illion
Formerly Dun & Bradstreet

23 February 2018

Manager
Financial Services Unit
Financial System Division
The Treasury
Langton Crescent
PARKES ACT 2600

By email to: ccr.reforms@treasury.gov.au
Dear Sir / Madam,

Exposure Draft - National Consumer Credit Protection Amendment (Mandatory Comprehensive Credit Reporting) Bill 2018 (the "Bill")

As a major Credit Reporting Body within the Australian credit landscape, illion (formerly Dun & Bradstreet Australia) welcomes the opportunity of providing its submission to Treasury regarding the Bill.

illion has been a strong advocate for the expansion of Australia's credit reporting system and encouraging an environment that allows comprehensive credit reporting data to be available to credit providers. At its essence, this will allow credit providers to make credit management decisions with significantly greater confidence, while also creating an environment that encourages competition and innovation in the financial services sector.

Importantly, a more competitive credit environment will benefit Australian consumers more broadly. This will offer consumers pricing benefits from a more competitive market, as well as the capacity to show a recovery from a negative credit experience sooner than what is possible under a 'negative only' regime.

These substantial public interest benefits are wholly reliant on the comprehensive information being available and utilised. To date, comprehensive credit reporting (CCR) information has not been widely shared despite enabling legislation being in place since March 2014. To that end, we are very supportive of the Government's introduction of this new legislation and expect it to drive the more rapid adoption of CCR in Australia.

While we strongly support the introduction of this legislation we take the opportunity to highlight our observations that we believe will enhance the Bill and the implementation of CCR.

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1. Scope of CCR Scheme:

illion is of the view that the policy objectives will be met through the broadest possible participation in the credit reporting system. Clearly, this will require credit providers outside the 'eligible licensees' (defined in the Bill as those with total resident assets greater than $100 billion – effectively Australia's largest four banking groups) to contribute their data to the system.

As illion understands Treasury's position, it believes this broader participation by other credit providers is highly likely to follow automatically from the mandate of eligible licensees. Based on research undertaken by illion over recent months, in the form of direct interviews with credit providers at all levels in the Australian marketplace, this assumption is highly questionable. Over 40 per cent of respondents stated to illion that they only intend to supply and consume CCR data when they are actually mandated to do so.

We have previously shared an earlier version of this research with Treasury, and would be happy to share the updated edition when it is finalised over the next fortnight.

> Recommendation:
> illion recommends that the definition of eligible licensees in the Bill be expanded to include those with greater than $50 billion in assets, should they not be voluntarily participating by July 1 2019.
>
> Alternatively, the Bill should include a statutory review of the scope of eligible licensees be conducted no later than 30 June 2019 based on rates of broader industry participation at that time, with a view to determining whether the definition of eligible licensees should be broadened and, if so, relevant thresholds and timing.

illion is of the view that there would be significant social and economic benefits in further expanding the credit reporting system beyond Australia's authorised deposit-taking institutions (ADIs). We note particularly the experience in New Zealand where greater data is available to all credit providers (not just ADIs). New Zealand's experience has been that non-financial services providers such as energy and telecommunication companies were early adopters of comprehensive data, which in turn encouraged other users to participate. The participation of companies in these sectors has driven greater uptake in the NZ market, where illion sees 66% of all credit enquiries matched to a file containing CCR data, compared to the Australian market where we see 38% of credit enquiries being matched to a file containing CCR data.

We also note that non-financial service providers form a large segment of the credit environment within Australia. Credit management is an important part of these entities' businesses. Given this, we strongly believe the ability to obtain better and more comprehensive data would have similar benefits for them in regards to credit management. Citing New Zealand again, where full participation in CCR is not restricted to credit licence holders only, 39% of the CCR data held by illion relates to telecommunications and utility accounts. To be clear, illion is not suggesting that there be a mandate applied to companies in the Australian energy and telecommunications sectors, but that CCR data is available to them.

illion notes that companies in these sectors also have obligations outlined in their Industry Codes relating to consumer protection involving the management of credit risk. We note, for example, the Telecommunications Consumer Protections Code and the Energy Retail Code.

> Recommendation:
> illion recommends that the *Credit Reporting Code* and *Privacy Act 1988* be changed to allow energy and telecommunications retailers to supply and access Repayment History Information (RHI) in addition to the existing CCLI data that they can access and supply today.

2. Fragmentation of Data:

illion is concerned about the potential fragmentation of data and the interplay between the Bill and the Principles of Reciprocity & Data Exchange ("PRDE"). Our concerns are that it is unclear that comprehensive data over and above the Division 2 data will be available to non PRDE signatories. We note the PRDE was established to ensure that data is equally accessible to all signatories and done in such a way that protects all participants.

Recommendation:

illion recommends that where a credit provider satisfies its reciprocity obligations, but is not a PRDE signatory, that it would then be entitled to enter into arrangements with a CRB to acquire the credit reporting information it requires for effective credit risk management. This will ensure the integrity of the system is maintained and continues to promote a fair and equitable exchange of sufficient data to maximise the benefits of data sharing.

3. Loss of PRDE protections:

The PRDE was established to ensure the credit reporting system is fair and open. The Bill imposes obligations on eligible licensees to provide Division 2 data to the eligible CRB. We note this does not impose obligations on other licensees/credit providers to ensure that data is shared to all CRBs or at the same level. The PRDE imposes an obligation on credit providers to provide data at the same level to all of the CRBs they supply data to. This maximises data sharing and ensures continuing benefits across the industry and, ultimately, to consumers.

Recommendation:

illion recommends that data sharing for all licensees is required to be at the same level for any CRBs they have a credit services agreement with. This will ensure information is accessible while still allowing competition between CRBs offering different products and value.

4. Information security requirements

illion continues to recognise and act on its obligations under section20Q of the *Privacy Act* with regards to data security. Given this existing obligation section133CS of the Bill (allowing an eligible credit provider to refuse to provide the data on the basis of a reasonable belief that a CRB does not satisfy its section 20Q obligations) appears to be unnecessary. As noted in the Explanatory Memorandum at clause 1.49, section 20Q obligations are enshrined in current legislation so it is unclear as to why this forms part of the Bill. At a practical level, our concern is this clause may be utilised as a barrier to the provision of the Division 2 data (i.e. by setting the benchmark for satisfaction of S20Q at a level that is over and above industry practice as a means of avoiding the provision of the mandatory data).

Recommendation:

illion recommends that section 133CS is enhanced to oblige the licensee to provide appropriate evidence to the CRB to substantiate its belief that the CRB is not satisfying its section 20Q obligations, and to allow the CRB to respond to the licensee's beliefs prior to the lodging of the notice per S133CS (2)(b). In particular we are of the view that having adequate information security to be able to receive credit enquiries from a bank in a negative environment is prima facie evidence that information security is adequate in a comprehensive regime. This is because the risk associated with the information, the so called "honey pot", does not change materially.

5. Information to be shared

The form of positive reporting data available in Australia falls well short of information available in other countries including the United States, Canada, South Africa and the United Kingdom. Of particular concern is the lack of information on the current balance that an account holder has on a revolving account in particular. Also lacking is the detail on the value of repayments made and payable each month.

The omission of this information in the Australian credit reporting system will reduce the effectiveness of CCR data in assisting credit providers meeting their responsible lending obligations, due to the inability to identify the degree to which a line of credit is utilised by an account holder.

> Recommendation:
> illion recommends that the *Credit Reporting Code* and *Privacy Act* be changed to allow balance and payment value information to be shared between CRBs and credit providers.

If you have any concerns or questions please feel to contact me at any time.

Yours sincerely,

Steve Brown
Director – Bureau Engagement