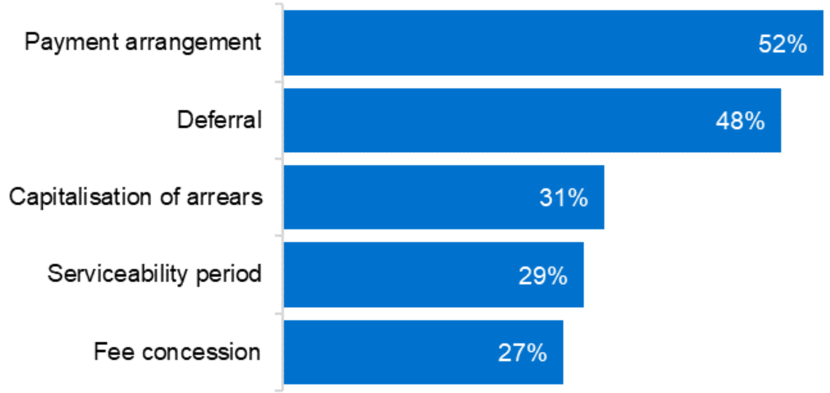
(c) the lender assessed that the customer was able to meet their obligations under the credit contract; and

(d) the customer declined assistance that was offered by the lender (i.e. because the assistance offered by the lender was not what the customer requested).

Most common types of assistance provided

199 The most common types of assistance provided were payment arrangements, deferrals, capitalisation of arrears and serviceability periods: see Figure 14.

Figure 14: Top five arrangement types by proportion of accounts with that arrangement



Note 1: See Table 27 in Appendix 2 for the data shown in this figure (accessible version).

Note 2: Lenders could provide more than one type of arrangement for a single account in response to a single hardship notice or over time.

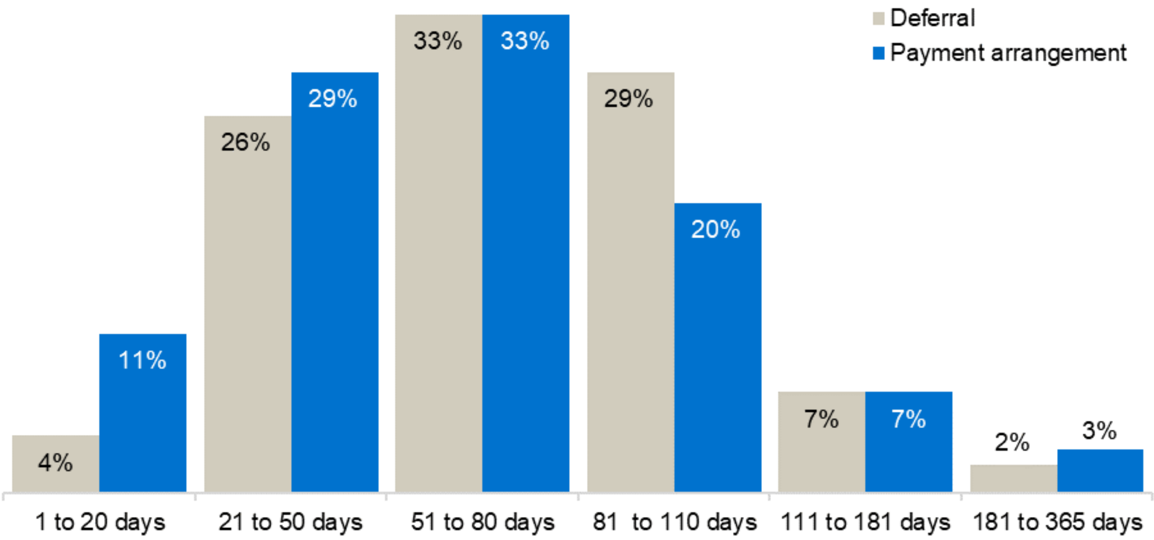
Note 3: Fee concession generally related to the waiver of default fees and interest; however, this may not be captured consistently across lenders.

200 We found that lenders used other arrangement types much less commonly, providing arrangements such as term extensions, interest-only repayments and interest rate reductions for around 1% of accounts.

Duration of assistance provided

201 In general, most of the deferrals and payment arrangements were for a relatively short period (usually up to three months in length): see Figure 15.

Figure 15: Breakdown of arrangement duration by arrangement type

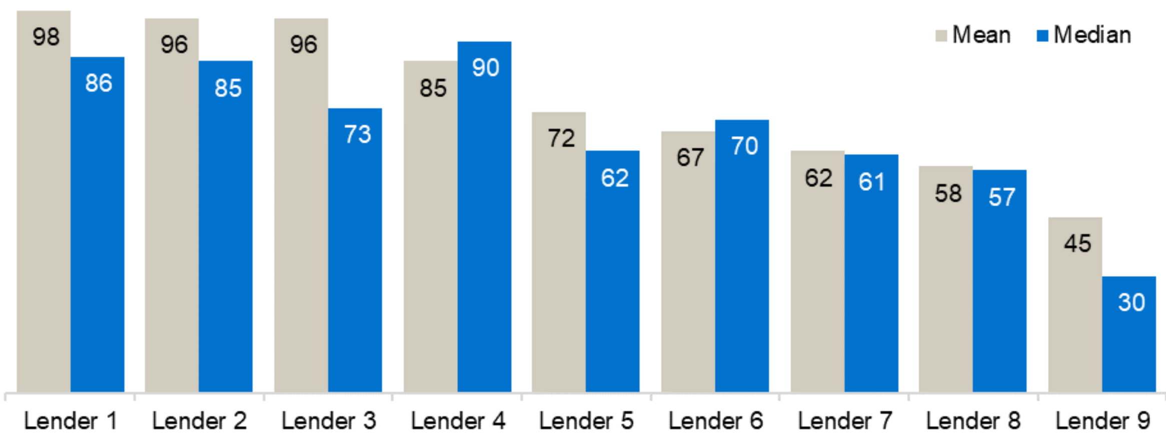


Note 1: See Table 28 in Appendix 2 for the data shown in this figure (accessible version).

Note 2: Time periods have been used to visualise the clustering of arrangements to around one month, two months and three months in length.

202 The length of assistance did vary across lenders though, with some lenders in general providing longer assistance than others: see Figure 16 to Figure 17.

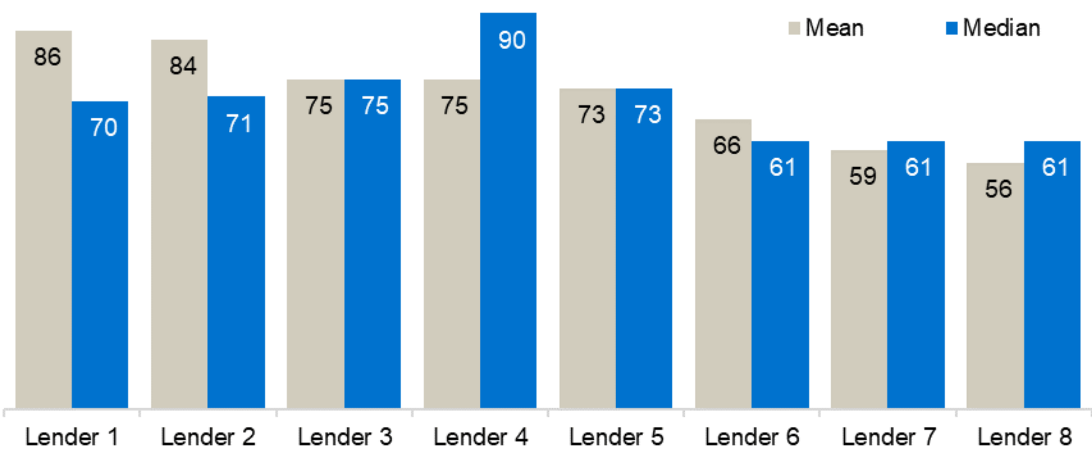
Figure 16: Mean and median duration (in number of days) of a payment arrangement by lender



Note 1: See Table 29 in Appendix 2 for the data shown in this figure (accessible version).

Note 2: We have excluded 1 of the 10 lenders due to limitations in the data collected.

Figure 17: Mean and median duration (in number of days) of a deferral by a lender



Note 1: See Table 30 in the appendix for the data in this figure (accessible version).

Note 2: We have excluded 2 of the 10 lenders due to limitations in the data collected.

Solutions provided to a hypothetical customer

203 As part of our hypothetical customer exercise, we asked lenders to advise in relation to a range of hypothetical scenarios whether they would provide any assistance to that customer and if so, what assistance they would provide.

204 One of the hypothetical scenarios we provided to lenders involved a customer who had recently become unemployed but was earning income

driving for a rideshare service. The customer had $1,433 left over each month after accounting for essential expenses and other liabilities. Although all of the lenders advised they would provide some form of assistance to this customer, the type, amount and duration of assistance varied across lenders. Specifically:

(a) six lenders would offer a payment arrangement (but two of these advised they would also consider a deferral if requested by the customer);

(b) one lender would offer a two-month or three-month payment arrangement;

(c) one lender would offer a three-month payment arrangement or a three-month deferral;

(d) one lender would offer a three-month payment arrangement or six months of interest-only repayments; and

(e) one lender would offer three months of interest-only repayments (and, following a recent policy change, six months of interest-only repayments).

205 Where lenders would offer a payment arrangement, lenders generally indicated that this would be negotiated with the customer. However, the starting point for lenders differed significantly:

(a) two indicated they would offer a payment arrangement of up to $1,433;

(b) one indicated they would offer a payment arrangement of up to $1,400;

(c) one indicated they would offer a payment arrangement of around $1,300 (building in a $100 buffer);

(d) three indicated they would offer a payment of around $1,000;

(e) one indicated they would offer a payment arrangement of around $800; and

(f) the other lender did not specify an amount.

Note: Most lenders indicated they would determine the actual amount based on a conversation with the customer about their capacity to pay.

Factors used to decide what (if any) assistance to provide

206 The policy of all lenders reviewed was to consider the customer's individual circumstances in determining whether to provide hardship assistance and the type of assistance to provide.

207 We identified a range of factors that were taken into account by some or all of the lenders in deciding whether to provide hardship assistance and the type of assistance to provide. These factors are detailed in paragraphs 208–231. In some cases, lenders adopted relatively inflexible approaches to their assessment, including by focusing too much on individual factors rather than a customer's overall situation.

Standard solution set of the lender

208 All of the lenders that we reviewed had a standard set of solutions (e.g. deferrals, payment arrangements) for staff to use in providing assistance to customers. As outlined earlier in paragraphs 193–195, these solutions differed between lenders. In some cases, lenders also had criteria for when particular solutions could be used which also varied between lenders.

209 Across the lenders we reviewed, there was limited scope for the consideration of solutions outside the standard set of solutions. This meant the solutions offered by a lender (and any criteria that the lender's policies attached to the use of those solutions) was a significant factor in what (if any) assistance was provided by the lender to the customer: see Example 32.

Example 32: Lender's standard solutions driving assistance provided

The customer received an email from the lender that advised customers that if they were experiencing hardship, they should call the lender. The customer was on parental leave for six months and called the lender to inquire about changing to interest-only repayments.

The lender advised the customer that they can offer interest-only repayments on hardship grounds for a maximum of three months. The lender advised the customer that an alternative is a partial payment arrangement but that arrears will accrue during the period of that arrangement and that there is no guarantee that the arrears will be capitalised at the end of the payment arrangement.

The customer ultimately decided not to progress with hardship notice.

The lender has since revised their policy so that they offer interest-only repayments for six months, up to a maximum term of 12 months.

Practical action lenders can take to support customers

Lenders should ensure that the standard solution set is sufficiently broad and flexible to suit a wide range of customer circumstances. There should also be processes for staff to escalate where the standard solutions are not appropriate.

Customer's request for a particular type of assistance

210 In many cases, a lender will ask the customer what type of assistance they are seeking as part of the hardship process. Even where a lender does not specifically ask the customer, many customers will request a particular form of assistance when engaging with their lender.

211 Given that customers are most familiar with their own financial situation, they will often be well placed to know what type of assistance will be helpful to their circumstances. However, they may not be knowledgeable about all the various solutions that may be available and the advantages and

drawbacks of those solutions. In some circumstances, customers may prefer solutions that address their short-term issues but inadvertently make the credit contract less sustainable for the customer in the longer term: see Example 33.

Example 33: Customer understanding of the impact of a deferral

Several lenders advised that over the last few years—following some customer misunderstanding of pandemic-related support packages—there has been an increase in the number of customers specifically seeking a payment deferral even where they have capacity to make some repayments under the loan. This is often due to a mistaken understanding that interest and arrears will not accrue during the deferral period.

212 On the other hand, some customers may ask for the assistance that they believe will be approved rather than asking for the assistance that they need to sustainably address their financial difficulty: see Example 34.

Example 34: Customer understanding of assistance needed

The customer had arrears accrue due to some unexpected expenses. The customer contacted the lender to discuss clearing their arrears. They wanted to know what their options were and requested an arrangement to make more than their minimum monthly repayments towards the loan to clear the arrears (i.e. an arrears payment arrangement).

The lender identified that the customer was unlikely to have the ability to make sufficient extra payments to clear the arrears in the short-to-medium term. They asked the customer whether they would be interested in capitalising the arrears and explained how this would work.

After the options were explained to the customer, they confirmed that their preference was the capitalisation of arrears. However, to proceed with this option the lender required further information that the customer was not able to provide as they were at work. The lender entered into a one month arrears payment arrangement to give the customer time to prepare the information and call back to be considered for capitalisation of arrears.

Practical action lenders can take to support customers

Lenders should, even when a customer requests a specific type of hardship assistance, determine whether that assistance is appropriate for the customer's circumstances and educate customers about other options that may be available.

Customer's income and expense position

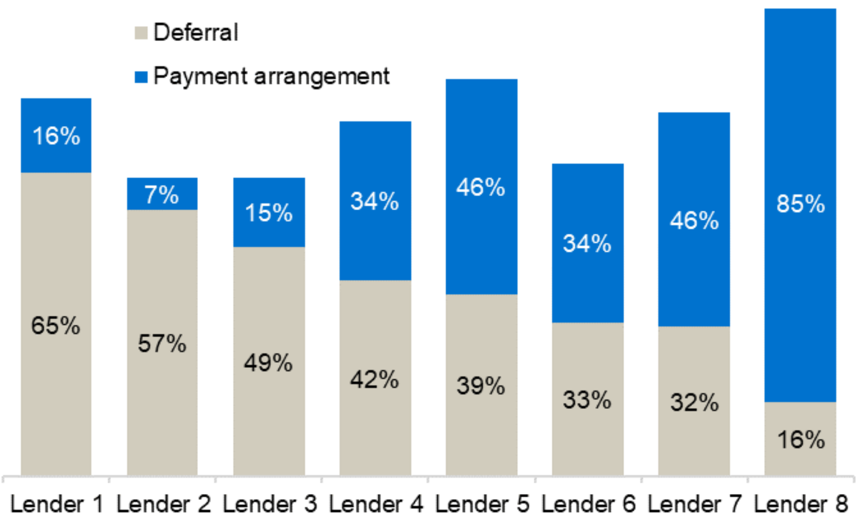
213 One of the most important factors for lenders in determining whether to provide hardship assistance, and type of assistance to provide, is the information that the customer provides about their income and expenses (whether a detailed statement of financial position or high-level position).

214 In the first instance, lenders will review the information to determine whether the customer has the capacity to make their normal repayments under the loan. If the information suggests the customer has the capacity to make their repayments, lenders generally make inquiries to confirm that the information is correct. If these inquiries confirm that the customer has capacity to meet their repayments in the short term, the customer would generally be declined hardship assistance.

215 Most lenders advised that they sought to have the customer pay what they could towards the loan. The lenders advised that the purpose of this approach was to minimise the arrears that accrue during the hardship assistance period, therefore providing flexibility in case the hardship situation continued and protecting the customer's longer-term financial position (including preserving equity in the property).

216 However, not all lenders consistently adopted this approach, and some lenders offered deferrals even where the customer had the ability to make some payments. Supporting this, our analysis of the data provided by lenders showed that some lenders provided a high proportion of deferrals to customers even when the reason for hardship was overcommitment or reduced income (circumstances where the customer will often still have the capacity to make some repayments): see Figure 18.

Figure 18: Proportion of approved hardship notices involving a deferral or payment arrangement where the reason for hardship was overcommitment or reduced income



Note 1: See Table 31 in the appendix for the data in this figure (accessible version).

Note 2: Two of the ten lenders have been excluded due to limitations in the data provided.

217 In addition, in response to our hypothetical customer exercise, some lenders advised that they would offer the customer a deferral in some of the scenarios where the customer had clear capacity to pay. We also saw some

case studies where the customer was offered a deferral, which may not have been in the customer's long-term interest: see Example 35.

Example 35: Offering a deferral where customer had ability to make payments

The customer fell into arrears around six months after settling on a home loan for the purchase of a property. Shortly thereafter, the customer gave a hardship notice due to difficulties in meeting the repayments, which the customer advised was due to a one-off expense and the impact of rising interest rates. They also referred to needing to repay unsecured debts which they were unsuccessful in consolidating.

The customer initially asked to make interest-only repayments, which the lender declined (on a commercial basis, and the lender did not offer this as a hardship solution). Instead, the lender entered into a four-month deferral with the customer. This is despite the information provided by the customer suggesting they have a capacity to make some repayments (as well as the fact that the customer had previously suggested interest-only repayments).

The customer did not appear to use this deferral period to seek independent financial advice, engage with unsecured creditors, or to reduce certain significant non-essential expenses.

After their deferral ended (and capitalisation of arrears), the customer called asking for a further six months deferral so that they could focus on paying off other debts. The lender made further inquiries and received conflicting information from the customer about their ability to service the loan. The customer asked for direct debits to be disabled while their hardship notice was considered and missed several payments.

The customer was declined any further deferrals or payment arrangements, but was offered a serviceability period to clear the arrears (which have since been capitalised and the loan restructured).

218 While it will generally be in the customer's interests to continue paying what they can, lenders should ensure that arrangements are set in a way that enables customers to meet their other liabilities and essential expenses.

219 We found that lenders have differing approaches to determining how much a customer would pay under a payment arrangement. This is illustrated by the responses to the hypothetical customer exercise where lenders provided varying amounts for the repayment amount under a payment arrangement: see paragraph 217.

220 Although most lenders indicated the amount would be negotiated with the customer, we note that the starting point for some lenders was to set the payment arrangement at an amount which would leave minimal or no buffer for any unexpected expenses.

Practical action lenders can take to support customers

Lenders should ensure that arrangements are affordable for the customer and not likely to cause them significant financial stress. In doing so, the lender should take into account:

- other essential expenses and liabilities that the customer may have, and provide some allowance for unexpected and/or discretionary expenses; and
- that it is generally better for the customer to pay what they can, as this is likely to be better for the customer's longer term financial situation and may provide more flexibility if the customer's hardship situation takes more time than expected to resolve.

Customer's plan to recover their financial situation and whether the situation is temporary

221 We found that all the lenders generally sought some information from the customer about their plan to recover their financial situation. The plan that lenders expected from the customer would depend on the customer's particular circumstances. For example, in the case of injury or illness, it might include details of an expected recovery or return to work date, or details about an insurance or compensation claim.

222 If the customer has a clear and realistic plan to recover their financial situation, then lenders were generally more willing to provide some form of hardship assistance to the customer. This was often in the form of temporary assistance (such as a payment arrangement or deferral) to give the customer time to recover their financial situation.

223 We found that some lenders had information in policies and procedures suggesting that financial hardship must be temporary in nature: see paragraphs 115–117. However, there is no requirement for a hardship notice to relate to a temporary change. Even where there is a permanent change in circumstances, there may be assistance that a lender can reasonably provide that would allow customer to repay the loan: see Example 36.

Example 36: Assistance provided following a permanent change in circumstances

The customer was represented by a financial counsellor who advised that the customer had escaped family violence and economic abuse (including debts incurred because of actions by their former partner who was not a co-borrower). The customer had accrued significant arrears on the home loan because of the separation and other debts, although even with these arrears the remaining balance of the loan was relatively low (less than $125,000). The customer's primary source of income was Centrelink payments, though they advised they had plans to obtain other income.

The financial counsellor requested that that the lender enter a serviceability period to capitalise the arrears, review the interest rate on the loan, and extend the term of the loan by five years. They considered the payments would be affordable for the customer with their Centrelink income if these changes were made. However, the lender advised that the customer could not be assessed for a long-term solution because the customer was unemployed.

After the financial counsellor made a complaint, the lender restructured the loan to capitalise the arrears, extend the term of the loan by five years, and reduced the interest rate to a rate similar to the rate that new customers were receiving.

Practical action lenders can take to support customers

Lenders should consider whether there is longer term assistance that can be provided to allow the customer to repay the loan where their change in situation will last an extended amount of time or be permanent.

Expected duration of hardship situation

224 In general, we found lenders were more willing to provide assistance where the financial hardship situation was short term.

225 The main reason for the focus on duration was that for the most common types of assistance (deferrals and payment arrangements) interest will continue to accrue during the period of assistance which the customer will ultimately need to repay. While the impact of these arrangements is modest for short term arrangements, having these arrangements in place over an extended period can place the customer in a worse position and may impact the customer's ability to service the loan longer-term.

226 We note that under the National Credit Code, there is no requirement for a hardship notice to relate to a short-term situation: see paragraphs 115–117. Despite this, in some cases we found that lenders had adopted an inflexible approach focused on the duration of the customer's hardship situation rather than their overall financial situation: see Example 37.

Example 37: Inflexibility relating to the duration of the hardship situation

The customer contacted the lender to give a hardship notice on their home loan while the co-borrower was on maternity leave (and who they advised was due to return to work as a teacher in six months at commencement of the next school year).

The customer initially requested a temporary period of interest-only repayments, which the lender determined was not suitable because the customer did not have the ability to service those payments.

The lender's hardship team advised the customer that hardship assistance was for short-term assistance and declined the customer with a letter advising: 'We have been unable to identify an option that would allow you to reasonably meet your account obligations in the near future.'

The customer made a complaint to the lender's complaints team. Following consideration by the lender's complaints team, the lender offered a five-month partial payment arrangement that covered the customer until the expected return to work date.

227 In better cases, we saw that where there was longer term financial hardship, lenders would consider the customer's circumstances and:

(a) if there was a realistic chance that the customer's situation would improve in the longer term, whether the provision of long-term temporary assistance would be appropriate having regard to the overall term impact on the customer; and

(b) if there was not a realistic chance that the customer's situation would improve, whether there is a permanent solution available that may allow the customer to repay the loan over a longer period or whether there is short-term assistance that could be provided to provide the customer with time to consider their situation.

Previous hardship assistance or repeat assistance

228 The approach of most lenders was to assess each application on its own merits, and that the provision of previous hardship assistance alone would generally not be a factor in the lender's decision. Instead, this would be used in forming a view about the duration of the assistance and whether the customer's plan to recover their financial situation is realistic.

229 However, we did see some examples where it appeared that a more rigid approach was being adopted (e.g. adopting a position that there was a 'maximum' period of assistance that could be provided): see Example 38.

Example 38: Customer being declined due to previous assistance

The customer called the lender to advise that they had become unemployed. They advised they were applying for Centrelink payments and sought a deferral for five months while they looked for employment. The customer was given an initial deferral of two months followed by a further two months after the customer returned documents requested by the lender. The customer sought a further two months assistance but was granted one month.

Before the expiry of their financial hardship arrangement, the customer requested a further extension as their job search had so far been unsuccessful. The lender declined the customer's request, advising that they could not extend the arrangement as it had reached the maximum period, but could offer assistance while the customer sells (i.e. a 'time to sell' arrangement).

The customer lodged a complaint about this decision. While the customer's complaint was being considered, the customer obtained part-time employment that the customer hoped would turn into full-time employment

> in four to five months. The customer was ultimately granted further hardship assistance to support them through this period.
>
> While there were other grounds to decline the customer's request, the focus of the lender appeared to be on the duration of the assistance already provided, rather than those other factors.

230 Each hardship notice needs to be assessed on its own merits and provision of previous assistance itself should not prevent a customer from receiving further assistance. Subsequent requests for assistance are also an opportunity for the lender to consider whether the previous assistance was sufficient and/or appropriate.

Other factors lenders consider

231 We saw lenders take into account the following factors, but to a lesser extent than the factors above:

(a) *The arrears that had accrued*—None of the lenders had a policy of refusing to decline to provide hardship assistance where a certain level of arrears had accrued. However, we saw lenders take arrears into account in determining whether there was a realistic recovery plan (e.g. because significant arrears could suggest that the customer's situation may be longer term or permanent) and in identifying whether there is a solution that would allow the customer to meet their obligations (e.g. by considering the customer's ability to make their monthly repayments if the arrears were capitalised).

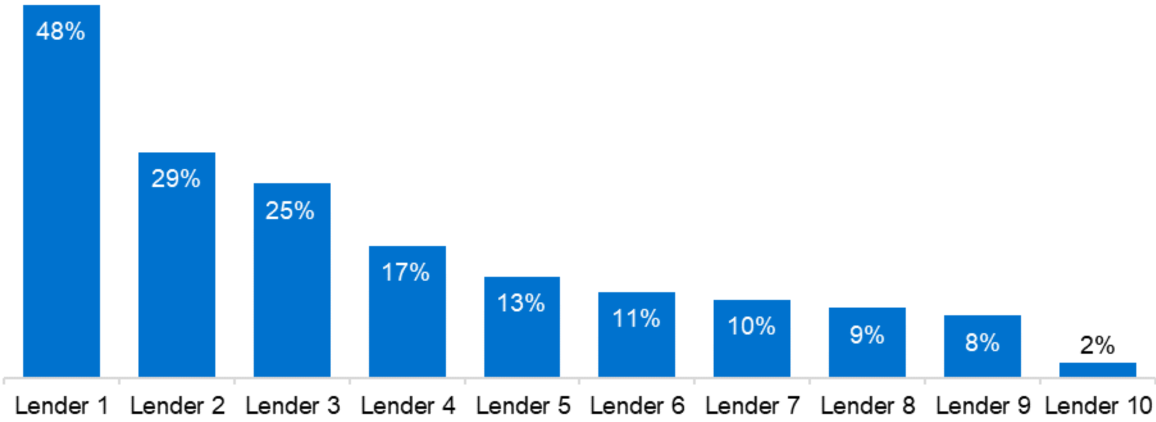
(b) *The LVR*—As part of our review of case studies, we saw that the LVR was considered by some lenders as part of their process of assessing a hardship notice. This was considered as part of the lender's own management of financial risk and to avoid the customer falling into a position where there may be a shortfall if they need to sell the property.

(c) *Whether it was an owner-occupier loan or an investment loan*—One of the lenders had a dedicated team dealing with hardship notices involving home loans for investment purposes and different solutions available for this category of customers.

Maximum period of assistance given at a time

232 As outlined in paragraphs 201–202 most assistance provided to customers was short-term assistance (usually up to three months). We found that the lenders had varying practices relating to the maximum duration of assistance they would generally provide to a customer at a time: see Figure 19 showing that some lenders offered very few longer term arrangements.

Figure 19: Proportion of requests with arrangements greater than 100 days by lender



Note 1: See Table 32 in Appendix 2 for the data shown in this figure (accessible version).

Note 2: The arrangement types considered in the calculation for this figure include: payment arrangements, deferrals and interest-only conversions.

233 The main reason provided by lenders that would only give a shorter period of assistance was that this approach allowed them to maintain contact with the customer and to regularly re-assess whether the customer's situation had improved before providing further assistance. This could help to ensure a customer was not on a deferral or payment arrangement for longer than necessary, which could be worse for their long-term financial position. However, this approach did sometimes mean that customers were left with uncertainty about whether future assistance would be forthcoming. This uncertainty could lead to stress and anxiety for those customers.

Providing assistance in relation to arrears

234 In many cases, a customer will require assistance from their lender in dealing with arrears that have accrued. These may include pre-existing arrears (i.e. if the customer missed payments before giving a hardship notice) and/or arrears that accrue as a result of other hardship assistance provided (i.e. arrears that accrue during a deferral or payment arrangement).

235 We found that lenders differed significantly in how they provided assistance in relation to arrears. The most significant difference related to when assistance was provided and the impact this had on the types of assistance offered.

Assistance provided upfront

236 We found that three of the lenders would usually make an arrangement about how arrears would be dealt with at the same time they entered into a payment arrangement or deferral with a customer. The solutions provided at this point in time are outlined in Table 11.

Table 11: Approaches to providing assistance in relation to arrears upfront

Approach	Description
Capitalisation of arrears upfront	Lenders would agree with the customer to capitalise arrears during the same conversation in which they agree a payment arrangement or a deferral with a customer. This would be structured so that the arrears would be capitalised into the loan on completion of the deferral or payment arrangement (as long as the arrangement was met and no subsequent arrangement was entered into).
Capitalisation following a serviceability period agreed upfront	Lenders would advise the customer upfront that after their deferral or payment arrangement ended they would enter a transitional or payment test period (usually six months) where the customer would need to meet their monthly repayments in order for the lender to capitalise the arrears into the loan. In better cases, the communications would generally provide the customer with details about the future monthly repayments they would need to make during the period of the serviceability period to help the customer with planning for this.

237 We saw that a benefit of providing assistance in relation to arrears upfront was that there was a higher level of certainty for the customer about how the arrears would be managed after the deferral or payment arrangement period. Particularly where the lender provided an estimate of the monthly repayments on capitalisation of arrears, this meant that the customer knew what their repayments would be after their payment arrangement or deferral finished and could start budgeting to meet those new repayments.

238 However, a risk that we identified with this approach is that in some cases an arrangement is being made about how the arrears will be dealt with before there is certainty about when or even whether the customer’s financial hardship will be resolved and what their financial situation will be going forward. Some lenders dealt with this by checking-in with customers at the end of the hardship assistance period: see Section H.

Assistance provided after the financial hardship situation has been resolved

239 We found that the other seven lenders generally did not make an arrangement about how arrears would be dealt with at the time they entered into a payment arrangement or deferral with a customer. In these cases, the customer would be advised when a payment arrangement or deferral was entered into that at the end of the arrangement they would either need to repay the arrears or, if they could not do so, contact the lender for assistance with the arrears.

240 If a customer contacted the lender at the end of the hardship assistance period advising they could not clear arrears, then the lender would make inquiries about whether the customer’s reason for hardship had been resolved. If the customer’s reason for hardship had been resolved, then in

better cases we saw that the lender would make inquiries about the customer's financial situation to understand their capacity to clear the arrears.

241 If the customer had the capacity to clear the arrears in the short term (e.g. within six months) without causing financial difficulty (e.g. because of receipt of a lump sum or the customer having surplus income), then the customer would be encouraged to do so and the lender would enter into an arrears payment arrangement to allow the arrears to be paid over time.

242 The more common scenario was that although the customer could now meet their ongoing monthly repayments they could not clear the arrears within a short period of time (and therefore giving a hardship notice in relation to those arrears). In this case, the lender would consider whether the customer had the capacity to meet increased repayments if the arrears were capitalised into the loan. We saw two approaches adopted by lenders, which are outlined in Table 12.

Table 12: Approaches to providing assistance in relation to arrears after initial assistance

Approach	Description
Capitalisation following a serviceability period	Most lenders required the customer to complete a serviceability period (usually six months in length) before agreeing to capitalise arrears. Under this arrangement, the customer would generally need to maintain their minimum monthly repayments for that period and at the end of the assistance period the lender would capitalise the arrears.
Simplified capitalisation process	One lender recently implemented what they described as a simplified capitalisation solution (being an alternative to a serviceability period). Under the simplified capitalisation process, a customer would be eligible for the capitalisation of up to 90 days of arrears at the end of a payment arrangement or deferral if their reason for hardship has resolved without a serviceability period. As part of the process, the lender would make inquiries about whether the customer has sufficient income to meet the monthly repayments of the loan once arrears have been capitalised.

243 We saw that a benefit of waiting until after the customer's financial situation has been resolved before deciding how to deal with the arrears is that there will be more certainty about the customer's financial situation going forward. This information might be relevant in determining how to deal with the arrears—for example, a customer who intended to return to full time work might return to work only on a part-time basis after a medical issue or a period of parental leave meaning that the customer needs some additional assistance to be able to meet their obligations (e.g. by extending the term of the loan in conjunction with capitalising arrears).

Observations relating to the approaches to arrears

244 Overall, we found that most lenders adopted relatively standardised approaches to dealing with arrears—most lenders used the same approach to dealing with arrears regardless of the customer's individual circumstances. For example:

(a) as indicated in Table 11, some lenders were agreeing the capitalisation of arrears or a serviceability period upfront even where there was no certainty about how the customer's situation would be resolved; and

(b) we saw that many lenders were requiring customers to complete serviceability periods before capitalising arrears even where the customer's ability to service was evident (e.g. because they had returned to work and had salary credits to demonstrate this).

245 In some cases, we observed that the approaches of lenders appeared to be directed towards achieving operational efficiency rather than providing individual customers with the most appropriate solution for their individual circumstances.

Practical action lenders can take to support customers

Lenders should take into account a customer's individual circumstances in determining how to deal with arrears that accrue as a result of a financial hardship arrangement.

Referrals to financial counselling services and other support

246 Through our review of case studies, we saw some examples of lenders referring customers to financial counselling services as part of the assistance provided to the customer: see Example 39. This included cases where the lender provided the customer a deferral or payment arrangement to give them time to have a discussion with a financial counsellor to address their broader financial situation.

Example 39: Lender referral of customer to financial counsellor

The lender took a statement of financial position over the phone with the customer as part of the hardship assessment process. On review of this information and the customer's transactional data, the lender observed examples of non-essential spending, including gambling and debt with multiple other creditors.

This lender mentioned their observation of non-essential spending in their conversation with the customer and referred the customer to a financial counsellor for help managing their finances.

247 However, we also saw many examples where lenders did not refer or advise customers of financial counselling services or other support, even when there

would have been value in doing so—for example, the customer for Example 29 was not referred or advised to seek assistance from a financial counselling service despite there being clear signs that the customer would benefit from that assistance (e.g. multiple unsecured debts, including repayments to a payday lender).

Practical action lenders can take to support customers

Lenders should provide customers the details of, or referrals to, financial counselling or other support where appropriate.

G Communicating the outcome of a hardship notice to customers

Key points

We found that lenders did not always communicate the outcomes of hardship notices well to customers.

Positively, all lenders had in place arrangements to communicate the outcome of a hardship notice to the customer in writing, and this was usually accompanied by a conversation with the customer. However, the quality of written communications varied significantly.

Lenders were not always clear about the effect of the hardship assistance when advising customers that they had approved their hardship notice (e.g. the fact that interest and arrears would accrue). They also did not always clearly articulate what would come next, and provided inconsistent and sometimes inaccurate information about credit reporting impacts.

Lenders did not provide adequate written reasons when communicating declines to customers. They also provided inconsistent information about a customer's right to complain to AFCA, and did not adequately tailor correspondence to the customer's individual circumstances.

What we looked at

248 We reviewed how lenders communicate the outcome of a hardship notice to customers, and whether the content of those communications enables customers to make informed decisions about how to proceed.

249 Lenders must give the customer a notice of their decision: see s72(4) of the National Credit Code. That notice must be in writing and either:

(a) record the fact that the lender and customer have agreed to vary the credit contract; or

Note: A lender is not required to provide this notice if they agree to a change in the credit contract that defers or otherwise reduces the obligations of the debtor under that contract for a period not exceeding 90 days—see s72(4A) of the National Credit Code.

(b) state that the lender and customer have not agreed to vary the credit contract, the reasons why the lender has not agreed, and details about how the customer may lodge a complaint with AFCA.

250 The National Credit Code also specifies the timeframes within which the notice above must be given to the customer (generally within 21 days unless the lender requests further information): see s72(5).

251 Where the lender and customer have agreed to vary the credit contract as a result of a hardship notice, the lender must also give the customer a written notice setting out the particulars of the change: see s73 of the National Credit Code.

252 We looked at the content of both the communications when a lender:

(a) agrees to vary a credit contact (see paragraphs 253–268); and

(b) declines to vary a credit contract (see paragraphs 269–286).

Communicating approvals to customers

253 All lenders we reviewed had in place arrangements to give customers a written notice recording the fact that they had agreed to vary the credit contract and the particulars of that change (generally as a single notice). Positively, all lenders provided this notice even where they were not strictly required to do so (because the change only involved a deferral or payment arrangement not exceeding 90 days).

254 In most cases, the lender would first discuss the assistance they were willing to provide (the variation to the credit contract) with the customer over the phone. As part of this call, the lender would usually provide details about the arrangement (including the impact on the customer's repayments), credit reporting impacts, the need for customer to contact the lender should their situation change and they not be able to make any repayments due during the assistance period, and next steps.

Practical action lenders can take to support customers

Lenders should, where possible, speak with customers before approving or declining a hardship notice to ensure they understand the decision and effects on them.

255 If the customer accepted the assistance over the phone, the lender would generally proceed to give the customer written notice confirming the changes. However, in some cases we saw that lenders would also require the customer to provide written confirmation of their agreement to the arrangement.

256 The information provided in the approval notices varied between lenders. The information more commonly included was:

(a) *details of the assistance provided*—for example:

(i) if a deferral, how long it is in effect for and when payments are to recommence;

(ii) if a payment arrangement, what the reduced payment is and the due date for payments);

(b) *information about the impact of the assistance*—for example, relating to accrual of interest and arrears, direct debit arrangements, and reporting to credit reporting bodies; and

(c) *information about next steps*—including:

(i) what customers should do if they think they will not be able to comply with the arrangement;

(ii) consequences for not meeting the terms of the assistance;

(iii) when the customer can expect to next hear from the lender; and

(iv) contact details for the lender's hardship team.

257 We reviewed approval notice templates of lenders and the approval notices issued to customers included in our sample of case studies with a focus on:

(a) what information lenders provided about the impact of the arrangement (see paragraphs 258–261);

(b) signposting of what comes next (see paragraphs 262–263); and

(c) disclosures of credit reporting impacts (see paragraphs 264–268).

Information about the impact of the arrangement

258 The most common types of assistance have longer term impacts for customers that are important for the customer to understand—for example, interest and arrears will accrue during the period of a deferral, and capitalising arrears means that customer's monthly payments will increase and they will pay more in interest over the term of the loan than if arrears had not been capitalised.

259 Most lenders provided information to customers about the impact that the assistance would have on their loan. However, in some cases this information was only provided to the customer over the phone (where the way that this was communicated could vary depending on the capability of the individual staff member) and was not articulated in the letter or was articulated in a way that was not sufficiently clear: see Example 40.

Example 40: Unclear information provided about impact of a deferral

The following is an extract from a letter a lender sends to customers to confirm that they have provided a deferral (which the lender refers to as a 'payment break'):

> We're pleased to confirm that you have been granted a payment break. This means you are not required to resume payments until the payment break period ends as set out below and we have notified you to confirm this.
>
> **What you need to know**
>
> …
>
> Your payment break is not a variation of your contract and it doesn't change your obligation to meet your contracted repayments.

The letter is confusing because it advises the customer that they have a 'payment break' but then advises that there is no change to the customer's obligation to meet their contracted repayments. Importantly, the letter does not clearly articulate that interest and arrears will accrue during the period of the deferral (while there is information attached to the letter, this could be clearer).

260 We note that in some cases lenders also advised of other effects that the financial hardship arrangement would have on their access to features under the credit contract and/or other credit contracts. For example:

(a) several lenders advised that the customer would not have access to any redraw facility attached to the loan (for a period of up to a year);

(b) at least one lender would close the credit card account(s) that the customer held with the lender (even if the customer was up to date and had the ability to service that account); and

(c) one lender advised customers they were unable to do interest rate reviews (e.g. for an interest rate reduction) during a serviceability period.

261 There will often be circumstances in which it is appropriate to put in place restrictions to manage risk to the customer and lender. However, lenders should consider a customer's individual circumstances and take care to ensure their approach is not punitive and does not operate as a barrier to customers requesting and accepting assistance.

Signposting of what comes next

262 The approval communications are a key opportunity for lenders to support a customer's financial recovery by signposting to customers what they need to do and what they can expect going forward. In better cases, we found that lenders provided customers with information about:

(a) the need for the customer to contact the lender immediately if they could not meet the terms of any assistance offered (e.g. not being able to meet reduced payments under a repayment arrangement);

(b) when the customer could next expect to hear from the lender (if applicable); and

(c) what would happen at the end of the hardship assistance period (e.g. that arrears would be capitalised automatically or the customer would need to speak to the lender regarding a solution).

263 The extent of signposting offered depended on whether there was agreement upfront on how to deal with the arrears. In better cases, we found that where there was:

(a) *agreement about how to deal with arrears upfront*—the lender would provide information about estimated future repayments after the end of the hardship assistance period; and

(b) *no agreement about how to deal with arrears upfront*—the lender provided some information about the options that may be available to deal with arrears at the end of the assistance period.

Practical action lenders can take to support customers

Ensure approval letters to customers include details of how the hardship assistance will affect the customer's loan and repayments over the short and long term, and signpost to the customer what they need to do and what they can expect going forward.

Credit reporting impacts

264 Where a lender participates in comprehensive credit reporting, the lender will usually report to credit reporting bodies that they have entered into a financial hardship arrangement with the customer (reported as 'financial hardship information'). In addition, lenders need to report information about whether a customer has met their repayment obligations ('repayment history information') by reference to the customer's obligations under the financial hardship arrangement rather than the original credit contract.

265 We found that the way lenders communicated with customers about what would be reported to credit reporting bodies and the impact of the reporting was poor. The information provided by lenders was inconsistent, which has the potential to cause confusion, particularly where a customer has loans with multiple lenders (and therefore receive inconsistent information). In some cases, the information we saw was also inaccurate (e.g. advising that repayment history information would not be reported during the hardship assistance period).

Example 41: Issues with a lender's disclosures about reporting to credit reporting bodies

One lender had a range of issues with how they communicated with customers about what would be reported to credit reporting bodies:

- Their online hardship form stated 'If you're approved for a period of hardship support, during the support period, we will not report [repayment history information] about your account to the credit reporting bodies.' This is incorrect—repayment history information is still reported but it is reported against the financial hardship arrangement.
- This incorrect information was replicated in the template letter that was issued to customers when they enter a payment arrangement: 'During the payment arrangement, we will report Financial Hardship Information rather than Repayment History Information to credit reporting bodies.'
- This letter also stated 'For each month of your hardship assistance, [lender] will report to credit reporting bodies: A Financial Hardship Arrangement flag to indicate the arrangement is in place; and Financial Hardship Information (FHI) indicating whether you're meeting the terms of the arrangement.' This is incorrect—financial history information is

reported to indicate that a financial hardship arrangement is in place, and repayment history information is reported to indicate whether the customer is meeting the arrangement.

- The lender had a conversation guide that was used by its staff, which said: ‘We have a specialised team that may be able to offer further help. Before I connect you, I do have to let you know that [lender] is required to share information with credit reporting bodies, including missed payments being recorded and temporary hardship assistance. This may impact your credit score. Additional information can be found at creditsmart.org.au. Can I put you through to the team now?’ This is incorrect—credit reporting bodies are not permitted to use financial hardship information to calculate credit scores.

The lender had also recently conducted a review and identified several instances where the impact of the arrangement was not adequately explained by the lender’s staff to customer. The review report stated: ‘I consider that [lender] colleagues may not understand the impact and the interaction of FHI and RHI on the customers’ [comprehensive credit reporting score] and struggle to explain it to [our] customers.’

The lender has since made changes to its scripting and was undertaking a further review to determine whether any additional improvements and training are required.

266 Some consumer groups have raised concerns with us that comprehensive credit reporting may be resulting in some customers not accepting hardship assistance even where it is in their financial interests to do so. Some lenders acknowledged that they have also observed this happening.

267 We found that the disclosures for most lenders tended to focus on the potential adverse impacts of reporting of financial hardship information. By contrast, in better cases, we found that lenders provided a more balanced disclosure that acknowledged some of the protections that are in place such as:

(a) financial hardship information appears on a credit report for only 12 months, compared to 24 months for repayment history information;

(b) credit reporting bodies cannot use financial hardship information in calculating a credit score; and

(c) other existing lenders cannot rely on financial hardship information to close or the reduce the limit on a customer’s credit card account.

268 Arca is the industry association for organisations involved in the disclosure, exchange and application of data for credit management in Australia. It is currently working with its members to develop common scripting for its members to use to inform customers of the credit reporting impacts of financial hardship arrangements.

Communicating declines to customers

269 All lenders had in place arrangements to give customers a notice stating that the lender and customer have not agreed to vary the credit contract.

270 All lenders had templates that they used to issue decline notices. For some larger lenders, these decline notices were automatically generated and sent by the lender's hardship system. Even where this was not the case, the extent of tailoring for individual customers was generally limited.

271 In most cases, lenders advised that they sought to contact the customer by phone to explain their decision to decline a customer's hardship notice before sending the written decline notice to a customer. However, this did not occur in all cases (particularly where a lender was unable to reach the customer).

272 We reviewed the decline notice templates of lenders and the decline notices issued to customers included in our sample of case studies with a focus on:

(a) the reasons for the decline (see paragraphs 273–280);

(b) the information provided about the customer's right to complain to AFCA (see paragraphs 281–283); and

(c) the overall quality of the correspondence (see paragraphs 284–286).

Reasons for the decline

273 As outlined above, the lender's written decline notice must provide the customer with reasons why they have not agreed to change the credit contract. We consider that the requirement to provide reasons serves a range of purposes, including:

(a) ensuring that the customer understands why they have been declined so they can consider whether there is any further information they can provide the lender to have them revisit their decision;

(b) to enable the customer to decide whether to exercise further rights they may have available (e.g. to make a complaint to AFCA); and

(c) supporting good decision making (i.e. by helping to ensure that lenders give adequate consideration to a customer's circumstances and that there are adequate reasons for a decline).

274 The importance of providing written reasons has been articulated by AFCA as follows:

> Providing detailed written reasons lets the consumer assess whether they can meet the financial firm's requirements and decide whether to make another proposal to resolve the situation. In other words, providing reasons to the consumer allows the conversation to continue so that the parties can work together to try and reach a solution.

Note: See AFCA, *The AFCA Approach to financial difficulty: working together to find solutions*, p 5.

275 We found that the quality of reasons provided by lenders was poor across all lenders that we reviewed. In most cases, the reasons provided were overly generic and contained inadequate detail. This is because most lenders either automatically generated letters based on a template or had a library of generic reasons (e.g. does not meet hardship criteria or, serviceability concerns) they would enter into the letter without further tailoring. Example 42 provides examples of the reasons that were provided to customers.

Example 42: Generic reasons provided for declining assistance

Lenders provided the following reasons in their decline letters:

- 'Your application did not disclose any method that would enable you to discharge your obligations and your contract if the contract was changed or varied.'
- 'Our assessment indicates that your financial situation is unlikely to change in the near future, so we're unable to offer you a hardship solution that's appropriate for your financial situation.'
- 'Following on from our assessment of the information you provided and the type of financial hardship offering requested by you, we're sorry to say we're unable to offer you financial hardship assistance at this time. Financial hardship assistance is intended to help you get back on track. It's our view that you may continue to have ongoing difficulties in meeting your repayments.'
- 'Based on the information you have provided, our evaluation of your financial position indicates that we will not be able to come to an arrangement which satisfactorily resolves your arrears.'

276 With the reasons provided, we found it difficult to see how a customer would be able to ultimately understand why the lender had declined to change the credit contract. It was also difficult to see how the reasons would support the customer to:

(a) determine whether there is any further information they can provide the lender to have them revisit their decision; and/or

(b) exercise other rights they may have available (e.g. such as making a complaint to AFCA).

277 We note that this issue is similar to issues that we have previously identified in relation to IDR responses, and which led to us setting minimum content standards for IDR responses in Regulatory Guide 271 *Internal dispute resolution* (RG 271).

278 Lenders provided a range of reasons for why they used standardised reasons, including that:

(a) the approach was necessary to ensure that responses to hardship notices could be provided in a timely manner;

(b) it reduced operational risk by reducing the chance that incorrect information is provided; and

(c) staff did not always have the skills and experience to prepare bespoke correspondence.

279 When balanced against the objectives outlined in paragraph 273, we did not find the reasons provided by lenders compelling. We note that:

(a) for most lenders, the number of requests that are declined for reasons other than non-response to a request for information is low, meaning there is a relatively small number of decline notices that would require significant tailoring;

(b) the operational risk for written correspondence is lower than for phone conversations, given the ability to manage that risk through quality checking activities that take place before written correspondence is issued; and

(c) issues relating to staff skills and experience can be addressed through training and other activities.

280 Lenders also advised that the standardised reasons needed to be read in conjunction with the phone conversations that they have with customers where they discuss the reasons for the decline. While we recognise the value these calls can provide, we note a number of limitations:

(a) phone calls to customers were not always successful and therefore the letter constituted the only information provided customer about the reasons for the decline (unless the customer made the effort to call the lender to discuss, which is likely to depend on the quality of the decline notice and their personal situation);

(b) lenders did not always have policies or processes to ensure that sufficient information was provided about reasons for the decline during the call; and

(c) some customers may be experiencing stress and anxiety as a result of their financial hardship and/or other personal circumstances, which may make it more difficult for them to fully absorb and process what is told to them in a phone call.

Details of the customer's right to complain to AFCA

281 All the decline notices we reviewed included the name and contact details of AFCA. However, lenders varied in the way that they provided this information and explained the customer's right to complain to AFCA: see Example 43.

Example 43: Information provided to customers about their right to complain to AFCA

Lenders set out the right to complain information in the following ways in their decline letters:

- 'If you have a complaint about your credit contract or would like more information, please contact us. If your complaint remains unresolved, you can then contact our external dispute resolution scheme or seek legal advice. External dispute resolution is a free service established to provide you with an independent process to resolve specific complaints. Our external dispute resolution provider is the Australian Financial Complaints Authority (AFCA) and can be contacted at […].'

- 'If you're not satisfied with the outcome of your application, please provide feedback, or lodge a complaint, by calling our Client Care team on […]. You also have the option to contact the Australian Financial Complaints Authority (AFCA). AFCA can be contacted on […]. AFCA is a free service established to provide you with an independent mechanism to resolve specific complaints. If you go to AFCA, you may have enforcement action put on hold while your complaint is considered. You're not bound by the decision that AFCA makes, and you can still apply to a court if you're not satisfied.'
- 'You can ask us to reconsider our decision by calling us on […]. If we refuse – or if we don't respond to your request within 21 days – you can contact the Australian Financial Complaints Authority on […] and ask them to review this matter.'
- 'If you feel we didn't act fairly in the way that we handled your hardship request, you can ask us to review our decision by contacting us (details below). If we still don't agree within 21 days or if your concern is not resolved, you can contact the external dispute resolution scheme, the Australian Financial Complaints Authority (AFCA). AFCA provides a free and independent service to resolve complaints.'

282 Of concern, some of the language in letters suggested customers:

(a) could only make a complaint about the handling of their hardship notice or only make a complaint about the decision (when in fact customers could complain about either or both); or

(b) could only make a complaint to AFCA after they had attempted to resolve the complaint with the lender's complaints team first.

283 Lenders must ensure they provide clear and accurate information about the customer's rights to make a complaint to AFCA.

Other matters relating to decline notices

284 A lender's decision not to change a credit contract in response to a customer's hardship notice is a decision that is likely to have a significant impact on a customer and their financial and living situation. It is important that the way that lenders communicate a decline acknowledges this, including by being empathetic, providing details of relevant support services and keeping the conversation with customers open.

285 We found that the overall quality of decline notices varied across lenders (and even across different brands of the same lender). Some of the issues that we identified were lenders not:

(a) tailoring letters to reflect the individual circumstances of the customer (e.g. referencing arrears even if the customer was not yet in arrears);

(b) showing empathy for the customer's circumstances and not recognising the impact that a decline may have on the customer;

(c) providing details of relevant support services (e.g. financial counselling services) or information; and

(d) providing details about next steps.

286 We note that the decline of a hardship notice should not be the end of the conversation with the customer (particularly where the customer has arrears) and that the best solution is likely to be achieved through ongoing dialogue between the lender and the customer. We saw that some lenders were better than others in encouraging that continued dialogue: see Example 44 for good practice examples.

Example 44: Using decline letters to encourage ongoing dialogue with the customer

We identified the following in lenders' decline notices that we considered good practice:

- 'Should you have any new or additional information which may allow us to reconsider our decision, we would be more than happy to consider it further. You can provide us this information by emailing us at […] or sending it to us via post to […].'
- 'We would like to try to find another appropriate solution with you so please contact us as soon as possible to further discuss your situation and next steps. If you feel you have additional information that would assist us, or if there's been a change to your circumstances since the time of your request, we'll be happy to discuss and reassess your application.'
- 'If you have additional information that you haven't already provided that you'd like us to consider as part of our assessment of your application, please send this to us [lender email address] within 14 days.'

Practical action lenders can take to support customers

Lenders should ensure decline letters to customers include reasons that allow the customer to understand why they have been declined, provide clear and accurate information about the customer's rights to make a complaint to AFCA, and make the customer aware of their options (including providing details of relevant support services). Letters should also encourage continued dialogue between the customer and lender towards a solution.

H Communicating with customers during and at the end of a hardship assistance period

Key points

We found that lenders' approaches to communicating with customers during and at the end of a hardship assistance period varied.

Some lenders did not have a structured approach for contacting customers who failed to meet the terms of the financial hardship arrangement. This created a risk that insufficient attempts were made to bring a broken arrangement to a customer's attention.

In addition, some lenders did not have in place a structured approach to communicating with customers at the end of a hardship assistance period. This created a risk that customers do not understand what is required of them on expiry of the hardship assistance and therefore fall back into arrears.

Approximately 40% customers provided with hardship assistance to reduce or defer payments fell into arrears right after the end of the assistance period. In over a third of these cases, the customer gave another hardship notice within three months after the assistance ending (instead of before the assistance ending).

What we looked at

287 We assessed the communications that lenders have with customers:

(a) during the period of hardship assistance (see paragraphs 292–296);

(b) when a financial hardship arrangement is broken (see paragraphs 297–303); and

(c) at the end of a hardship assistance period (see paragraphs 304–310).

288 Communication with a customer during and at the end of the assistance period is important to ensure that any assistance given to a customer remains appropriate and to maximise a customer's chance of financial recovery.

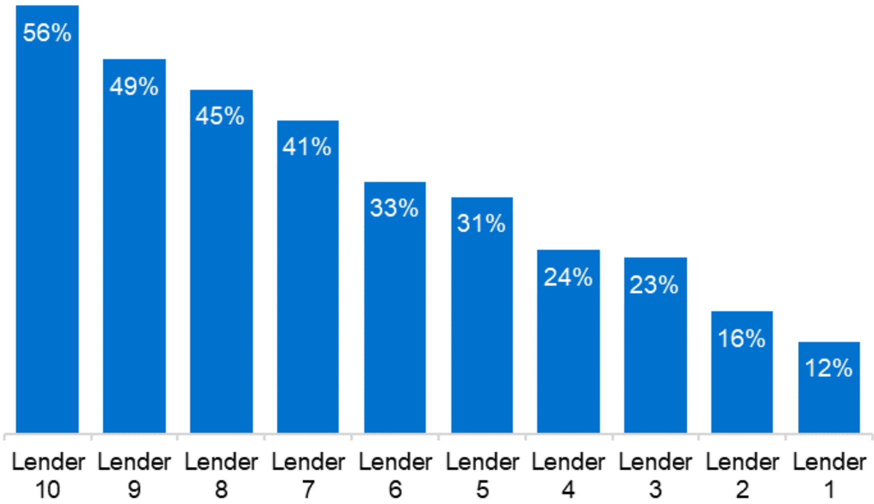
Insights from data analysis

289 Our analysis of the data showed that 40% of customers who exited hardship assistance where payments had been reduced or deferred immediately fell into arrears. This could indicate that customers required additional assistance beyond that which the lenders first provided to them. This proportion varied

between the lenders in our review, ranging from 12% to 56%. We also looked at the proportion of customers who exited hardship where payments had been reduced or deferred and immediately fell into arrears: see Figure 20.

290 In over a third (37%) of cases where the customer immediately fell into arrears after exiting hardship where payments had been reduced or deferred, the customer gave another hardship notice to the lender within three months after the hardship assistance period had ended. This suggests that there are further opportunities for lenders to engage with customers in the lead up to, or on expiry of, the arrangement to understand whether the customer requires further assistance.

Figure 20: Proportion of cases where customers immediately fell into arrears after exiting hardship



Note: See Table 33 in the appendix for the data in this figure (accessible version).

291 Customers who immediately fall into arrears at the end of the hardship assistance period may have their missed repayments reported to credit reporting bodies, even if they immediately give another hardship notice. It also means that customers may have to complete steps to give another hardship notice, adding unnecessary burden to continuing the assistance period.

Communications during the hardship assistance period

292 Communicating with customers during the hardship assistance period can provide an opportunity to:

(a) identify whether the customer's situation has changed and whether the arrangement continues to meet the customer's needs (e.g. whether the customer requires further assistance and assistance can be ended early because the customer has recovered their financial situation); and

(b) ensure that customers know what the arrangement means for them (including what will happen after the assistance period ends).

293 We found that six lenders had in place processes to conduct ‘check-in’ conversations in at least some situations. One lender carried out check-in conversations in all cases, two lenders carried out check-in conversations dependent on the length of the assistance period (e.g. where the assistance was more than two months in length) and three lenders carried out check-in conversations dependent on other characteristics (in one case, only for investment home loans and another two cases where the lenders had provided time-to-sell arrangements).

294 The way that the check ins were carried out varied across lenders. One lender had detailed scripting, which involved staff asking for an update on the customer’s situation, providing details of support services and asking the customer if they had questions about credit reporting relating to the assistance provided. The lender’s scripting advised that staff were not able to extend hardship assistance during this call even if requested by the customer. By contrast, another lender advised that they would be able to vary the arrangement over the phone, including extending the assistance if required.

295 Some lenders who did not undertake check-ins with customers advised that this was because they agreed to short-term arrangements and would use the expiry of the short-term arrangement to check-in with the customer to determine whether further hardship assistance was required.

296 We note that the value of check-ins is likely to depend on the individual circumstances of the customer (e.g. the length of the assistance given and whether there is action required from the customer), and lender’s other processes (e.g. the lender’s approach to communications at the end of the assistance period).

Practical action lenders can take to support customers

Lenders should have in place arrangements to determine whether and when to communicate with customers during the assistance period.

Communications when a financial hardship arrangement is broken

297 Customers break financial hardship arrangements for a range of reasons, including administrative error (e.g. in setting up a direct debit), oversight by the customer in making a payment, or the customer not having the ability to

make the payment (potentially because the arrangement is not suitable for the customer's circumstances).

298 Prompt contact with the customer can allow the lender to understand the reasons for the customer breaking the arrangement and for the customer to rectify a broken arrangement in a timely manner.

299 All lenders advised us that they would attempt to contact customers who broke financial hardship arrangements; however, the approach differed across lenders.

300 In better cases, we found that lenders had a structured communications approach where they had documented the minimum number of contact attempts to be made, the timing of those contacts and the channels to be used. One of the better communications approaches is shown in Example 45.

Example 45: Structured communications strategy for broken financial hardship arrangements

One lender had a comprehensive structured communications approach for missed payments under a financial hardship arrangement. The approach included the following regular communications across a range of channels:

- a reminder message was visible in the customer's mobile banking app for six days after the missed payment stating that the payment was not received and requesting the customer to call the lender;
- a reminder text message was sent to the customer on day 2 after the missed payment requesting the customer to call the lender;
- calls were attempted (using a dialler system) on days 3, 4, 5 and 6;
- a broken arrangement letter was issued on day 7 if there was no contact with the customer; and
- the account remained in the broken arrangement case list for 14 days before it was returned to the collections list on day 15.

This communications approach was not used in circumstances where the customer was experiencing vulnerability that the lender determined meant the general approach was not suitable (e.g. experiencing family violence). In these cases the lender used a tailored approach, taking into account the specific circumstances for that customer.

301 Lenders generally started outbound contact within one week after the missed payment. One lender had a manual process to identifying missed payments—this process involved the account being reviewed once a month, which meant that a customer may experience some delay in being notified of a missed payment.

302 Most lenders advised that they make a number of attempts to contact customers when an arrangement is broken and use multiple channels (e.g. phone and text messages). However, this was not always documented in policies and processes and in some cases was left to individual staff

members to decide. This increases a risk of inconsistent practices and of insufficient attempts being made to bring a broken arrangement to a customer's attention.

303 If the customer did not rectify the broken arrangement (e.g. by making the missed payment under a payment arrangement), lenders would generally end the financial hardship arrangement and collections activity would recommence. A broken arrangement letter would be issued and then the account would generally be moved to the collections queue after 14 days.

Practical action lenders can take to support customers

Lenders should have a structured approach to communicating with customers who break the terms of the hardship assistance and provide sufficient time for the customer to remedy the broken term.

Communications at the end of the hardship assistance period

304 We observed that communications at the end of the hardship assistance period had a number of important purposes, including to:

(a) make the customer aware that their period of assistance is coming to an end;

(b) confirm that customer's financial situation has resolved and if not, whether further assistance is needed;

(c) if the customer has arrears, confirm how the customer will address the arrears;

(d) ensure that customer is aware how their payments will change following the end of the assistance period (e.g. the amount of their normal payments); and

(e) ensure that the customer takes any actions necessary in relation to the end of the assistance period (e.g. reinstating scheduled payments or a direct debit arrangement).

305 We found that approaches lenders had adopted to communicating with customers varied significantly. In better cases, like with other communications we found that lenders had adopted a structured communications strategy: see Example 46.

Example 46: Structured communications strategy at the end of the hardship assistance period

One lender (the same as for Example 45) had a comprehensive structured communications approach for the end of the assistance period. This approach included the following communications across a range of channels:

- a hardship expiry letter was sent to the customer seven days before the assistance period ended;

- a reminder message about the end of the assistance period was visible in the customer's mobile banking app for six days before the end of the assistance period, which asked the customer to contact the lender if they needed more help;
- a text message was sent to the customer six days before the end of the assistance period;
- calls were attempted (using a dialler system) on the three days leading up to the end of the assistance period; and
- a letter was issued on the date the assistance ended if there was no contact with the customer.

This communications approach was not used in circumstances where the customer was experiencing vulnerability that the lender considered meant the approach was not suitable (e.g. experiencing family violence). In these cases, the lender used a tailored approach, taking into account the specific circumstances for that customer.

306 The value of a structured communications strategy is demonstrated by Example 47.

Example 47: Lender reaching out before the hardship assistance period comes to an end

The customer had given the lender a hardship notice while they were getting their property ready for sale. The customer had gone through a relationship breakdown and spent their remaining savings on legal and real estate fees. The lender approved a three-month reduced payment arrangement.

Two days before the end of the assistance period, the lender called the customer to notify them that their hardship assistance was about to expire and asked the customer if they required further assistance. The customer informed the lender that the property had sold but they needed more time to go through the settlement process. The lender then approved a further two-month reduced payment arrangement in the same call.

307 We found that some other lenders did not have in place structured communications strategies and/or were making less effort to contact customers at the end of the hardship assistance period. This included lenders who would only:

(a) contact the customer if the customer's adherence to the arrangement had not been satisfactory (e.g. if payments had not been maintained);

(b) contact the customer if there were arrears outstanding;

(c) contact the customer after the arrangement expired (rather than in the lead-up to the expiry of the arrangement);

(d) communicate the upcoming end of a hardship arrangement using a single channel (letter); and

(e) contact customers who had a deferral.

308 In the written communications we reviewed, most lenders included information about any actions that the customer needed to take. This included:

(a) setting out the monthly repayment amount and when the customer was required to pay it;

(b) any action required from the customer in relation to direct debits or automatic payments;

(c) what the customer needed to do if arrears had accrued (including how to contact the lender); and

(d) encouraging the customer to contact the lender if they were still experiencing financial difficulty.

309 However, we did identify some cases where this was not done well: see Example 48.

Example 48: A poor 'arrangement ending' letter

The customer had been given a three-month deferral and capitalisation of arrears. They received the following letter three weeks before the expiry of their deferral, which incorrectly referred to an interest-only period and did not invite the customer to contact them if they required further assistance:

> Dear […]
>
> We advise that the Interest Only period on your loan will be concluding on […].
>
> Accordingly, we advise that commencing […] the new indicative repayments will be of Principal and Interest at $[…] per month at the current variable rate of […]%.
>
> Should you have any further questions, please contact […] via email to […] or on the number detailed below.

The customer immediately fell back into arrears after the end of the assistance period and the lender re-commenced collections activity. This ultimately led to the customer giving another hardship notice six weeks after the end of the assistance period.

310 An effective communications strategy at the end of the hardship assistance period helps the customer understand what is required of them. This understanding can in turn help them avoid immediately falling back into arrears and experiencing the stress involved in being subject to collections activity and missed repayments being reported to credit reporting bodies.

Practical action lenders can take to support customers

Lenders should have a structured approach to communicating with customers as their assistance period comes to an end to understand their financial circumstances at the time, consider whether further hardship assistance is required, and ensure they understand what will happen next (including what they need to do in relation to any arrears that may exist at the end of the assistance period).

I Supporting customers experiencing vulnerability

Key points

We found that lenders did not consistently support customers experiencing vulnerability.

Most lenders had an organisation-wide policy and training on how to identify and handle customers experiencing vulnerability. This was sometimes supplemented by specific training for the hardship team. However, in some cases this was overly focused on specific forms of vulnerability, meaning that lenders may not provide customers experiencing other forms of vulnerability with that additional care and support.

In some cases, lenders failed to identify a customer's vulnerability in a timely manner or at all. This was particularly challenging where lenders did not adopt a case-management approach or had in place streamlined assessment processes.

Even where lenders identify customers' vulnerability, we are concerned that lenders are not treating these customers with extra care or providing additional support in practice. We saw a range of issues with how lenders had handled hardship notices from vulnerable customers, which made the process more distressing and difficult for these customers than necessary.

What we looked at

311 The nature of financial hardship means that many customers who give a hardship notice will be at an increased risk of harm, particularly where a lender fails to act with appropriate levels of care. This is because financial hardship itself may contribute to customers, among other things, experiencing heightened stress which may negatively impact their decision making and their ability to engage with a complex process. Lenders should ensure their policies, processes and practices relating to hardship are designed in a way that takes this into account: see Sections B to H.

312 Some customers will also be at an increased risk of harm for other reasons—for example, relating to health, life events (such as bereavement or separation) or capability. These vulnerabilities may be pre-existing (and have contributed to customer's financial hardship) or may have arisen as a result of the customer's financial hardship. We reviewed the extent to which lenders had in place arrangements to:

(a) identify customers experiencing vulnerability (see paragraphs 313–316); and

(b) take extra care and provide additional support to minimise the risk of harm for these customers (see paragraphs 317–324).

Identifying customers experiencing vulnerability

313 Most lenders had an organisation-wide policy and training on how to handle customers experiencing vulnerability and mandatory vulnerability training for all customer-facing staff, including the hardship team. This was often supplemented by specific training for the hardship team.

314 We found that the policies, processes, and training for some lenders were overly focused on specific types of vulnerability (e.g. family and domestic violence). While we recognise the intent behind focusing on specific forms of vulnerability (e.g. to simplify staff training and to strengthen the awareness of particular forms of vulnerability), we note adopting an overly limited view of vulnerability may result in lenders failing to take into account the individual circumstances of customers and the extra care and support they may require.

315 Despite the training that had been provided by lenders to staff, we found instances where a customer's vulnerability did not appear to be identified or recognised by the lender in a timely manner (or, in some cases, at all): see, for example, Example 49.

Example 49: Lender failing to identify vulnerability

In Example 24, a key factor contributing to the customer's poor customer experience was the lender's failure to identify the customer's vulnerability early in the process.

The lender should have been able to identify at an earlier stage that the customer may have had limited capacity to engage through online channels, as they were an aged pensioner with increasingly poor health that had left them with a physical disability. Despite the customer informing the lender of their circumstances on multiple occasions, the lender did not appear to recognise the customer's vulnerable situation and consequently did not take extra care or provide additional support to the customer.

316 We saw that there were particular challenges in identifying vulnerability where lenders had in place streamlined assessment processes (that meant reduced information was obtained from the customer for first-time assistance) and/or where lenders did not have a case-management approach (because the vulnerability may have only become obvious after multiple contacts). Lenders' processes should take this into account—for example, by ensuring that sufficient inquiries are made about the customer's reason for hardship and considering the customer's past engagement with the lender.

Practical action lenders can take to support customers

Lenders should have in place arrangements (including training) to ensure that staff identify whether a customer giving a hardship notice may also be experiencing vulnerability. This should not be limited to identifying particular 'types' of vulnerability.

Providing extra care and support

317 We asked lenders what arrangements they had in place to provide additional care and/or support to customers who had given a hardship notice and may be experiencing vulnerability.

318 Nine of the lenders were able to point to specific arrangements they had in place to provide extra care and support. The remaining lender had in place a policy that outlined extra care and support they provided to customers experiencing family and domestic violence but did not provide details about how they would provide extra care and support to customers experiencing other types of vulnerability.

319 The most common ways that lenders advised they sought to provide extra care and support to customers experiencing vulnerability are outlined in Table 13.

Table 13: Most common types of extra care and support provided by lenders

Type of extra care	Description
Adopting a case-management approach	Some lenders that usually used an activity-based approach adopted a case-management approach for some customers experiencing vulnerability. This was intended to enable the lender to adopt a more individualised approach and to minimise the extent to which customers needed to repeat their circumstances. We saw some evidence as part of our case studies that this approach was preferred by some customers as they felt more comfortable speaking with the same person, which made them more willing and able to be open about their circumstances.
Handling by specialist or more skilled and experienced staff	Some lenders advised that they had arrangements in place to have hardship notices from customers experiencing vulnerability handled or overseen by more skilled or experienced staff members. In many cases, this operated in conjunction with adopting a case-management approach (e.g. because cases which required extra care and support were allocated to specialised team of staff who were more experienced in dealing with vulnerability).

Type of extra care	Description
Providing flexibility in the process for giving a hardship notice	Most lenders advised that they would make allowances and provide flexibility as part of their hardship assessment process to support customers experiencing vulnerability. Common types of flexibility included: • *expediting the hardship assessment so that customers experiencing vulnerability can receive assistance sooner*—such as customers who may require urgent assistance, particularly those struggling to make essential expenses; • *waiving the requirement to submit an application form or provide supporting documentation*—recognising that, in certain cases, requesting further information may be too onerous and customers may not have easy access to documentation; and • *tailoring the approach to communicating with customers*—such as removing them from an automated reminders workflow, checking in more often, and tailoring written communications. This acknowledges that certain communication methods may not be appropriate given a customer's individual situation (e.g. where it may be distressing or put their personal safety at risk) and ensuring the customer feels well supported throughout the process.
Referrals to external services	Most lenders advised that one of the ways that they would provide extra care and support is by referring the customer to appropriate support services. This included referrals to financial counselling, family or domestic violence support services, mental health counselling and emergency accommodation support. Some lenders also had partnerships with larger external support agencies, allowing them to directly refer a customer to access more holistic support.

320 Despite lenders advising us that they seek to provide extra care and support to customers experiencing vulnerability, we are concerned that this is not happening consistently in practice. Through our review of case studies, we identified a range of issues with how hardship notices from customers experiencing vulnerability were handled by lenders. These issues included:

(a) not referring a customer to the specialist team or staff members who deal with sensitive cases and customers experiencing vulnerability where that referral was warranted based on the information provided;

(b) customers needing to repeat their circumstances on multiple occasions even where repeating those circumstances may be distressing for that customer;

(c) not referring the customer to appropriate support services;

(d) not adjusting assessment processes by issuing generic requests for information or supporting documentation even though the customer's situation (such as a medical issue) may mean it is more difficult for them to provide that information;

(e) not tailoring communications to the customer where necessary; and

(f) not acting in accordance with the customer's requests for how the lender should communicate with them (e.g. contacting the customer rather than their authorised third party).

321 Example 50 to Example 52 provide examples where we assessed that lenders had not provided extra care or support even though it was clear that the customer was experiencing vulnerability and required extra care and support.

Example 50: Delayed referral to the specialist extra care team and failure to deal with customer's authorised third party

A customer was experiencing family violence and had a financial counsellor representing them. The customer had dependants, was applying for Centrelink as they had no income, and was being helped by a charity. The home loan they were giving a hardship notice for was previously managed entirely by the co-borrower, to whom the customer was no longer speaking.

Initial call

The financial counsellor called the lender in response to collections contact to advise that the customer was experiencing domestic violence and could not make repayments. They also provided other information about the customer's situation, including that the situation is likely to take a long time to resolve.

The lender agreed to a two-month payment deferral. They also advised that if the customer required further assistance, they would need to speak to a different team that deals with longer term situations.

The financial counsellor advised the lender that they would like to be the contact on the account to protect the customer from the stress of the situation. They specifically mentioned that they wanted to protect the customer from any harassment or texts (e.g. collections contact). The lender agreed to send communications to the financial counsellor.

Collections and other contact with the customer after the initial call

Despite the agreement reached in the initial call, the lender continued to direct communications to the customer over several months (including making calls to follow up on arrears).

The lender failed to refer the customer to their specialist extra care team, and also failed to apply a sensitivity flag to the account to notify other staff members to treat the customer with extra care.

The customer had to repeat their circumstances on multiple occasions to various staff members. The customer sounded distressed in some of those calls. In one of the calls made by the lender, the customer was particularly distressed and sounded to be crying at various points. The lender's staff member did not appear to have read the notes on file and displayed a lack of sensitivity in dealing with the customer during this call. The staff member:

- asked on multiple occasions about the customer's plans to clear the arrears, including asking whether the customer had plans to sell their home;
- refused the customer's request for the lender to put information into an email, saying that they had to discuss it over the phone; and

- advised that 'the most [assistance] we can give is another month and then unfortunately it will be managed by our [escalated team]', creating uncertainty for the customer.

Referral to the specialist extra care team

Several days after the call above, the financial counsellor contacted the lender to repeat the customer's situation. The financial counsellor told the lender that the customer was under great stress and that they wanted correspondence sent to the financial counsellor so that the financial counsellor knew what was going on.

The financial counsellor also asked for more information on the process for escalation to the lender's escalated team. The lender transferred the financial counsellor to the escalated hardship team. That team then referred the matter to the lender's specialist extra care team.

The lender failed to apply a sensitivity flag to this customer account until after ASIC queried the failure to do so.

Example 51: Inflexibility in handling of customer experiencing vulnerability, despite lender's policy allowing for this

A customer was experiencing domestic violence and had separated from their partner and was living in domestic violence housing. They were dealing with medical issues that had left them unable to work.

Despite the lender having specific arrangements in place to make the hardship process easier for customers experiencing family or domestic violence, such as waiving the requirement to provide further information, the lender did not apply these in practice.

We identified several concerns with the lender's handling of the customer's hardship notice. The lender's hardship team:

- issued a generic request for further information to the customer;
- did not take the customer's details over the phone; and
- in discussions with the customer, did not provide details of relevant support services (other than including information about the availability of financial counselling services in its standard hardship letters).

Example 52: Difficulties for customer experiencing vulnerability to request hardship assistance

A customer was experiencing domestic violence. They were seeking a deferral of loan repayments so that they could afford rent on an apartment while they worked through the legal process of selling the property. The customer had not previously received hardship assistance.

We identified the following issues with the lender's handling of the customer's hardship notice, which demonstrate that extra care was not taken:

- The customer was placed on hold for an extended period of time (up to an hour before the call was dropped or terminated). Despite the customer's vulnerable circumstances, the lender did not make attempts to contact the customer after the call dropped out (other than to send an email with the application form).

- The request for supporting documents was onerous and not tailored to the customer's individual circumstances.
- The customer needed to repeat their circumstances on multiple occasions, and this appeared to be distressing for the customer.
- The lender lost the customer's hardship notice and therefore did not respond to their notice within the required timeframe.
- The customer was made to complete the form and provide supporting documents again due to the systems issue.
- Collections activity was erroneously undertaken during the hardship assistance period.

322 Lenders generally acknowledged that there were opportunities to take extra care and provide additional support to customers in the case studies reviewed, and attributed the issues to human error. Given the elevated risk of harm when dealing with customers experiencing vulnerability, more focus is required from lenders to ensure they more consistently provide the appropriate levels of care and support.

Practical action lenders can take to support customers

Lenders should take extra care and/or provide additional support to customers giving hardship notices who may be experiencing vulnerability. This may include adopting a case-management approach, handling by specialist or more experienced staff, providing flexibility in the process for giving a hardship notice, or providing referrals to external services.

Sensitive and complex matters forums

323 Some larger lenders provided information about regular forums they had to discuss matters involving significant complexity or sensitivities arising in hardship, collections or complaints that require decisions or direction from management. The purpose of these forums was to ensure a consistent approach is being taken across the organisation for handling customers experiencing more acute vulnerability with a view to ultimately improving customer experience for this customer cohort.

324 These forums were attended by staff and senior leaders across the business and as a result also provided an opportunity to increase focus on vulnerability and customer outcomes.

J Arrangements supporting the hardship function

Key points

We found that:

- some lenders' systems had limitations, which meant they were not capturing important data points relating to customer experience and outcomes, and some lenders had dated and highly complex systems that were contributing to regulatory breaches;
- some lenders did not appear to be taking into account the customer experience in determining the adequacy of resourcing, and we saw evidence of resourcing issues for some lenders;
- all lenders had in place training for the hardship team—however, we saw limited content to help staff members understand the types of assistance available and make fair decisions that took into consideration a customer's individual circumstances (including providing sustainable solutions);
- some lenders did not appear to have in place adequate processes to ensure hardship-specific complaint requirements were met, and most lenders were unable to point to how they had used complaints to inform improvements to policies and processes; and
- there were significant weaknesses in the risk and control environment relating to hardship for some lenders (including two lenders who had not documented their risks and mitigating controls relating to hardship).

What we looked at

325 As part of this review, we looked at the extent to which lenders had adequate:

(a) systems and data capability to enable them to meet their obligations (see paragraphs 327–338;

(b) resources available to respond to customers giving a hardship notice in a timely and effective manner, including the ability to scale to accommodate potential increases in volumes (see paragraphs 339–348);

(c) training to support staff in meeting the lender's obligations (see paragraphs 349–354);

(d) complaints handling arrangements to enable the lender to respond to disputes that arise from the hardship function (see paragraphs 355–369); and

(e) risk and compliance arrangements (see paragraphs 370–372).

326 Where these arrangements are not effective or not in place, they can have a significant impact on the overall customer experience and outcomes.

Systems and data

327 We asked lenders to provide information about the systems and technology they had in place to manage hardship notices and financial hardship arrangements.

328 Most lenders had in place a system to manage the end-to-end hardship process. However, one of the lenders that recorded and managed hardship notices in a spreadsheet.

329 Where lenders did have in place a system to manage the hardship process, this was generally part of a broader account and loans management system or a collections management system. Across most lenders, these systems:

(a) allowed the lender to record key information relating to the hardship notice and any arrangements entered into;

(b) interacted with the collections system to ensure that collections activity ceased on a hardship notice being recorded;

(c) provided varying levels of workflow and task-management functionality to support the lender in meeting their legislative obligations and operating consistently with their internal policies and procedures; and

(d) were used to issue key communications to customers as part of the hardship process.

330 Some lenders had systems that provided for a greater degree of automation across the hardship process, including:

(a) integration with online forms that the lenders had for customers to give a hardship notice (e.g. customers could apply online and complete a statement of financial position which would automatically be loaded into the lender's hardship system);

(b) automated strategies for communicating with customers throughout the hardship process (e.g. to prompt customers who hadn't responded to information requests, to conduct check ins and where arrangements were broken); and

(c) rules and logic to support some aspects of the hardship assessment process.

331 Two issues that we identified through our review related to:

(a) systems contributing to regulatory breaches (see paragraphs 332–334); and

(b) limitations relating to data capture and reporting (see paragraphs 335–338).

Systems as a cause of regulatory breaches

332 During the review, we found that some of the lenders had dated and, in some cases, highly complex systems environments for managing hardship notices and financial hardship arrangements. This included different systems being used for different parts of the process, different brands and different products.

333 We saw examples where the complex systems environment at some lenders had contributed to those lenders failing to meet their regulatory obligations. In one case, for example, the lender had over 10 different systems for different products, brands and parts of the hardship process. During this review, the lender identified that the system for managing hardship notices for home loans for one of the brands did not allow the decision due date to be altered once set. This resulted in some customers being declined before the due date for provision of information.

334 Three of the lenders that we reviewed—each of which had complex existing systems environments—had in place projects to simplify and improve the systems used to manage hardship.

Data collection and reporting

335 Some lenders struggled to provide certain data or data fields in response to our request for hardship data, or provided that data subject to caveats or limitations. Some examples of the data or data fields that lenders were unable to provide included:

(a) the channel through which the hardship notice was received;

(b) whether the customer was represented by a third party (e.g. a financial counsellor);

(c) the customer’s reason for giving a hardship notice;

(d) whether information requests had been made and if so, the dates on which those information requests had been and the date of the customer’s response;

(e) the reason for declining the customer’s hardship notice; and

(f) the specific type of assistance provided.

336 The most common reasons for lenders not being able to provide this information was that it was not captured in a structured way in the lender’s system. In some cases, this information was captured in free-text notes that lenders could extract with some effort and caveats but in other cases it could not be produced at all.

337 We are concerned that some of the information that lenders were unable to produce was relevant to allowing the lender to monitor whether they were

complying with legislative timeframes (e.g. dates of information requests), and in monitoring customer experience and outcomes (e.g. reasons for declines).

338 In addition, we note that lenders were unable to provide any data relating to certain hardship notices (e.g. relating to a particular business unit, brand or customer base) because there would be a significant amount of effort required to extract that data relative to the number of records that would be produced.

Practical action lenders can take to support customers

Lenders should ensure there are adequate systems and technology to manage the end-to-end hardship process, including adequate data capture of key fields to support compliance with legislative timeframes and to monitor customer outcomes.

Resourcing

339 We found that the approach to monitoring and ensuring the adequacy of resourcing differed significantly across lenders and in some cases did not appear sufficient.

340 Four lenders advised that the primary way they assess the adequacy of resourcing is based on the number of hardship notices and/or arrears rates, and comparing that to the number of staff available. We did not consider this to be sufficient given that the approach:

(a) does not account for changes in the time taken to manage hardship notices over time (e.g. due to process changes, and changes in the nature and complexity of hardship notices); and

(b) does consider customer experience or customer outcomes.

341 Three of these four lenders were the worst performers in terms of the time taken to assess hardship notices. Some of the case studies we reviewed for these lenders also pointed to resourcing contributing to a poor customer experience: see Example 53.

Example 53: Poor customer service suggesting resourcing issues

The customer submitted a hardship notice using the lender’s online form. The customer called the lender’s contact centre after 10 days to query a matter in relation to that hardship notice.

The contact centre was unable to transfer the customer to the lender’s hardship team and advised the customer that they would arrange for a call back. The customer did not receive a call back until four days after that call. The lender’s internal reporting relating to the hardship function did not cover call waiting times or abandonment rates.

342 By contrast, we found that other lenders combined the use of the volume-based measures with other indicators that were more focused on the customer experience, such as grade of service measures (e.g. average speed to answer a call and call abandonment rate), time to decision, and whether all tasks were being completed (e.g. outbound reminder calls). We saw less evidence of resourcing issues for these lenders.

343 Some lenders—primarily larger lenders—also advised of arrangements they had in place to forecast and plan for future resourcing requirements. These took into account the data above as well as macroeconomic forecasts and the lender's internal credit risk analysis to determine resourcing needs.

Scaling to deal with increased volumes of hardship notices

344 There are a range of external factors (such as natural disasters or a deterioration in macroeconomic conditions) that can lead to rapid increase in the number of customers giving hardship notices.

345 The most common way that lenders advised that they would respond to an increase in the volume of customers giving hardship notices is by increasing the number of staff within the hardship team. This included:

(a) moving staff internally (e.g. using collections staff and/or other customer-facing staff) for short-term increases in volumes or as a stopgap until recruitment and training could be undertaken for longer term increases; and/or

(b) recruitment of staff (including use of outsource arrangements) where there the increase in volumes was expected to be longer term.

346 Some lenders indicated that there may be challenges in responding to an increase in customers giving a hardship notice solely by increasing resourcing. This included the challenges in recruiting skilled hardship staff, and the time it would take to train staff for a hardship role (with most lenders indicating that time to competence for hardship staff was longer than in other areas).

347 Given the challenges that may come with scaling with increased resourcing, some lenders had identified other actions they could take to deal with an increase in volumes such as changes to systems and processes. These included:

(a) the option to streamline the hardship process for requests meeting certain criteria (e.g. in the case of a major natural disaster); and

(b) redirecting customers who are able to complete their application online to an online application form (at least one lender also has the ability to activate automated processing in certain circumstances); and

(c) changing communications strategies (e.g. adding additional automated text message and email reminders to reduce the number of outbound telephone calls that need to be made).

348 In better cases, we found that lenders had developed a documented plan or playbook for how they would deal with an increase in customers giving a hardship notice. These plans identified the range of options that were available to the lender to respond to the increase and the timeframes required to activate each of those options.

Practical action lenders can take to support customers

Lenders should monitor customer experience and outcome measures to ensure there is adequate resourcing for the hardship function, and have in place a plan for responding to deal with increased volumes of hardship notices.

Training

349 We asked lenders to provide details about the training they had in place for their hardship teams to ensure that staff understood the lender's obligations relating to hardship and had the skills and knowledge to assess and manage hardship notices.

350 All lenders advised that they had in place some training for new starters. The approach to this training varied across lenders. In better cases, we saw that there was a combination of structured learning (classroom and/or e-learning) tailored to the specific lender, as well as several weeks of coaching before a staff member started dealing with customers. However, in other cases, we saw that there was a reliance on less structured coaching alone or in combination with non-tailored e-learning courses (e.g. from an external vendor and not tailored to reflect the organisation's systems, policies or procedures).

351 Most lenders advised that they had in place some refresher training, generally consisting of an e-learning course that staff needed to complete every one or two years. The scope of what was covered in these courses as well as the quality varied across the lenders. In addition to the refresher training, other measures that some lenders advised they used to maintain and develop the skills and knowledge of staff included:

(a) regular coaching or call calibration sessions; and

(b) periodic training on particular topics or themes.

352 From our review of training material, we found that the training to staff in the hardship team included coverage of:

(a) the lender's obligations relating to hardship;

(b) how to identify hardship (e.g. identifying hardship triggers);

(c) what to do with a hardship notice; and

(d) having conversations with customers.

353 However, there was generally less content to help staff members understand the types of assistance available and make fair decisions that take into consideration a customer's individual circumstances (including providing sustainable solutions). Example 54 is an example of where this was done well by a lender.

Example 54: Recent training initiative

One lender conducted a 'Cost of Living Summit' in 2023, which was tailored towards the collections and hardship team and which all collections and hardship team members attended. It was a 3.5-hour workshop of 19 sessions that:

- provided a high-level summary of the key initiatives underway within the lender to support its customers (e.g. the contact with the at-risk of financial distress customer cohort, the referral process into the hardship team, capability uplift and new customer flyers);
- included an address from a behavioural psychologist on the psychological needs of people and what drives people to make decision in relation to their debt;
- included a budgeting exercise that brought to life the challenges their customers may be faced when making financial decisions; and
- introduced new-to-hardship customer personas and treatment pathways.

Following the summit, a Cost of Living Aftercare Program was delivered, which focused on embedding the key concepts and learnings from the summit.

354 We note that some of the issues identified throughout this report suggested that there were some training gaps. Greater focus is required by lenders in ensuring that staff have the training they need to support customers experiencing financial hardship.

Practical action lenders can take to support customers

Lenders should ensure the hardship team receive regular training on the hardship obligations and how to assess and manage hardship notices, including the types of hardship assistance available and taking the customer's individual circumstances into consideration.

Complaints

355 Customers have the right to make a complaint to their lender at any stage of the hardship process. This is an important avenue for customers to seek redress when they are dissatisfied with how their lender has handled or responded to their hardship notice. Complaints also provide an important source of information to identify emerging issues and inform improvements in how the hardship function operates.

356 RG 271 outlines some requirements relating to IDR that are specific to hardship-related complaints. Specifically, these are to:

(a) provide a written response to the customer of the outcome of their complaint regardless of when the complaint is resolved; and

(b) resolve complaints involving a hardship notice within 21 days (unless further information is required).

357 As part of our review, we assessed:

(a) the arrangements lenders had in place to meet the hardship-specific obligations (see paragraphs 358–363);

(b) how hardship-related complaints were handled by lenders (see paragraphs 364–366); and

(c) how lenders used complaints to inform continuous improvement (see paragraphs 367–369).

Meeting hardship-specific complaints requirements

358 Most lenders had a field in their complaints system or register to categorise a complaint as relating to hardship. This was usually entered as part of the initial recording of the complaint, although in some cases was added as part of a later triaging process. This field would trigger system-based controls for managing compliance with hardship-specific complaints requirements.

359 The specific processes and controls to ensure compliance with the hardship-specific IDR requirements varied across lenders.

360 We saw that most lenders used exception reports or dashboards to monitor open complaints that were nearing the 21-day response timeframe to ensure they could be actioned by the due date. These dashboards would identify as ‘exceptions’ hardship-related complaints where a written IDR response had not been provided.

361 In better cases, lenders would use the exception reporting in conjunction with system-based controls. The controls would send automatic reminders about the upcoming due date of a hardship-related complaint and stop the complaint from being closed in their internal system if a written response detailing the complaint outcome had not been provided to the customer.

362 See Example 55 for system-based controls used by one of the lenders to ensure compliance with the hardship-specific complaints requirements.

Example 55: System-based controls for ensuring compliance with hardship-specific IDR requirements

One lender's complaints management system had built-in controls to ensure compliance with hardship-specific IDR requirements. Once a complaint was flagged as relating to hardship, the system would:

- automatically identify the relevant response timeframes in accordance with RG 271;
- send reminders to the assigned complaints staff members of the upcoming deadlines for responding to the customer, and
- restrict closure of the case until the staff member had confirmed that a final written response had been issued to the customer.

363 Other lenders had more manual processes in place, with at least one lender relying on the complaints team to keep track of complaint timeframes and to check that a written notice had been sent out by the hardship team. We identified at least two lenders who did not appear to have in place adequate processes or systems that would enable them to keep track of compliance with hardship-specific IDR requirements. Specifically, these lenders did not appear to have adequate processes in place to ensure that a written response was provided to the customer in accordance with RG 271.25.

Handling hardship-related complaints

364 We saw that there were significant differences in how lenders handled complaints relating to hardship, including in relation to:

(a) whether hardship complaints were dealt with by the hardship team, an escalated complaints team or a specialised hardship complaints team; and

(b) the delegations held by the complaints team to provide hardship assistance to customers.

365 There were also differences in the extent to which complaints teams were expected to consult or reach agreement with the hardship team in resolving the complaint.

366 While we recognise that different structures will be appropriate for different organisations, we note that through our work we saw instances where there was clear value provided by an empowered escalated complaints team being able to bring a different perspective, skills and experience to support the resolution of a complaint. Regardless of how the lenders structure themselves to handle hardship-related complaints, lenders must have arrangements in place to ensure complaints are managed fairly, objectively and without actual or perceived bias, as required by RG 271.

Practical action lenders can take to support customers

Lenders should have in place processes to meet hardship-specific complaints requirements and handle hardship-related complaints fairly and objectively.

Using complaints to inform continuous improvement

367 We asked lenders how they use complaints as a source of feedback to drive continuous improvement of their approach to hardship. This included what reporting and root cause analysis was undertaken in relation to complaints.

368 For most lenders, the focus of reporting on complaints was at an organisation-wide level and not specific to hardship, or the focus was primarily on quantitative data such as the volume of hardship-related IDR and EDR complaints and the rate of compliance with the standards and requirements set out in RG 271.

369 When asked, only a small number of lenders were able to point to how they had used complaints to inform improvements to policies and processes: one of these is shown in Example 56.

Example 56: Complaints root cause analysis resulting in improvements to a lender's solution set

One lender performed reviews of their complaints and other customer feedback data in relation to hardship. The lender identified themes involving customers finding it difficult to get hardship assistance and needing a longer period of assistance than the lender was offering at the time.

As a result of this analysis, the lender focused on simplifying the hardship process and expanding their solution set to become more flexible around the period of hardship assistance they could offer to the customer. This has included simplifying the process for capitalising arrears following a financial hardship arrangement, as well as extending the period of interest-only repayments from 3 months to up to 12 months.

Practical action lenders can take to support customers

Lenders should use hardship-related complaints to inform continuous improvement of the hardship function, including by conducting root cause analysis.

Risk and compliance arrangements

370 Lenders must have appropriate arrangements in place to ensure compliance with their obligations relating to hardship.

371 We note that:

(a) one lender did not have in place a documented policy or procedure for how they dealt with hardship, and another only put one in place after we commenced our review; and

(b) two lenders (including one bank lender) had not documented their risks and mitigating controls relating to hardship.

372 We also note that most lenders had not recently undertaken a review of the hardship function's compliance with hardship obligations.

Practical action lenders can take to support customers

Lenders should have in place arrangements to ensure compliance with the hardship obligations, including regular reviews of compliance with those obligations.

Appendix 1: Methodology

Scope of our review

373 ASIC conducted an end-to-end review of the hardship policies, processes and practices of 10 large home lenders. Our review focused on the lenders' approach to financial hardship in the context of home lending, including how the lenders handle hardship notices received under s72(1) of the National Credit Code.

374 We selected the participants for the review based on a range of factors, taking into account the total value of the lender's home loans portfolio, volume of complaints to AFCA about financial difficulty and other relevant data. We reviewed seven of the largest ADIs based on the total value of owner-occupied home loans (see the Monthly Authorised Deposit-taking Institution Statistics published by APRA), and three of the five largest lenders in the non-bank home lending sector.

375 The lenders that participated in the review were:

(a) Bank of Queensland Limited;

(b) Bendigo and Adelaide Bank Limited;

(c) Commonwealth Bank of Australia (CBA);

(d) ING Bank (Australia) Limited;

(e) Secure Funding Pty Ltd (Liberty Financial);

(f) Macquarie Bank Limited (and Macquarie Securitisation Limited);

(g) National Australia Bank Limited (NAB);

(h) Pepper Money Limited;

(i) Resimac Limited (and several related entities, including homeloans.com.au Pty Ltd); and

(j) Westpac Banking Corporation.

376 We had previously undertaken a review of the hardship policies, processes and practices of Australia and New Zealand Banking Group Limited (ANZ) immediately prior to this review. While they were not included in this review, a case study and some examples are based on information from that previous review.

377 In most cases, we looked at how financial hardship was considered across all brands and divisions. Notable exceptions were:

(a) for some lenders, a small number of hardship notices involving customers who also had business lending were excluded from the data collection and/or review. This is because those requests were dealt with by another part of the lender with specialised processes;

(b) for CBA, its Unloan business was excluded from the scope of the data collection because it operated using separate systems and processes and had a small portfolio balance; and

(c) for NAB:

    (i) its ubank rebranded home loans (issued under NAB's Australian credit licence from May 2022) were excluded from the scope of the data collection and the review because it operated using separate systems and processes, and was in the process of being aligned to NAB Group's systems and processes in February 2024; and

    (ii) home loans within the Citi consumer business (which NAB acquired in June 2022) were excluded from the data collection and the review because it operated using separate systems and processes, and NAB had plans underway to transition those loans to NAB's systems and processes in February 2024.

378 In the open letter released in August 2023, ASIC called on lenders to make sure they were appropriately supporting customers experiencing financial hardship: see 23-235MR. This letter was sent directly to the 10 lenders participating in our review, as well as 20 other lenders. These 30 lenders are part of a broader ASIC project focusing on lenders' approaches to supporting customers experiencing financial hardship across the broader consumer credit industry and are involved in our hardship data collection: see paragraphs 387–390.

What the review involved

Review of policies and procedures

379 We asked the 10 lenders to complete a questionnaire and provide relevant documentation to enable ASIC to better understand the systems, policies, processes and practices in place at the lender in relation to hardship in the context of home loans.

380 Our review of the lenders' responses and supporting material covered a range of topics, including:

(a) governance and oversight practices;

(b) risk and control environment;

(c) systems and technology;

(d) training of staff;

(e) channels available for a customer to give a hardship notice;

(f) assessing and deciding on hardship notices;

(g) customer communication strategies;

(h) collections activity for customers who have given a hardship notice or have a financial hardship arrangement;

(i) complaints in relation to the hardship process;

(j) impact of comprehensive credit reporting disclosures;

(k) hardship notices from customers experiencing vulnerability; and

(l) downturn preparedness and scalability of the hardship function.

381 Overall, we reviewed more than 2,400 documents provided by the 10 lenders, including relevant policies, processes, procedures and guidance documents, templates of key correspondence to customers, as well as copies of internal reporting, audits or reviews relating to the hardship function.

Case study review

382 As part of our review, we also wanted to assess how the lenders' policies and procedures for assessing hardship notices operated in practice. To support this, we asked each lender to select eight different case studies based on criteria we gave them (e.g. the first hardship notice on a particular date where the reason is unemployment), and requested the underlying records for the chosen case studies (e.g. file notes, call recordings, correspondence with customers, records of assessment).

383 We received over 1,400 files collectively from the 10 lenders in relation to these 80 case studies and obtained call recordings for 31 of these cases.

Hypothetical customer exercise

384 The hypothetical customer exercise component of the review involved asking the 10 lenders to apply their hardship policies and processes to five different hypothetical scenarios of a customer who was giving a hardship notice to the lender (relating to a home loan).

385 For each scenario, we provided lenders with a customer narrative, a completed statement of financial position and asked lenders what assistance (if any) they would provide the customer or the reasons for declining to provide hardship assistance.

386 The purpose of this exercise was to provide ASIC with insight into the different approaches adopted by lenders when assessing hardship notices given by customers. Each scenario included one or more variations to allow us to understand how different factors may influence lenders' approaches, such as:

(a) whether the customer had previously received hardship assistance;

(b) the duration of time in which the customer is experiencing financial hardship and requires assistance;

(c) whether the customer was represented by a financial counsellor; or

(d) the level of arrears the customer has at the time of giving the hardship notice.

Data collection

387 In August 2023, we commenced a temporary recurrent data collection about hardship notices received since 1 July 2022 from the 10 lenders in this review. The de-identified information included details about the notice, the account, the decision by the lender and, if applicable, the corresponding arrangement provided. We also asked lenders to provide the repayment history information for the accounts that were the subject of the request for hardship assistance during the period.

388 The purpose of the data collection was, among other things, to support our:

(a) monitoring and analysis of the economic environment, how hardship functions are operating, and customer outcomes;

(b) engagement with the lenders about the operation of hardship functions and customer outcomes; and

(c) ongoing work and discussions with other regulators about the changing economic environment and impact on customers.

389 We have collected 206,589 records from the 10 lenders of hardship notices involving home loans that were received by the lenders in the period between 1 July 2022 and 31 December 2023.

390 In addition to the 10 lenders, we have also collected data from 20 other lenders as part of this hardship data collection. In total, we have received 618,789 records from the participating lenders of hardship notices received between 1 July 2022 and 31 December 2023. We have incorporated the data relating to all 30 lenders in Section A.

On-site visits

391 Our review of the policies, procedures, case studies, hypothetical customer exercise responses and data provided by the lenders culminated in a full-day on-site visit to each of the 10 lenders in late 2023.

392 Across the 10 lenders, we met with a total of more than 170 staff who had a role or responsibility in some part of the hardship customer journey. This included representatives from the hardship team as well as supporting teams (e.g. risk and compliance, complaints teams, and representatives from customer-facing teams, given their role in initially dealing with queries from customers).

Appendix 2: Accessible versions of figures

This appendix is for people with visual or other impairments. It provides the underlying information for the figures presented in this report.

Table 14: Number of hardship notices by quarter

Quarter	Number of hardship notices
July to September 2022	83,657
October to December 2022	90,504
January to March 2023	108,128
April to June 2023	112,980
July to September 2023	108,196
October to December 2023	115,324

Note: This table shows the data contained in Figure 1.

Table 15: Hardship notices by reason for hardship

Reason for hardship	Number of hardship notices
Overcommitment	164,932
Reduced income	113,134
Unemployment	92,066
Medical	90,974
Other	43,883
Separation	28,180
Bereavement	8,468
Business downturn or failure	7,561
Parental leave	7,182
Abuse	7,006
Natural disaster	4,528

Note: This table shows the data contained in Figure 2.

Table 16: Hardship notices by product type

Product type	Number of hardship notices
Home loan	252,128
Credit card or charge card	173,314
Personal loan	120,148
Auto loan	69,261
Other product type	24,696

Note: This table shows the data contained in Figure 3.

Table 17: Hardship notices relating to home loans by quarter

Quarter	Number of hardship notices
July to September 2022	30,562
October to December 2022	34,396
January to March 2023	42,892
April to June 2023	45,527
July to September 2023	45,925
October to December 2023	52,826

Note: This table shows the data contain in Figure 4.

Table 18: Hardship notices relating to home loans by property purpose

Property purpose	Number of hardship notices
Owner-occupied	202,506
Investment only	38,594
Unknown	15,741

Note: This table shows the data contained in Figure 5.

Table 19: Hardship notices relating to home loans by account age at hardship notice date

Account age	Number of hardship notices
Less than a year	22,207
1 year	38,411

Account age	Number of hardship notices
2 to 3 years	45,977
4 to 6 years	57,291
7 to 10 years	48,392
11 to 14 years	24,870
15 years or more	19,888

Note: This table shows the data contained in Figure 6.

Table 20: Hardship notices relating to home loans by account balance

Account balance	Number of hardship notices
Less than $150,000	52,312
$150,000 to $299,999	73,094
$300,000 to $499,999	81,649
$500,000 to $999,999	50,136
$1 million or more	8,429

Note: This table shows the data contained in Figure 7.

Table 21: Proportion of customers in arrears at the time of their initial hardship notice by lender

Lender	Percentage of customers
Lender 1	69%
Lender 2	51%
Lender 3	51%
Lender 4	49%
Lender 5	34%
Lender 6	32%
Lender 7	26%
Lender 8	25%
Lender 9	23%
Lender 10	22%

Note: This table shows the data contained in Figure 8

Table 22: Number of home-loan related hardship notices per billion dollars in home loans (all banks in ASIC's data collection)

Lender	Status	Number of hardship notices
Lender 1	Not in review	187
Lender 2	In review	171
Lender 3	Not in review	149
Lender 4	In review	119
Lender 5	Not in review	106
Lender 6	In review	99
Lender 7	In review	99
Lender 8	Not in review	91
Lender 9	Not in review	86
Lender 10	In review	76
Lender 11	Not in review	71
Lender 12	Not in review	66
Lender 13	In review	57
Lender 14	In review	32

Note: This table shows the data contained in Figure 9.

Table 23: Customer dropout rate by lender

Lender	Dropout rate
Lender 1	67%
Lender 2	66%
Lender 3	60%
Lender 4	47%
Lender 5	47%
Lender 6	43%
Lender 7	32%
Lender 8	21%

Lender	Dropout rate
Lender 9	12%

Note: This table shows the data contained in Figure 10.

Table 24: Mean and median days to approve by lender

Lender	Mean days	Median days
Lender 1	19	15
Lender 2	17	15
Lender 3	16	16
Lender 4	12	2
Lender 5	11	9
Lender 6	4	0
Lender 7	4	0
Lender 8	2	0
Lender 9	1	0
Lender 10	0	0

Note: This table shows the data contained in Figure 11.

Table 25: Proportion of hardship notices with information requests by lender

Lender	Hardship notices with information requests
Lender 1	100%
Lender 2	100%
Lender 3	79%
Lender 4	40%
Lender 5	20%
Lender 6	9%
Lender 7	4%

Note: This table shows the data contained in Figure 12.

Table 26: Proportion of hardship notices declined due to a reason other than non-response to a request for information

Lender	Decline rate
Lender 1	9%
Lender 2	8%
Lender 3	6%
Lender 4	5%
Lender 5	4%
Lender 6	4%
Lender 7	3%
Lender 8	3%
Lender 9	3%
Lender 10	3%

Note: This table shows the data contained in Figure 13.

Table 27: Top five arrangement types by proportion of accounts with that arrangement

Arrangement type	Proportion of accounts
Payment arrangement	52%
Deferral	48%
Capitalisation of arrears	31%
Serviceability period	29%
Fee concession	27%

Note: This table shows the data contained in Figure 14.

Table 28: Breakdown of arrangement duration by arrangement type

Duration	Deferral	Payment arrangement
1 to 20 days	4%	11%
21 to 50 days	26%	29%
51 to 80 days	33%	33%
81 to 110 days	29%	20%

Duration	Deferral	Payment arrangement
111 to 181 days	7%	7%
181 to 365 days	2%	3%

Note: This table shows the data contained in Figure 15.

Table 29: Mean and median duration (in number of days) of a payment arrangement by lender

Lender	Mean	Median
Lender 1	98	86
Lender 2	96	85
Lender 3	96	73
Lender 4	85	90
Lender 5	72	62
Lender 6	67	70
Lender 7	62	61
Lender 8	58	57
Lender 9	45	30

Note: This table shows the data contained in Figure 16.

Table 30: Mean and median duration (in number of days) of a deferral by lender

Lender	Mean	Median
Lender 1	86	70
Lender 2	84	71
Lender 3	75	75
Lender 4	75	90
Lender 5	73	73
Lender 6	66	61
Lender 7	59	61
Lender 8	56	61

Note: This table shows the data contained in Figure 17.

Table 31: Proportion of approved hardship notices involving a deferral or payment arrangement where the reason for hardship was overcommitment or reduced income

Lender	Payment arrangement	Deferral
Lender 1	16%	65%
Lender 2	7%	57%
Lender 3	15%	49%
Lender 4	34%	42%
Lender 5	46%	39%
Lender 6	34%	33%
Lender 7	46%	32%
Lender 8	85%	16%

Note: This table shows the data contained in Figure 18.

Table 32: Proportion of requests with arrangements greater than 100 days by lender

Lender	Proportion of requests
Lender 1	48%
Lender 2	29%
Lender 3	25%
Lender 4	17%
Lender 5	13%
Lender 6	11%
Lender 7	10%
Lender 8	9%
Lender 9	8%
Lender 10	2%

Note: This table shows the data contained in Figure 19.

Table 33: Proportion of cases where customers immediately fell into arrears after exiting hardship

Lender	Immediately in arrears after exit
Lender 1	56%
Lender 2	49%
Lender 3	45%
Lender 4	41%
Lender 5	33%
Lender 6	31%
Lender 7	24%
Lender 8	23%
Lender 9	16%
Lender 10	12%

Note: This table shows the data contained in Figure 20.

Key terms

Term	Meaning in this document
23-235MR (for example)	An ASIC media release (in this example numbered 23-235MR)
ADI	An authorised deposit-taking institution—a corporation that is authorised under the *Banking Act 1959*. ADIs include: • banks; • building societies; and • credit unions
AFCA	Australian Financial Complaints Authority—the EDR scheme for which an authorisation under Pt 7.10A of the Corporations Act is in force
APRA	Australian Prudential Regulation Authority
Arca	Australian Retail Credit Association
ASIC	Australian Securities and Investments Commission
BNPL	Buy now pay later
complaint	An expression of dissatisfaction made to or about an organisation—related to its products, services, staff or the handling of a complaint—where a response or resolution is explicitly or implicitly expected or legally required Note: This is the definition given in AS/NZS 10002:2014.
consumer (credit)	A natural person or strata corporation Note: See s5 of the National Credit Act.
credit	Credit to which the National Credit Code applies Note: See s3 and 5–6 of the National Credit Code.
credit contract	Has the meaning given in s4 of the National Credit Code
credit provider	Has the meaning given in s5 of the National Credit Act
credit reporting body	Has the meaning given in s6 of the Privacy Act
EDR	External dispute resolution
financial hardship	Where a customer is unable to meet their obligations under a credit contract (i.e. making repayments)
financial hardship arrangement	Has the meaning given in s6QA(1) of the Privacy Act
financial hardship information	Has the meaning given in s6QA(4) of the Privacy Act

Term	Meaning in this document
general licensee obligations	The obligations under s47(1) of the National Credit Act
hardship notice	Has the meaning given in s204 of the National Credit Code
IDR	Internal dispute resolution
lender	A credit provider
LVR	Loan-to-valuation ratio—the ratio of the amount of the loan outstanding to the value of the property securing the loan
mean	The average calculated by adding all values in the range and dividing by the number of values in the range
median	The middle value in a range of values that is sorted in ascending or descending order
MFAA	Mortgage & Finance Association of Australia
National Credit Act	*National Consumer Credit Protection Act 2009*
National Credit Code	National Credit Code at Sch 1 to the National Credit Act
Privacy Act	*Privacy Act 1988*
repayment history information	Has the meaning given in s6V(1) of the Privacy Act
review period	1 July 2022 to 31 December 2023, inclusive
RG 271 (for example)	An ASIC regulatory guide (in this example numbered 271)

Related information

Headnotes

credit, credit licence, customers experiencing vulnerability, financial difficulty, financial hardship, general licensee obligations, hardship notice, home loans, lenders

Regulatory guides

RG 271 *Internal dispute resolution*

Reports

REP 783 *Hardship, hard to get help: Lenders fall short in financial hardship support*

Legislation

National Consumer Credit Protection Act 2009; National Credit Code, s72 and 73

Privacy Act 1988

Privacy (Credit Reporting) Code 2014

Media releases

23-235MR *As cost of living pressures persist ASIC calls on lenders to support customers in financial hardship*

Other documents

AFCA, *The AFCA Approach to financial difficulty: working together to find solutions*

APRA, Monthly Authorised Deposit-taking Institution Statistics