

Open banking Comprehensive Credit Reporting (CCR)

February 2018, updated July 2018

By the end of September 2018 the four major banks have committed to provide the first component of Comprehensive Credit Reporting (CCR), effectively a component of Australia's emerging open banking regime.

Originally scheduled to become mandatory on 1 July 2018, the Australian Senate proposed amending the legislation in June 2018 to delay the implementation of CCR for 12 months, noting concerns about the impact CCR could have on vulnerable customers.¹

Notwithstanding this, the four major banks intend to meet the initial requirements of CCR by the end of September 2018. When adopted CCR, otherwise known as 'positive reporting', will enhance the credit information provided by lenders and credit reporting bodies. This has the potential to enhance differentiation of customers based on risk.

CCR is intended to reduce information imbalances between lenders and borrowers and enable more informed lending decisions by credit providers. It may also lead to increased competition for low risk customers, and increased pricing for higher risk customers.

Notes

¹Eyers, James, Labor to delay 'comprehensive credit reporting' on hardship concerns, The Australian Financial Review, 5 June 2018. See also: <https://www.afr.com/business/banking-and-finance/financial-services/labor-to-delay-comprehensive-credit-reporting-on-hardship-concerns-20180605-h10zer>

The context

Back in 1997 the final report of the second Financial System Inquiry, the Wallis Report, recommended a complete review of the costs and benefits of positive credit reporting.² But up until March 2014, Australian privacy legislation only allowed negative credit reporting. Credit providers - which include banks, other financial institutions, utilities and telecommunication companies - voluntarily supplied a limited set of information to credit reporting bodies.

The contents of a credit reporting file were limited to the number of credit inquiries, overdue or missed payments, court judgements and bankruptcy orders which had been made over the previous seven years.³ This provided limited information that a lender could use to assess a customer's risk profile.

From 12 March 2014, Australia's privacy legislation was amended and financial institutions were encouraged to voluntarily adopt CCR. Although all four major banks reported they were on track to share data in 2018, they have worked to different timelines.⁴

- **National Australia Bank** had said it would start positive reporting in February 2018 with personal loans, credit cards and overdrafts.⁵
- **Commonwealth Bank** said it would start reporting home loans by the end of 2018.⁶
- **Westpac** intended to join that regime by mid-2018 but was not specific about products.⁷
- **ANZ** had been planning to begin reporting in the second half of 2018.⁸

After revisions to previous timelines for adoption of CCR that banks had communicated, and frustrated that 'not a single major bank' would be participating in CCR before December 2017,⁹ the Government announced on 9 May 2017 that it would mandate CCR if credit providers were not reporting at least 40% of their data by the end of 2017, the minimum target recommended by the Productivity Commission.

On 2 November 2017, with less than one per cent of data reported, the Australian Treasurer announced that the government would legislate for a mandatory CCR regime by 1 July 2018.¹⁰ The mandated CCR regime was intended to apply to the four major banks who were required to provide 50% of their credit data by 1 July 2018, rising to 100% by July 2019.

However since the release of the enabling legislation for CCR there has been much industry consultation on the practices of reporting hardship and the implications for Repayment History Information (RHI). In June 2018 the Australian Senate proposed to delay the implementation of CCR for 12 months with concerns about the treatment under CCR of repayment relief given to customers.

In the original submissions on CCR consumer groups had noted that where a credit provider had provided repayment relief to a customer, and the customer repayments met the revised payment schedule, the RHI provided for that customer should report that the customer was paying to terms. However others believed that reporting that the customer was paying to terms conflicted with responsible lending requirements and reduced the value of the RHI. The Australian Banking Association noted that flagging the period of hardship in the RHI would "signal that a customer is working with their credit provider to get back on their feet through a period of hardship and that their credit standing remains sound."¹¹

As a result the enabling legislation had not been passed at 30 June 2018. Notwithstanding this the four major banks have committed to provide 50% of their credit data by the end of September 2018.

In order to allow the Attorney-General to review the protection of vulnerable customers from being unfairly treated under CCR, the major banks have agreed for the first 12 months to exclude the reporting of customers where there are hardship arrangements in place.

Levelling the playing field

One of the Government's primary objectives in mandating CCR is to enable new entrants and smaller lenders to assess potential customers' borrowing capacity. This could result in a significant benefit as these entities gain access to additional information that was previously held by each of the four major banks.

Under CCR, a reciprocal approach to information sharing will operate, with what the information lenders receive, based on what they have provided. Sharing comprehensive credit information will be supported by Principles of Reciprocity and Data Exchange (PRDE) and Australian Retail Credit Data Standards (ARCDS) which have been developed by the industry. This will provide market participants with richer data sets and the ability to price based on the information that has been reported.

Notes

²Murray, David, "Financial System Inquiry Final Report," 2014.

³Deloitte Access Economics, "The Benefits of Broadening Access to Credit," May 2008.

⁴House of Representatives, Standing Committee on Economics, Review of the Four Major Banks (SCE's Third Report), 7 December 2017. See also https://www.aph.gov.au/Parliamentary_Business/Committees/House/Economics/FourMajorBanksReview3/Report

⁵National Australia Bank, 'NAB announces start to Comprehensive Credit Reporting', Media release, 9 October 2017 and Mr Antony Cahill, COO, NAB, Transcript, 20 October 2017, p24, as noted in the SCE's Third Report op. cit. pp16-17

⁶Commonwealth Bank of Australia, 'CBA confirms support for Comprehensive Credit Reporting (CCR)', Media release, 9 October 2017, and Mr Ian Narev, CEO, CBA, Transcript, 20 October 2017, p40, as noted in the SCE's Third Report op. cit. pp16-17 (NB in the Third Report Mr Narev was incorrectly noted as CEO of ANZ)

⁷Mr Brian Hartzler, CEO, Westpac, Transcript, 11 October 2017, p35, as noted in the SCE's Third Report op. cit. p16

⁸Mr Shane Elliott, CEO, ANZ, Transcript, 11 October 2017, p39, as noted in the SCE's Third Report op. cit. p17

⁹SCE's Third Report op. cit. p19 para 2.87

¹⁰Morrison, Scott, Mandating comprehensive credit reporting, Media Release 2 November 2017. See also <http://sjm.ministers.treasury.gov.au/media-release/110-2017/>

¹¹Australian Bankers Association, Mandatory Comprehensive Credit Reporting Submission, 23 February 2018. See also <https://static.treasury.gov.au/uploads/sites/11/2018/04/c2018-t279594-ABA.pdf>. Further complicating this issue is the split responsibility within government between the RHI mandate (Treasury's responsibility) and hardship reporting (delegated by Treasury to the Attorney-General).

The challenges

CCR has potential challenges for both large and small organisations including cost, data security, and the ability of credit reporting and customer information systems to accurately capture and report the information mandated. It has been estimated that rolling out CCR will cost the banking industry up to \$0.5 billion. Smaller entities intending to participate in CCR, may need to invest in their pricing and analytics' capabilities, to be able to generate value from the additional information.¹²

Why is CCR being introduced?

The Final Report of the 2014 Financial System Inquiry (the Murray Report) noted that the core objectives of CCR should be to 'reduce information imbalances between lenders and borrowers, and facilitate competition between lenders' and 'improve access to and reduce cost of credit for borrowers'.¹³

This was echoed in the May 2017 Productivity report, Data Availability and Use, which noted that:

'Comprehensive credit reporting seeks to address the information asymmetry between lenders and borrowers — that is, the situation of borrowers typically having more information on their creditworthiness than lenders, leading to instances where relatively creditworthy applicants are denied credit or priced out of the market while less creditworthy applicants are able to access credit, potentially at an inefficiently low interest rate'.¹⁴

In our [Open banking: a seismic shift](#) article, we highlighted that empirical evidence suggests that CCR reduces the likelihood that originated loans will default, a positive for both lenders and borrowers.¹⁵

Access to high quality credit information leads to better credit decisions and an improved credit environment for lenders and borrowers, and represents the first step to open banking.

What's different in the information reported?

Although reportable data that could be shared under positive reporting may be referred to as 'comprehensive', it is deceptively prescriptive. Currently negative information reporting only discloses defaults and enquiries. This presents practical challenges when conducting credit checks, most critically in identifying whether or not a credit inquiry listed on file resulted in an account being opened.

Full participation in CCR by 28 September 2019 involves sharing five elements:

1. Date account opened
2. Credit limit of the account
3. Type of credit
4. Date account closed
5. Repayment history over the previous 24 months.¹⁶



Negative Reporting

Credit enquiries

Credit payment defaults

Serious credit infringements



Positive Reporting

Credit enquiries

Credit payment defaults

Serious credit infringements

Date accounts were opened and closed

Credit limits

Types of credit accounts

24 months of repayment history

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Credit account information such as type of credit, account open and closed dates, and credit limits, can be shared by all credit providers, financial services companies and telecommunications and utility companies. Repayment information can only be provided by and shared with licensed credit providers, entities that hold an Australian Credit Licence (ACL)¹⁸.

These changes, when fully implemented, will bring Australia's credit reporting regime in line with other OECD countries.

Notes

¹²Bristow, Mark, NAB and CBA lead Big Four in CCR, 10 October 2017. See also <http://www.ratecity.com.au/personal-loans/news/nab-cba-lead-big-four-ccr>

¹³Murray, David, "Financial System Inquiry Final Report," 2014.

¹⁴Productivity Commission Inquiry, "Data Availability and Use," March 2017

¹⁵Miller, M, "The Value of Comprehensive Credit Reports: Lessons from the U.S. Experience", in Credit Reporting Systems and the International Economy", 2012

¹⁶S. Johnson, "Consumer Lending: implication of new comprehensive credit reporting," Financial institutions and management advisory, July 2013.

¹⁷Equifax, "What is Comprehensive Credit Reporting (CCR)?," Equifax, 2017. See also: <https://ccr.equifax.com.au/what-is-ccr>. [Accessed 15 January 2018]

¹⁸Equifax, 2017 op. cit.



Who are the winners and losers?

The third report of the review of the four major banks, reiterated why the government was mandating CCR:

*'The CCR system gives financial institutions access to a deeper, richer set of data, encouraging competition for small businesses and retail customers with positive credit histories. In addition, the CCR system allows financial institutions to better serve customers, and assess their borrowing capacity.'*¹⁹

Greater access to positive credit enables smaller lenders, and potentially new entrants including fintechs and techfins, to compete more effectively, and may lead to the emergence of niche lenders focused on customers with a particular risk profile.

In response, it is likely that banks will change their risk pricing models to use this information, leading to greater price discrimination based on credit risk.

As 'the information asymmetry between lenders and borrowers', referred to by the Productivity Commission²⁰ is removed, customers with strong credit histories are likely to see more competitive pricing and a drop in rates. However, customers without positive credit information and less creditworthy customers, are likely to experience an increase in interest rates, reflecting their higher risk. Some may be unable to access credit at all, at least from mainstream lenders.

While CCR is expected to increase the competitiveness of smaller lenders, it also provides an opportunity for larger lenders to drive individualised and tailored offerings through enhanced and dynamic pricing and packaged deals.

The opportunities

A snapshot of the opportunities includes:

Better compliance and suitability assessment

Industry players will be able to gain a better understanding of the customer with verifiable credit information which will help lenders meet their responsible lending requirements and enable them to better determine the suitability of certain products.

Data Analytics

The additional information captured will enable improved data driven insights for those financial institutions with strong data analytics capability.

Enhanced credit quality information

The additional information could result in improved clarity over asset quality which could lead to a lower cost of capital.

Risk based pricing models

Lenders are likely to explore the introduction of more dynamic, risk-based pricing of products.

Empower the development of new products and services

Industry players, with deeper insights about customer behaviours, can develop new products and services or improved service delivery. An example of this could include the ability to more quickly identify a potential late payment of a loan, preventing customers from moving into default at an earlier stage of the payment process.

There will also be some challenges:

Privacy considerations

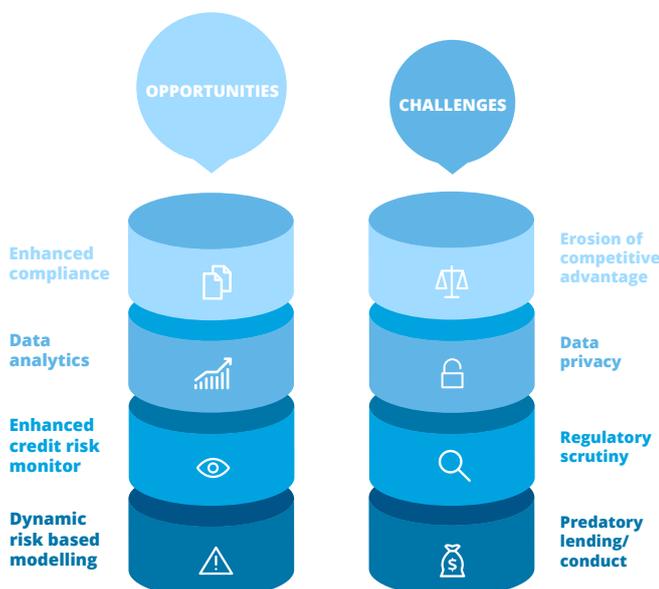
The industry will need to meet privacy requirements, including obtaining appropriate consents and permissions where appropriate, to be able to realise the benefits of CCR and open banking. The privacy of customer data is more important than ever to ensure that unencrypted data is not being shared, or that data is not being shared with an unauthorised party.

Regulatory scrutiny

While the protections established by the Privacy Act and Privacy Code remain the same, the new mandatory CCR amendment bill when passed will see expansive powers given to ASIC in order to monitor compliance, with the ability to collect the necessary information and request audits be undertaken to confirm the requirements are met.

Conduct

The enhanced understanding of the customers' credit positions will both enable and require compliance with responsible lending requirements.



Notes

¹⁹SCE's Third Report op. cit. p15 para 2.67

²⁰Productivity Commission Inquiry, "Data Availability and Use," March 2017



How does this impact the customer?

Consumer groups are concerned that although enhanced credit information might be advantageous for customers with good credit histories, vulnerable customers risk being targeted by lenders with business models that involve offsetting the high risk of delinquency, by charging higher fees and rates. There are also concerns that some consumers may avoid seeking financial hardship assistance because of the disclosure of information regarding the repayment arrangements. It is important to understand how amended repayment amounts, agreed with the customer, will be disclosed and treated by credit reporting bureaux.

Other considerations

As with any new rules and regulations focussed on customer outcomes, dealing with the additional requirements for credit and customer information as part of CCR will require organisations to review their processes and systems. As a starting point, lenders will need to:

- Review existing credit reporting arrangements
- Identify current credit lending processes impacted
- Determine if systems have the capability to provide the information required to be reported under CCR
- Ensure CCR information is compatible with relevant data standards
- Establish processes for information to be shared with credit reporting bodies and third parties under the Principles of Reciprocity and Data Exchange
- Ensure information is transferred under secure protocols
- Satisfy themselves that credit information reported to credit reporting bodies is protected from misuse, interference and unauthorised access.

A number of organisations have focused on tactical investments in data, many of which are still ongoing. Open banking, including CCR, has the potential to enable them to adopt a more strategic framework for these investments.

The major banks have acknowledged that migration to CCR is complex and will require significant investments in data, technology, security, process change and CCR reporting capability.²¹

Lenders will need to be able to answer the following questions about the information being shared:

1. Is the information in our systems about our customers and their payments accurate and complete?
2. Can we obtain a single view of customer that can be used from various product systems to meet the regulatory requirements?
3. Do we have appropriate records of customers' consents and permissions for the use of their data and if not, can we obtain this prior to 28 September 2018?
4. Do we have processes in place to ensure that the customer information that is gathered is secure and protected?
5. Do we have processes in place to ensure that customers have been correctly advised how their information will be shared?
6. Has staff in contact centres, underwriter teams, collections centres, and branches received adequate training and support material in relation to understanding a consumer's credit report?
7. Are we only using information for the purpose for which a customer has given consent or for a purpose which is otherwise permitted by law?
8. Are we confident that the counter-party with which the customer information is being shared is the correct counterparty and this information is not being used for another purpose?
9. Are our processes for extracting and sharing data efficient given legacy systems?
10. Can we automate the provision of information about our customers and their payments from our systems rather than having to run costly manual processes?
11. Have our credit decisioning systems and operating procedures been updated to reflect the impacts of additional CCR information?

Notes

²¹SCE's Third Report op. cit. pp15-19

The last word

CCR has been hailed as a 'game changer for both consumers and lenders' that will increase competition and access to finance and, for borrowers, lead to 'a better deal on your mortgage, your personal loan or business loan'.²²

Given its political genesis, financial institutions' implementation of CCR is likely to be keenly observed. Financial institutions will want to ensure they have made adequate investments in the technology, data and processes required to support the change, and that they have adequately considered the strategic, conduct and privacy risks accompanying this change.

Notes

²²Morrison Media Release op. cit.

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