

31 March 2015

Mr David Crawford
Senior Adviser
Financial System and Services Division
The Treasury
Langton Crescent
PARKES ACT 2600

Email: fsi@treasury.gov.au

Dear Mr Crawford

The Australian Retail Credit Association (ARCA) welcomes this opportunity to respond to the final report of the Financial System Inquiry.

The Australian Retail Credit Association (ARCA) is the peak industry body dealing with the credit reporting system. Our Members include all major consumer credit reporting bodies in Australia, in addition to all major contributors of financial services data to the credit reporting system¹.

Background

As the peak industry body for credit reporting, we will restrict our comments to the final report's comments in relation to the credit reporting system, most particularly recommendation 20, which states:

Comprehensive credit reporting

Support industry efforts to expand credit data sharing under the new voluntary comprehensive credit reporting regime. If, over time, participation is inadequate, Government should consider legislating mandatory participation.

ARCA made a series of recommendations to the FSI panel, which we have included below:

1. ARCA recommends that the FSI, in its review and consideration of what underpins the development of a well-functioning financial system, highlight and acknowledge the role of credit reporting.

¹ A full list of ARCA Members is available here: <http://www.arca.asn.au/members/our-members.html>

2. ARCA recommends that trans-Tasman sharing of credit reporting data be enabled to facilitate better access to credit in both markets for migrants.
3. ARCA recommends that the role played by the reporting of repayment history within the credit reporting system should be recognised as an effective means of addressing financial exclusion, and further that reporting such information is expanded to allow non-financial credit providers to access and disclose payment history information.
4. ARCA submits that the credit reporting system should be expanded to include government debts. The ATO has raised the prospect of the use of credit reporting as a debt collection tool – but moreover, industry needs it because:
 - Undisclosed tax and child support debts can significantly impact on a consumer's ability to pay a loan.
 - Unless an individual self-discloses the debt, or provides account statements for the account from which the debt repayments are being deducted – it is quite possible the debt could not be detected when undertaking a credit assessment.
5. ARCA recommends that utilisation data, particularly the current balance of each credit account, should be considered by the FSI as a key factor necessary to expand and develop Australia's credit reporting system.

ARCA's first submission to the Inquiry is listed here:

http://fsi.gov.au/files/2014/04/Australian_Retail_Credit_Association.pdf

ARCA provided an additional response to the FSI discussion paper, which is available here: <http://fsi.gov.au/files/2015/03/arca.pdf>

Response to Final Report

ARCA in part supports recommendation 20 from the final report of the Financial System Inquiry. We support the view that the industry arrangements currently under development will support the implementation of comprehensive credit reporting. Whilst some ARCA Members are on record as supporting mandatory contribution of data, we are confident that industry arrangements will prove sufficient as to not require government intervention.

ARCA is leading the development and implementation of the Principles of Reciprocity and Data Exchange (PRDE), an industry agreement for the exchange of comprehensive credit reporting. The PRDE seeks to encourage data quality and integrity and a more informed credit reporting system by encouraging and incentivising all CPs to provide comprehensive credit reporting information to CRBs.

ARCA provided information to the FSI panel on the PRDE in our second submission. The PRDE will effectively create an opt-in data exchange system for the new comprehensive data.

The key features of the PRDE are as follows:

- A set of principles which are binding upon signatories by entry into a deed poll (with the PRDE annexed).
- Creates three tier levels for data exchange:
 - Negative (that is, the data typically disclosed pre-12 March 2014);
 - Partial (consumer credit liability information, that is, information about current credit accounts, plus the data at negative tier); and
 - Comprehensive (repayment history information plus the data available at the other tiers).
- A signatory will nominate a tier level for exchange, and will only receive reciprocal data at that level. Only signatories to the PRDE will have access to other signatory partial and comprehensive tier data.
- When credit information is contributed, it will be required to comply with a single data standard (the Australian Credit Reporting Data Standards, which has been developed by ARCA).
- The reciprocal data exchange is supported by a compliance process, where signatories are able to raise an issue with any alleged non-compliance by another signatory.

The PRDE has been developed following extensive consultation between ARCA Members, and external consultation with industry associations (Communications Alliance, Mortgage & Finance Association of Australia, Australian Collectors and Debt Buyers Association, Insurance Council of Australia, Energy Retailers Association of Australia, Australian Banking Association, Australian Finance Conference), consumer advocate groups and government organisations (the Office of the Australian Information Commissioner and the Australian Securities and Investments Commission).

Given the conditions the PRDE may place on the data exchange in the credit reporting market, some of its clauses are subject to an application for authorisation to the Australian Competition and Consumer Commission (ACCC). This application was submitted in February 2015, and in accordance with the published ACCC authorisation guide, will likely take a period of six months to process.

In these circumstances, mandatory credit comprehensive reporting would be both premature and may, following authorisation and implementation of the PRDE, prove to be unnecessary.

Additional comments

ARCA supports a review of the Part 3A of the Privacy Act (which pertains to credit reporting) in 2017 to examine the impact of the recent reforms to credit reporting in addition to the impact of the operation of the PRDE.

The terms of reference for such a review should be developed in close consultation with industry, and in particular should examine:

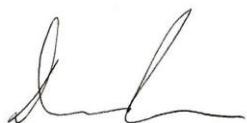
- the implementation of comprehensive credit reporting and the impact on the consumer credit market;
- the role of credit reporting in addressing financial exclusion;
- the restriction of repayment history information to ASIC-licenced credit providers; and
- opportunities to provide consumer benefits through the addition of new types of data to the credit reporting system.

This review should be required to align with the required review of the Privacy (Credit Reporting) Code² due in 2017, and include strong specialist industry representation in any steering or management committee.

For any additional information, or to discuss this submission further, please contact Matt Gijselman, ARCA Head of Government, Regulatory & Industry Affairs on 02 9236 2426 or email mgijselman@arca.asn.au.

Thank you for the opportunity to provide this additional material, and we look forward to the Government's response to the recommendations.

Yours sincerely



DAMIAN PAULL
Chief Executive Officer

² The CR Code is a legislative instrument that sits alongside the Privacy Act 1988 and the Privacy Regulation to regulate the credit reporting system.