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Legislation's passed - what happens next?

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SUMMER 2013

THE CREDIT REPORT

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> *There is no doubt that this is an exciting time for credit risk professionals. These reforms have been nearly 25 years in the making and many ARCA Members have been working tirelessly to see these reforms introduced.*

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WELCOME TO THE CREDIT REPORT

Welcome to the second edition of *The Credit Report*.

With the passage of the Privacy Amendment (Enabling Privacy Protection) Act 2012 in November last year, it's not surprising that this edition looks at the activities related to the proposed reforms to Part IIIA of the Privacy Act relating to credit reporting.

In this edition, we explore some of the overseas experiences and insights from former ANZ executive Mike Cutter, we look at what is meant by the term "reciprocity" in relation to credit reporting, we hear from a number of the credit industry's experts as they react to the passage of the reforms through the parliament, and we get a glimpse into the life of Mike Laing – the new ARCA Chair.

There is no doubt that this is an exciting time for credit risk professionals. These reforms have been nearly 25 years in the making and many ARCA Members have been working tirelessly to see these reforms introduced.

The efforts of the ARCA Members have been formally recognised, when in January 2013, the Office of the Australian Information Commissioners (OAIC) officially requested that ARCA redraft the Credit Reporting Code of Conduct.

This is an enormous privilege for ARCA, and we are working hard with our code drafters CameronRalph Navigator to develop an equitable and fair code framework. We provide an update in this edition on the Code development, and we will no doubt hear more when the Codes are released for broader public consultation shortly.

Finally, as part of understanding the community's views on credit reporting, ARCA has been undertaking consumer research in relation to views on credit reporting in general, and the impact of the proposed reforms in particular – and the results have been fascinating!

While the specifics are being provided only to the sponsors of the research, the headlines are illuminating. Some of the key outcomes of the research included:

- A majority of consumers who took part did not understand what was reported in a credit report
- When they were informed what is in a credit report, the majority of consumers thought that credit reporting was very important
- The majority of those participating in the research wanted to know more about the reforms
- Consumers cared about access and control of their information, and
- Consumers generally favoured the ability to flag hardship to their credit provider via their credit report.

Personally, I believe that consumer awareness about credit reporting will increase in light of the significant reforms due in March 2014, and I hope ARCA can play a positive role in educating the community about the reforms and the benefits of having a credit reporting system that:

- encourages broader participation in the supply of information (as permitted by law);
- protects our personal information and allows us to better understand the contents of our credit reports,
- enables better judgments about the creditworthiness and promotes responsible use of credit, and
- improves access to credit for those who are able to borrow responsibly.

Please enjoy this edition of *The Credit Report* – and as always, ARCA is happy to receive feedback from our avid readers, so please email your ideas and questions to info@arca.asn.au.

Regards

Damian Paull
Chief Executive Officer

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INTRODUCING MIKE LAING, CHAIRMAN ARCA

Mike Laing took over as ARCA Chairman towards the end of 2012. We spoke to him recently to find out who he is and what his plans are for ARCA.

WORDS BY JESSICA COLACINO

Former NAB senior executive Mike Laing has joined the Australasian Retail Credit Association board as Independent Chairman, bringing a wealth of experience from his time in cards and payment systems, strategy, and corporate governance for some major trans-Tasman banking institutions. This experience will be important as ARCA finalises the implementation of reforms to credit reporting and privacy. The Credit Report spoke with Laing to find out about his experience and his thoughts on the new Privacy Act.

Starting his career studying Economics at Lincoln University, New Zealand, Laing joined The Bank of New Zealand in a strategy planning role and assisted in the development of a new retail banking strategy following the 1987 share market crash and progressed to General Manager, Direct Banking. Following the sale of The Bank of NZ to The NAB Group, Laing was offered a permanent position where he became responsible for the credit card and payments businesses for New Zealand, Australia, the UK, Ireland and the US. As part of these roles, Laing sat on a number of national and international industry bodies.

Laing brings an end-to-end understanding of how retail credit businesses operate, and a well developed set of partnering and negotiation skills that will be crucial as ARCA creates the codes, rules and operating procedures for the new credit reporting framework. For Laing the privacy reforms represent one of the biggest changes the credit risk industry has seen.

"It is one of the biggest changes in the industry over the past 20 or 30 years, it is a fundamental change to the way that we manage credit and the way we manage customer relationships," Laing said.

From an ARCA perspective it represents a change in the access that Members will have to customer data – and also a big change for consumers.

"In the past, the only people who worried about their credit record were people who had a bad one, now it is going to be a big change for consumers because everyone will have a detailed credit profile – it's a big increase in responsibility for the industry to ensure we get this right," explains Laing.

"These credit reporting changes give a clearer picture of customer profiles in terms of what types of debt they have and their payment behaviour. For some customers it means the opportunity to extend credit where credit would not have been provided in the past because of a bad credit history.

"It is also an opportunity for the industry to manage its lending better, making sure people have the right level of debt," said Laing.

Laing explains that the two primary roles for ARCA over the next year will be creating the codes, rules and operating procedures of the new credit reporting framework; and supporting Members and educating stakeholders about what these changes are and what they mean to them.

"There are stakeholders both within our Members and outside our membership that need to understand what changes are happening," said Laing.

"ARCA membership today is banks, finance companies, credit reporting bodies, credit unions and building societies. There are a lot of other credit providers under the Privacy Act that ARCA can add value to like telecommunications providers and energy companies and I would like to see our membership expand to include them," explains Laing.

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The Privacy Bill's passed - now what?

The Australian Government presented the retail credit sector with an early Christmas present on 29 November 2012 with the passing of the *Privacy Amendment (Enhancing Privacy Protection) Bill 2012*. The provisions of the new Act will take effect from 1 March 2014. So just when we thought the hard work was over comes a change of focus and a whole new set of challenges for the industry.

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ARCA's Head of Public Affairs, Matt Gijselman said that the passing of the legislation was the culmination of years of hard work by many people.

"While we are pleased to see all that work behind us in getting the new legislation through, we now have to focus on what's ahead, especially on the drafting of the CR Code of Conduct, which we need to have in place well before this time next year," Gijselman said.

"That's not to say we shouldn't for a minute really take note of how far we've come, what's in the legislation, and how it will affect credit reporting."

In recommending the Bill be passed, representatives from the Standing Committee on Social Policy and Legal Affairs made some comments to the House of Representatives which are worthwhile noting.

Judi Moylan, Deputy Chair of the committee said this:

"The matters dealt with in [Privacy] Bill are extremely complex and will impact on individuals and corporations, as privacy laws govern many facets of Australian life. Additional complexities arise for the many organisations that now do business on a global scale where other countries do not have such robust privacy laws in place. The committee recognises that there remain a number of outstanding concerns raised by both industry and consumers. There is always a tension between balancing the requirements of business for streamlined processes and the rights of consumers to protection.

According to research from the US-based think tank Political and Economic Research Council (PERC) on the proposed reforms to credit reporting in both Australia and New Zealand, these reforms will have a significant positive impact on the Australian economy.

The report identifies that the credit reporting reforms have the potential to:

- Make lending fairer;
- Address some of the inequity that exists in the current 'negative' credit reporting system;
- Provide greater access to credit for those who should be able to access responsible credit, but are currently unable to do; and
- Ensure appropriate controls and consumer protections are in place to improve credit reporting information.

The new regime will begin in March 2014, and includes more than just the extra data which will be made available in the credit reporting system. New protections for consumers in the credit reporting system – such as the inclusion of ban periods, and new complaints and corrections processes – will mean business changes for all credit providers regardless of whether or not they intend to exchange extra data.

Further, the introduction of the Australian Privacy Principles may mean changes well beyond credit reporting arrangements for organisations from March 2014.

"We now face several challenges such as the finalisation of the Code, training for credit providers and education for consumers," Gijselman said.

"ARCA is currently working across all three areas and we have outlined progress on these in this edition of The Credit Report."

We will keep you up-to-date as the various project areas progress in future editions.

> ***"The matters dealt with in the [Privacy] Bill are extremely complex and will impact on individuals and corporations...***

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EXPERTS COMMENT ON THE BILL PASSING

The legislation has passed. Read what the industry has to say about the legislation, what's next for them and for consumers.

WORDS BY JENNIFER ROSS

The Privacy Amendment Bill has been passed to the relief of some and with concern from others. The Credit Report spoke to key stakeholders about their thoughts, now that the legislation is set to become a reality from 2014. Here's what some of them had to say.

Banking

Excited and pleased were the terms used by ME Bank's General Manager, Credit Risk, Matthew Round when describing the fact the Bill had finally gotten some traction.

"The passing of the Privacy Bill at the end of last year is a clear signal to all stakeholders, including consumers, that the financial services environment is changing," Round said.

"These changes will bring Australia in line with global best practice and gives consumers more informed choices."

In fact, consumers not only get more choice but as Round points out they will have more control over their credit reports.

"While banks will be able to make better decisions based on more information, the power really does rest with consumers who will be more in control of their credit history through more comprehensive reporting over longer periods of time."

Round says at present the banks have a huge workload ahead of them to meet the commencement date of 12 March 2014 for the new regime.

"From now banks need to be working on their data sharing infrastructure, training staff, talking to customers and working on how to manage complaints."

"We see the biggest challenge in all of this is education of consumers and we as banks need to be taking a leading role in this area. The messages need to get out to consumers that there are medium and long-term benefits in these changes. We can't rely on the government or regulators to do this for us," Round concluded.

Credit reporting bodies

Veda's Senior Advisor, External Affairs, Matthew Strassberg also welcomed the passing of the legislation, stating that the extension in the implementation of the Act demonstrated a practical approach by the Federal Government.

> ***"The messages need to get out to consumers that there are medium and long-term benefits in these changes.***

However, Strassberg said his company was disappointed that some of the points on depersonalised data were not supported.

"Australia is the first OECD country to regulate depersonalised data under the Privacy Act," he said.

"Overall though Veda broadly supports the legislation, we note that there have not been too many substantial shifts since the Bill went to both House Committees for review. Now we're interested in seeing the draft regulations which are expected soon.

"We believe this is an exciting time for the industry. Certainly we have been anticipating this for some time and now it's finally happening."

As an example of that anticipation and test for preparedness, Veda ran a pilot group of industry providers to model how the credit reporting provisions of the legislation would operate. The findings of this

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exercise were consistent with overseas experiences, with one of the outcomes being more accurate lending.

For now Strassberg is focusing on participation in ARCA's working groups looking at the Code.

"It's been great to work on the Privacy Code and contribute our expertise and resources. While we have had some false starts over the years we now finally have the opportunity to get the detail right.

"One of the things that stands out for me is that Australia is finally going to be consistent with overseas practices.

"The flow on for lenders and credit reporting bodies is that they will have more requirements they have to fulfil and this no doubt will generate a lot of discussion this year. Veda is geared up to meet the increased complexities the new requirements and systems will bring," Strassberg concluded.

Telecommunications industry

John Stanton, CEO, Communications Alliance said that on balance, the telecommunications industry welcomes the changes to the legislation.

"Our industry continues to play a proactive role in providing input into the code development while also considering how the new legislation and potential privacy/industry codes will both impact and be used in a comprehensive reporting environment," Stanton said.

He considers the main issues the industry will face regarding privacy over the next two to five years will include the need to ensure the protection of individuals' information as well as ensuring a balanced and logical approach is taken in implementing the new requirements.

"In an emerging world where innovation and information converge it will be critical to continue to build the community's trust that organisations will use information responsibly," Stanton said.

Australian Privacy Commissioner

The Australian Privacy Commissioner, Timothy Pilgrim was asked what he considered to be the key points about the new privacy legislation. He stated that the new laws are an important milestone for privacy in Australia, and are the most significant reforms to the Privacy Act in over 20 years.

"There are three major areas of reform: the introduction of a new, unified set of Australian Privacy Principles (APPs); new credit reporting laws; and greater enforcement powers for the Privacy Commissioner to resolve complaints, conduct investigations and promote privacy compliance.

"In terms of changes to credit reporting, the amendments will allow for more comprehensive credit reporting. The new system will be accompanied by enhanced privacy protections and underpinned by a new industry-agreed code of conduct, to be called the 'CR Code' and approved by the Commissioner. On 20 December 2012, I asked ARCA to develop the CR Code."

Over the coming year, before the legislation officially commences, the OAIC intends to produce a range of guidance and resources in the lead up to the commencement of the reforms in March 2014. This includes guidelines, rules and other statutory instruments.

"You will start to see some of the guidance we are producing over the next few months. Targeted and public consultation processes will occur to assist us to develop some of this guidance. One of the consultations will be on the guidelines for the Australian Privacy Principles," Pilgrim said.

"The OAIC will be relying on partnerships with peak bodies and businesses to assist us in getting the message out. It is encouraging to see that a number of law firms, businesses and other peak bodies are already producing and disseminating helpful guidance on these important changes. We will be focusing on the law reforms during Privacy Awareness Week this year, so look out for how you can get involved."

Pilgrim also stated that if preparations are made early, there should be no reason why organisations won't be ready to meet their new responsibilities by March 2014.

"There are certainly things that can be done now such as reviewing privacy policies and collection notices; outsourcing arrangements, particularly if these involve the disclosure of personal information outside Australia; and direct marketing practices, including the availability of 'opt out' mechanisms."

As noted, the reforms introduce substantial changes to the powers of the Privacy Commissioner.

"The changes will also strengthen my enforcement powers. I will be able to conduct an assessment of all entities covered by the Privacy Act to determine whether they are handling personal information in accordance with the new APPs, the new credit reporting provisions and other rules and codes. These assessments may be conducted at any time which is an added incentive for businesses and agencies to make sure they are complying with the new requirements," Pilgrim noted.

The new legislation will allow Pilgrim to make a determination, accept written undertakings which will be enforceable through the courts, or apply for civil penalty orders of up to $220,000 for individuals and up to $1.1 million for companies – per record, per offence.

"However, as I have been telling business and government since I became Privacy Commissioner in mid-2010, it will still be my focus to attempt to resolve complaints and investigations via conciliation. Nevertheless, I will not shy away from using these new powers where it is appropriate to do so."

Consumer advocates

Carolyn Bond, Co-CEO of the Consumer Action Law Centre considers there to be a mix of pros and cons for consumers in the new credit laws.

"We are pleased to see improved dispute resolution processes, which is important for consumers who believe there are errors in their credit report," Bond said.

"In relation to the additional information, some people would be concerned about privacy implications, and consumers don't know what impact having a few late payments will have."

"We believe that the additional information can, and will, be used by industry to help them comply with responsible lending obligations. But once lenders have such a powerful tool, we think there will be other ways that it will increase their profits, without necessarily benefiting consumers."

Bond wonders whether in future we may hear more often "and do you want a credit card with that?".

Only time will tell.

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NEW CR CODE BEGINS TO TAKE SHAPE

With the new legislation comes the development of the highly anticipated Credit Reporting Code of Conduct. This is where we're at.

Right now there are several busy people with their heads down working on the revised Credit Reporting Code of Conduct which aims to protect consumer interests, and support Australia's stronger credit reporting regime.

There are also quite a few people from around the industry who have been participating in the consultation process for the Code who may be wondering where things are up to - wonder no more.

Privacy Commissioner Timothy Pilgrim recently appointed ARCA to draft the revised Code and we have engaged specialists to assist in writing it.

The Credit Report recently met with Jeff Ryall, ARCA's Program Director and Phil Khoury, Managing Director of Cameronralph Navigator to discuss the process for the development of the new Code.

Ryall noted that at its core, work on developing the Code had started by looking at the legislative requirements and the business context for the reforms. The Code itself will be in two parts - the CR Code as per the Act, and an industry Code which will address issues such as single data standards, reciprocity and a compliance and enforcement framework.

"The CR Code has to be well thought through, as it will be binding according to the Act. To achieve this we have established several working groups to look at and advise on the different aspects from the industry and consumer points of view," Ryall said.

The six working groups have each been tasked with looking at and advising on one of the following areas:

- code development
- communications
- complaints handling
- compliance
- data standards
- implementation matters

ARCA has been closely involved with the groups and is pleased with the level of engagement and participation.

> ***The Code will then be refined and ARCA will submit the draft CR Code to the Office of the Australian Information Commissioner for approval.***

"We've engaged with specialists from the various stakeholder groups to come with industry perspectives which we then work though. The consultative process is long but as the Code is binding on all industry stakeholders we have to get it right," Ryall explained.

"Those who have been involved have provided valuable input and insight which have been incorporated into the draft of the CR Code. There is still a little way to go but progress has been good."

Khoury has been closely engaged with the working groups as well as listening to all the stakeholders from regulators, to industry and consumers.

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"We are being as thorough as possible, and this of course takes time," Khoury said.

"The CR Code has been drafted and is currently circulating amongst the working groups. Once the ARCA Board is satisfied that the Codes are ready for release, there will be a six week period where the public will be consulted and where submissions will be accepted.

"The Code will then be refined and ARCA will submit the draft CR Code to the Office of the Australian Information Commissioner for approval."

While there have been various and vigorous discussions around the CR Code, Khoury says that there are only a few real sticking points. Some feedback suggests that the draft Code should be more minimalist and others believe that it should represent a package that takes into account all stakeholders perspectives.

The Industry Code, which is concerned mainly with reciprocity and data standards, is not as developed as the CR Code and has not had as much industry feedback as yet.

The key issues so far have been around how strictly that Code should specify conduct, whether all users should be bound to that Code to the same extent and what the compliance and monitoring approach should be.

"There is quite a bit of time pressure to get the Codes completed so that systems implementation can begin - but rushing this won't help iron out the sticking points. We need to carefully work through them to get to the best solution for all," Khoury said.

ARCA has until 1 July to submit the CR Code to the Privacy Commissioner.

We'll keep you updated on progress.

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CONSUMER EDUCATION CAMPAIGN GATHERS STEAM

High on the agenda of things to do before the new Privacy Act takes effect from 12 March 2014 is to address how consumers will become aware of these new changes. Now that the legislation has been passed by the federal parliament it's time to explain what this means to mums and dads, students, workers and families all of whom may be accessing credit over the coming years.

ARCA has been working with Michael Locke of LOCKE pty ltd, to develop an education program for consumers.

ARCA's Business Solutions Manager, Clair Mackenzie, said that ARCA had established a Communications Working Group (one of six ARCA work groups created to address matters concerning operationalisation of the legislation and drafting of the Credit Reporting and Privacy Codes) to look at the type of communications and messaging that would be needed for consumer education. The working group has recently pulled together a range of frequently asked questions (FAQs) for distribution amongst interested industry leaders, and ARCA recently spent a half day with a broader range of industry stakeholders reviewing and developing key messages to test with consumers.

"We also conducted consumer research around what people know about the privacy legislation and realised we are coming off a very low base," Mackenzie said.

"The research showed that many consumers do not have an awareness of credit reporting, but the numbers were even lower than we had expected. Those that do know about credit reporting, have a very basic knowledge of why it exists and how it works.

"We found that in most cases older people had a greater level of understanding while younger people did not."

The current FAQs are now on ARCA's website and are available to industry to use. The FAQs will be revised using the information from the consumer research to better target and resolve consumer concerns and needs.

"We've also received feedback that for industry, the messages are not necessarily clear internally either, so we're encouraging our Members to use them, test them and educate their staff on the privacy and credit reporting changes so that the external messages are being delivered by well-trained staff," Mackenzie said.

In developing the program strategy, LOCKE worked with Vision Critical (a global research company) to undertake qualitative and quantitative research nationally to determine what level of understanding consumers have of credit reporting. The process engaged a diverse range of consumers in order to ascertain what messages best resonated with them and how they are perceived.

"The results both endorsed some initial presumptions we had and also provided us with a wealth of new insights," Locke said.

"From this base we take key communication pieces that tested well and use them to form a 'creative idea', which becomes the vehicle for the education campaign. We will then test this again to ensure people understand and absorb the messages; and most importantly that they begin to change their behaviour."

The research used new techniques pioneered by Vision Critical, globally called 'live chats'.

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"Live Chats' are best described as 'online focus groups'. It is a technique that removes much of the negative elements often encountered in focus groups, while drawing out the depth and emotion that good focus groups provide," Locke explained.

"We also took a different approach to the quantitative side. Again we went online and had eight minutes with 500 people who were able to provide us with much richer insights than what you get from a conventional omnibus set of questions."

The ultimate messages that go out to consumers will be delivered in an honest, positive way that encourages more awareness about credit reporting in general and advises them to alter their behaviour. Locke says this alteration of behaviour is key for both consumers and the industry.

Locke expects consumer education to commence soon so that awareness is high when the changes begin next year.

Ultimately, Mackenzie says, the message for consumers is that these changes are positive, providing an opportunity for bad payers to "redeem themselves" and providing better protection of their credit information.

"We also believe that this will help raise awareness about how consumers respond if they find themselves in some sort of hardship, and will encourage more consumers to engage with their credit providers if they find themselves in some sort of trouble. The messages should have a positive influence and we are hoping consumers will be more proactive before they get in too much trouble.

> ***"It found that in most cases older people had a greater level of understanding while younger people did not.***

"Certainly we believe that as a direct result of consumer education, there is potential for a large downswing of payments outstanding in the 30 – 60 day group. This is the potential return on investment associated with consumer education, that could see savings in time and money in chasing payments," Mackenzie said.

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UNDERSTANDING RECIPROCITY

Reciprocity is the only alternative to oppressive command, regulation and selfish exchange.

The most efficient teams, firms, and societies are often those where reciprocities are the most developed.

Society has developed various types of reciprocities among communities, organisations and, industries and social anthropologists have identified that reciprocities in society are pervasive and necessary, having regard to the overall quality of a society, of relations in it, and of its members themselves.

Reciprocity is the only alternative to oppressive command, regulation and selfish exchange.

RECIPROCITY:
ITS SCOPE, RATIONALES, AND CONSEQUENCES
Serge-Christophe KOLM

The concept of reciprocity has been around for some time but in the financial services sector only came into focus when the United Kingdom introduced the principles of reciprocity in credit reporting and data sharing. Now it's Australia's opportunity to look at the principles and incorporate them into the practices being developed as part of the new the credit reporting regime.

According to Experian, reciprocity principles, as outlined in 2006, are a set of guidelines governing the sharing of personal credit performance and related data via the closed user groups at the credit reporting bodies.[1]

Former ANZ Bank Chief Risk Officer, Mike Cutter, was living and working in the UK when it first experienced the fall-out from the failure of some institutions to participate in reciprocity. He shares with The Credit Report this experience so that Australia learns from the UK's mistakes.

Cutter said that the main issue was that some organisations did not accept reciprocity principles. These included the big four banks and the members of the Council of Mortgage Lenders, none of which supplied, and therefore did not receive, positive information.

"After a couple of years they began to experience a loss in volume, because other issuers could more accurately assess risk and therefore open up their marketing. In addition they saw some adverse selection as monoline product providers (particularly credit card issuers) were able to more sharply price their products and attract the better risk customers," Cutter explained.

There was a segregation of data supply after the initial phase when the new credit reporting regime was introduced.

"The reciprocity principle was then rigorously applied and those not supplying positive data had no access to it. This resulted in the effects detailed above and eventually it led to the vast majority of credit providers providing comprehensive data, that is, positive, negative and "grey" (which is information about customers who are mildly delinquent)."

At the same time consumers became more educated and aware of what information was being held about their credit histories.

"The introduction of positive data in the UK happened around the same time as the Data Protection Act came into being and consequently consumer awareness of data privacy issues and the awareness of the credit bureau files was low," Cutter said.

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"The development of credit bureau services was driven by the user groups of credit providers that worked with each of the credit bureaux.

"I believe that subsequently consumers have been educated to understand that their bureau file affects their ability to get credit and in some cases the price they pay and consequently direct to consumer services such as bureau alerts or score updates have been developed and sold or provided to consumers."

The UK's guidelines have evolved over time and the principle is for mutual benefit.

"There has to be fair access and it has to be equitable," Cutter states.

"If you provide data then the guidelines state that you would receive the same level of information that you have provided. In the UK the regulations are mutually agreed and enforced."

"In Australia, we are seeking to also incorporate the same guidelines into the Code. In fact here we are taking it a step further that the UK because it will be more enforceable."

Details in Australia are still being thrashed out and while the philosophy is easy to agree to, according to Cutter it's not so easy deciding on the nuts and bolts. For example, how do you reconcile the level of information provided when it depends on the product?

Cutter believes the ideal is to meet the purpose of the principle and ensure that there is no fundamental advantage or disadvantage for any credit reporting agency.

"There has to be a level playing field and an agreement that the data will be used for credit assessments only and not for marketing purposes.

"There is incentive for a high degree of participation and for comprehensive reporting but to make this really work it's also important that second tier and all financial services providers and utilities supply information."

The positives for consumers are that they will be able to enter the market more quickly with information provided by the utility companies and banking products are likely to be expanded.

"As I keep saying it's a win-win all around," Cutter concluded.

In Australia, we should be aiming to meet the general principles articulated by both the World Bank and Bank of International Settlements (BIS) General Principles of Credit Reporting. These are that non-discrimination should occur.

"Data supplying and data access should be established in a fair manner, responding to impartial rules regardless of the nature of the participants.

"In principle, all active users of data for lending purposes should be allowed to access credit reporting databases.

"In many cases, access to the credit reporting databases is based on some degree of reciprocity between the data providers/users and the credit reporting service provider(s)."[2]

Further that "the General Principles aim at the following public policy objectives for credit reporting systems: Credit reporting systems should effectively support the sound and fair extension of credit in an economy as the foundation for robust and competitive credit markets. To this end, credit reporting systems should be safe and efficient, and fully supportive of data subject and consumer rights."[3]

These five principles are the fundamental building blocks of the Industry Code.

The principles are about data, data processing security and efficiency, governance and risk management, legal and regulatory environment and cross-border data flows.

By following the principles and the guidelines already set down, Australia should end up with a robust, fair and equitable and highly efficient credit reporting system.

1. Principles of Reciprocity, April 2006 http://www.experian.co.uk/downloads/newCompliance/reciprocityDataSharing/qAndAIssuedByScor18042006.pdf

2. General Principles of Credit Reporting, ARCA

3. General Principles for Credit Reporting, September 2011, World Bank Group

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FINANCIAL EXCLUSION

One in seven Australian adults are either fully or severely excluded from accessing basic financial services, according to the largest and most detailed examination of financial exclusion in Australia.

Words by Ollie Hogue

One in seven Australian adults are either fully or severely excluded from accessing basic financial services, according to the largest and most detailed examination of financial exclusion in Australia.

The research, called 'Measuring Financial Exclusion in Australia', reports that 17.2% of the adult population, nearly three million Australians, are either fully or severely financially excluded from affordable and appropriate financial services.

The figure is up from 15.6% last year, with young adult Australians and those living in low-income outer suburban areas, reported as some of the most vulnerable to financial exclusion.

The research study, now into its second year, was conducted by The Centre for Social Impact (CSI) and funded by National Australia Bank (NAB).

"This year we examined the uses of credit, the geographic spread of financial exclusion and the experiences of Indigenous consumers," says CSI Director of Research, Les Hems.

"Most Australians take everyday financial products and services like bank accounts, general insurance and access to credit for granted. However, the cost of financial services for many in Australia is a significant barrier to financial inclusion," Mr Hems says.

The cost of basic financial services

The average annual cost of basic financial services in Australia is $1,740, which includes a basic bank account, low cost credit card, and basic vehicle and home contents insurance, according to the report.

"These costs may appear moderate, but for about 12% of the adult population this represents more than 15% of their income," he said.

The study is based on data provided by the Roy Morgan Single Source Survey, consisting of over 50,000 interviews per annum, access to the unidentified banking records of several million NAB customers, and supplemented with a telephone survey to over 600 hundred people considered financially excluded.

"Worryingly, many marginalised Australians reported a need for credit to meet every day living expenses such as food, rent and utility bills," he said.

"Unable to afford mainstream credit they turn to alternative credit providers that charge extraordinary interest on the funds they provide and ultimately compound the problem."

> ***"...nearly three million Australians, are either fully or severely financially excluded from affordable and appropriate financial services.***

Demographics

The report also identifies a number of demographic indicators that result in people being more likely to be excluded.

"Being aged 18 to 24 has a high correlation with overall financial exclusion, and being born outside Australia has a high correlation with exclusion from general insurance," Mr Hems said.

"Regions with high rates of financial exclusion tended to be either low income suburbs, inner-city areas of major capital cities, or large rural and remote areas."

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Indigenous consumers

"Although the sample size was small, data about Indigenous consumers using financial services is relatively light. We found significant differences between financial exclusion of Indigenous and non Indigenous consumers," he says.

43.1% of Aboriginal or Torres Straight Islanders surveyed were considered financially excluded. Indigenous consumers were over-represented compared to the combined national average of 17.2%, according to the report.

The survey also identified number of other difficulties in accessing financial services. These included providing identity documents, and communication and literacy challenges when trying to open a basic bank account.

Head of Community Finance and Development at NAB, Corinne Proske, says the research is crucial in the search for financial solutions that legitimately help all sections of the community.

"In a country that is generally considered to have survived the GFC, it is simply unacceptable that nearly three million Australians are financially excluded from affordable financial services," Ms Proske said.

Ms Proske is responsible for NAB's $130 million microfinance programs, which focus on helping low-income Australian's access financial services.

"Financial inclusion has obvious social and economic benefits encouraging functional families, employment and reduced welfare and health costs," she says.

Stakeholder engagement

"We need to continue exploring alternatives so that all Australians have access to fair and affordable financial products and services. However, the key issues can only be addressed with sustained commitments from government, community organisations and business."

Gerard Brody, Director of Policy & Campaigns at Consumer Action Law Centre, says access to mainstream interest rates and credit products for financially excluded Australians should be the ultimate aim.

"The debate about financial exclusion seems to presuppose that access to any financial product will alleviate our financial inclusion problems, and that efforts to restrict access to harmful products like payday loans will exacerbate financial exclusion," Mr Brody says.

"Leaving low income Australians to rely on credit products, which keep them in financial hardship and, indeed, exacerbate financial hardship, only works to take them further away from accessing more appropriate forms of credit and other financial products.

"We want to see the financially vulnerable being able to access products that can help them escape poverty, not expensive loans that help reinforce it," he says.

"That means access to products beyond credit—savings products and insurance. Products that, when used responsibly, can help improve the borrower's circumstances."

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1 If you or your organisation provide credit on terms of 7 days or more for goods and/or services then you and your organisation will need to adhere to the new provisions of the Privacy Act.

2 If you provide goods and/or services on hire purchase, a leasing arrangement or rental agreement then you will be caught by the new Privacy Act.

3 Regardless of your annual turnover you will be affected by the changes to the Privacy Act. There is no threshold. The Act applies irrespective of turnover and number of staff.

4 If you do any of the following you will be governed by the new legislation:

a) only keep credit information that you have obtained from the customer

b) only access credit reporting information

c) provide credit information to a credit reporting body

5 Commercial credit is caught by the operation of the new Privacy Act.

6 There will soon be a new Credit Reporting Code of Conduct. The new Credit Reporting Code will have the status of legislation and a breach of the new Code will be treated as if you had breached the Act.

7 The APPs and credit reporting are interrelated. Adhering to just the new Australian Privacy Principles will not be sufficient.

8 The focus of the legislation in relation to credit information is very broad. Comprehensive credit reporting is a minor part of these reforms. Therefore the credit reporting changes will directly impact on the broader commercial and consumer credit function.

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- ☐ 13th May ☐ 14th May – Brisbane (Sofitel Hotel)
- ☐ 23rd May ☐ 24th May – Sydney (Four Points by Sheraton Hotel)

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One day: $475 (inc GST)	One day: $620 (inc GST)
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Registration 8.30am for a 9am start. Concludes 5.00pm

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