



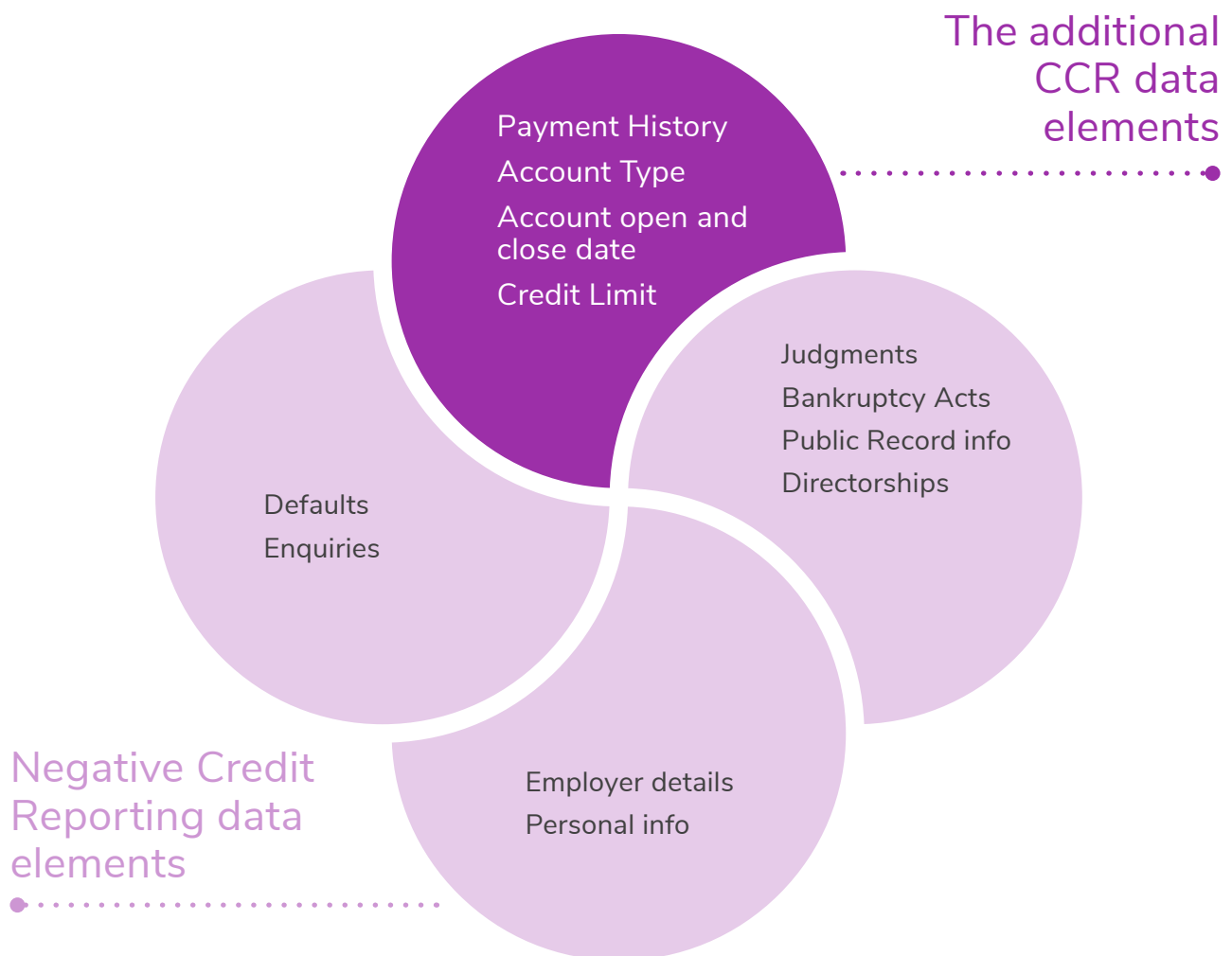
An insider's guide to mandated Comprehensive Credit Reporting



The basics of Comprehensive Credit Reporting

Comprehensive Credit Reporting (CCR) means positive as well as negative data can be included on credit reports and used by credit providers to assess credit risk.

On 12 March 2014 the Privacy Act 1988 was amended to introduce Comprehensive Credit Reporting for Australian individuals. Prior to this, Australian legislation governing consumer credit reporting permitted only negative items to be disclosed. This encompassed information such as credit enquiries, credit payment defaults and other adverse information.



What will be mandated by the Government?

Firstly

The four major banks will be required to:

- Load 50% of their consumer credit accounts (by volume) by 1 July 2018.
- Load the remaining 50% of their consumer credit accounts by 1 July 2019.
- Adhere to the Principles of Reciprocity and Data Exchange (PRDE) – the industry led framework for sharing CCR data, which also includes the technical standards for CCR data loading – which means:
 - Loading the data in “Public Mode” i.e. Fully shareable with other eligible credit providers.
 - Loading the data with all bureaus with whom they have service agreements for credit risk assessment and management purposes (excluding identity verification services for AML and CTF purposes).

Thereafter

This is still to be determined:

Government will hold private consultations with relevant stakeholders (including the four major banks, ARCA, and the bureaus) to consider: Extending subsequent mandates to other credit providers, including non-financial credit providers, as well as the nature and level of subsequent mandatory thresholds.

Don't forget!

PRDE does not mean the four banks are obliged to perform credit enquiries with all bureaus to whom CCR data is supplied.

illion supports the mandatory participation of all other market segments, in particular high risk lenders.

- High risk lenders include small amount credit contracts (SACC) and payday lenders. SACC risk is only clear if SACC lenders are using CCR.
- SACC lenders will, generally speaking, only move to CCR if it is mandated.
- SACC lenders who implement CCR will lend more responsibly. SACC data is at least as predictive as default data, and there is more of it.

I Additional takeaways

- The Exposure Draft is expected to be released in January 2018.
- The Bill to legislate the mandate is expected to be presented in the Autumn session of Parliament (February to March 2018).
- At this stage, consumption of CCR data in credit risk management has not been mandated. However, we believe responsible lending obligations without CCR will become more difficult to defend to when CCR reaches critical mass, and ASIC will promote broader adoption of CCR to adequately fulfill these obligations.
- The Treasury is consulting with ARCA to better understand the dataflows within the credit reporting system to inform their decisions.

A note on compliance

The Treasury is yet to determine how compliance with the mandate will be monitored and enforced, and who will be responsible for the management of this process.

The PRDE is administered by the Reciprocity and Data Exchange Administrator Pty Ltd (RDEA), a subsidiary of ARCA. The RDEA has been proposed as a candidate for monitoring mandate compliance. Unless legislated otherwise, disputes will be handled under the dispute resolution mechanisms per the PRDE.

Unresolved or escalated disputes may result in sanctions including: a formal warning to the non-compliant party, or direction to the non-compliant party (including the completion of staff training, or provision of satisfactory evidence of compliance). The respondent CP or CRB may also be required to contribute and obtain a supply of credit information and credit reporting information at a lower Tier Level for a nominated period.

I What does the market think?

To better understand industry perspectives and readiness for CCR, illion interviewed 36 organisations representing all segments of financial credit providers, prior to the Treasurer's announcement. The findings point to the broader benefits of CCR being well understood. The majority of credit providers, however, are only planning to contribute CCR data once mandated to do so. This may be due to the fact that nearly half are unsure of their data quality and its readiness for loading.

When will you supply and consume credit data?

17% 

plan to supply prior to mandate

33% 

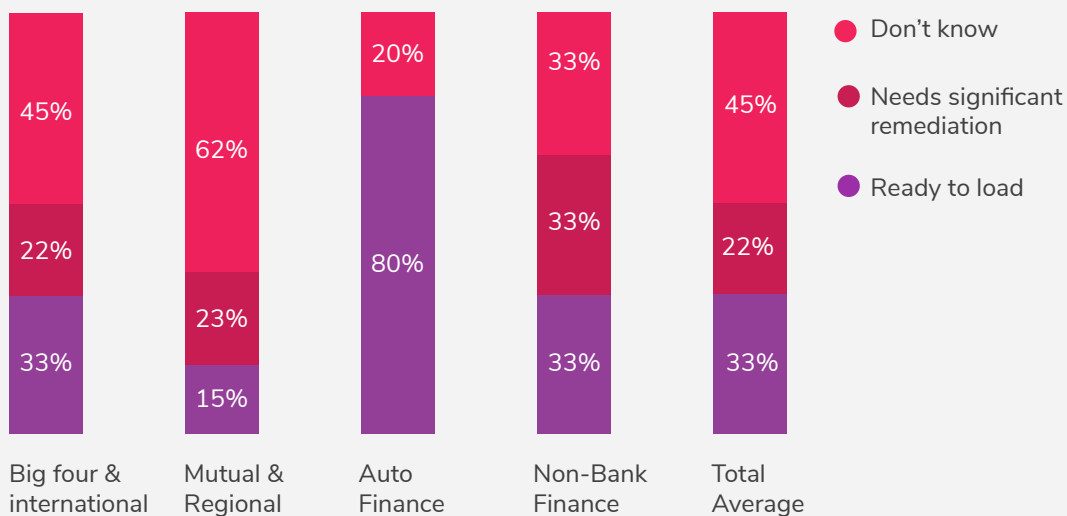
already supplying and consuming

50% 

waiting until the mandate to supply

Organisations that can probably benefit the most are the least ready. Larger banks and auto finance companies are best prepared; non-bank lenders and mutuals are generally lagging. The largest expected challenge to data loading is the management, correction, and updating of data. Nearly half are unsure of their data quality and its readiness for loading.

Data & quality readiness - is your data ready to load?



I Where is the market?

The big four banks, although mandated, will not be the first to share their CCR data publicly. Agile, smaller companies are already ahead in the CCR game.



Younger, smaller brands are more likely to share their data due to their flexibility and having less fragmented legacy systems. This will be followed in early 2018 by NAB together with a major finance company and a few internationals. Auto finance providers and larger mutuals / regional banks are likely to share their data around mid-2018.

I FAQs

Who will monitor compliance with the 50% contribution mandate, as well as the accuracy and consistency of data supplied?

While this is yet to be determined, it is expected ASIC will assume a monitoring function. Consideration may also be given to a self-attestation process, as well as extending the current audit rights credit bureaus have under the Privacy Act.

Principle 5 of the PRDE promotes industry self-management and states “PRDE signatories will be subject to monitoring, reporting and compliance requirements, for the purpose of encouraging participation in the exchange of credit information and data integrity”.

Extended use of the ARCA CCR Factbase may also be used as monitoring mechanism.

What will the penalties be for mandate non-compliance?

The PRDE includes dispute resolution mechanisms that can be enacted where appropriate. The Treasury has indicated it will consider introducing civil penalties for non-compliance eg. fines and/or suspension of credit licences.

What level of data supply will allow a credit provider to receive CCR data?

As per the PRDE, contribution of at least 50% of eligible accounts allows a credit provider access to 100% of available CCR data.

How will jointly held accounts be counted for meeting the mandate ?

We understand the mandate threshold will be based on the number of eligible accounts, not the number of account holders. For example, a jointly held mortgage will count as one account towards the threshold, but it will be recorded against two consumers on the bureau.

I FAQs

Will there be any tolerance be for non-compliance with the mandate? What about incomplete records (eg. missing fields) or bad data rejected by the bureaus?

There most likely won't be any tolerance for either of these queries: 50% = 50%.

Data acceptance will be subject to the data validation rules per the Australia Credit Reporting Data Standards. The bureaus all expect a maximum error rate in testing prior to commencing production loading. This is usually 1.5% to 2%.

We expect the contribution threshold will be deemed to have been satisfied if at least 50% of accounts are supplied to the bureaus, and the error rates are within the bureau production thresholds.

Will there be a process for partial exemptions to meeting the mandate, or negotiability to supply less data on day one, but to accelerate full contribution?

Again, this is still to be determined. The model in New Zealand allows for partial data supply and exemptions from full supply in certain circumstances. It is expected that reference may be made to the New Zealand model for guidance.

How can illion help with your data quality?

Our study found that the largest expected challenge for CCR is the loading, management, correction and updating of data. When asked about data quality and readiness, 2 out of 3 organisations could not confirm their data was ready to load.

Good data quality practices are an integral part of maintaining good business fundamentals and can drive significant uplift to your bottom line.

We have developed intelligent and streamlined processes to clean, repair and validate data.

These include:

- Address cleaning and repair through risk-based methods
- Identification and linking to Postal address (DPID) and Government location data (meshblocks & lat/longs)
- Address validation – has your customer recently moved?
- Email validation and repair
- Phone number validation

Did you know?

Missing, poorly formatted and incorrect data can negatively affect customer relationships. Data quality is an integral part of identifying customers and correctly linking them to other data sources.

Have a question?

For further information regarding CCR, speak with a friendly illion representative today.

Visit [illion.com.au](https://www.illion.com.au) or call **13 23 33**.