

Economic Reform Roundtable

Submission by Arca

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Thank you for the opportunity to provide suggestions of priority reforms for consideration at the economic reform roundtable.

Arca is the peak industry association for businesses using consumer information for risk and credit management. Our Members include banks, mutual ADIs, finance companies and fintech credit providers, as well as all of the major credit reporting bodies (CRBs) and, through our Associate Members, many other types of related businesses providing services to the industry. ARCA's Members collectively account for well over 95% of all consumer lending in Australia.

Arca welcomes the Government's focus on reforms that will increase productivity, especially reforms which build economic resilience and which are sustainable from a public expenditure perspective. Reforms to improve the safe and appropriate use of data are thoroughly consistent with the Government's reform agenda, as enhanced data use can enable existing products and services to be provided in a lower-cost, more efficient way and also support the creation of entirely new products and services.

Reform focus – modernising credit reporting in Australia

The credit market is a critical part of Australia's economy, and as such, improving the efficiency of that lending system would drive productivity while also having the potential to improve consumer outcomes. With that in mind, there are significant opportunities for productivity-focused reforms to Australia's credit reporting system.

The credit reporting system provides an easy to access, objective source of truth for credit providers assessing new loan applications and managing their existing portfolios. It empowers lenders to make better lending decisions, extend credit to consumers who would not otherwise receive loans¹ and to support their customers during times of hardship.

Australia's credit reporting system exists to address information asymmetries which otherwise prevent the efficient operation of the credit market, and as such is an important piece of the nation's economic infrastructure. International bodies such as the World Bank and the OECD have recognised the important role of credit reporting and how it can benefit borrowers and support productive use of capital.²

Compared to other jurisdictions, Australia's credit reporting system is limited in scope, containing less data than many comparable jurisdictions, making that data available for shorter periods of time and only for more limited uses.³ As such, there is substantial scope to modernise credit reporting in Australia to catch-up to overseas jurisdictions. Credit reporting reforms will improve productivity because:

- **Application processes become less burdensome for all parties:** Improved access to easily-consumable data allows credit providers to simplify their application processes, requesting less data direct from consumers, reducing the need to do manual reviews of documents like account statements, replacing loose assumptions with actual data and speeding up decision times. Credit providers have experienced these benefits from the expansion of credit reporting to positive data, and further benefits are possible if Australia adds the more additional datasets available overseas.
- **More data is pro-competitive:** Making more data available to all participating lenders levels the competitive playing field enabling greater consumer choice, creating stronger incentives for all firms to operate more productively, price risk more precisely and to offer products and services that truly benefit consumers.
- **Data supports new products and services:** The Australian experience has been that moving to a comprehensive credit reporting system containing positive data has enabled new entrants to offer products and services which would otherwise not be available.

¹ There is significant empirical research evidencing the fact that sharing data increases access to credit. [Turner and Varghese \(2010\)](#) found that "The sharing of positive data significantly increases credit access while reducing the share of non-performing loans in a portfolio" and specifically "significantly increases access to credit by underprivileged social segments such as lower income households, racial/ethnic minorities, women, and the young." (p32).

² See the World Bank's [General Principles for Credit Reporting](#) and the OECD's [The Economic Consequences of Consumer Credit Information Sharing: Efficiency, Inclusion and Privacy](#).

³ Further information about the limits of Australia's credit reporting system is available in [Arca's submission to the Review of Australia's Credit Reporting Framework](#). More specific information is available on request.



Review of Australia's Credit Reporting Framework - concerns

We acknowledge that the credit reporting system has recently been the subject of an independent review. We stand ready to assist the Government as it considers the recommendations of the Review and determines how to improve credit reporting.

However, we do **not** believe that the Review's recommendations, as a total package, are a feasible path forward to a modern credit reporting system that supports Australia's productivity and credit market.

If implemented in full, the Review's recommendations would:

- **Hamper the resilience of the credit system, and therefore the Australian economy**, by seeking to apply a rigid data minimisation principle to credit reporting datasets. Such an approach is inconsistent with the intention of credit reporting to remove information asymmetry, and creates moral hazard and other risks associated with using more burdensome, less certain sources of information. Access to good data is essential to give credit providers confidence to lend – complicating or removing access to that data will impair the operation of credit and through it Australia's economy.
- **Be fiscally irresponsible**. At present industry funds and develops the detailed rules around credit reporting. The Review proposes that this function be transferred to Government at taxpayer expense, with significant increases in resourcing for these new functions. Industry's role in the current framework has provided flexibility and reduced costs for Government – these benefits should not be done away with. Further, the holistic re-write of the credit reporting legislation the Review proposes would cost a significant amount of money to implement – potentially without any inherent benefit. Money spent on these unnecessary reforms could be better deployed to other initiatives which support consumers.
- **Squander the opportunities for productivity-supporting reforms**, by minimising the amount of additional data added to the system, failing to solve existing inefficiencies or recreate the benefits other jurisdictions have obtained by expanding credit reporting and appropriate access to data.

Reforms for modernising Australia's credit reporting system and boosting productivity

Rather, we propose a more modest, focused agenda for change to truly modernise Australia's credit reporting system by building on the existing framework. While this modernisation agenda involves several discrete reforms, we highlight the following three reforms as being worthy of prioritisation in the context of the Government's work on productivity.

- **Adding data to the credit reporting system**: Australia's credit reporting system lags behind those of nations such as Singapore, the United Kingdom, Hong Kong, Japan, the United States, India and Spain, containing no information about current amounts owing and only limited data on repayments. Research in Australia and experience overseas indicates that some of the data missing from the Australian system tends to be the most powerful and predictive information available.⁴ Credit providers use balance and repayment information they hold about their existing customers, so making those types of information more widely available will support competition and efficiency in the credit market. Furthermore, consumer research commissioned by Arca this year found that 60% of respondents would support more of their data being included in the credit reporting system if made applying for loans easier and faster, and significantly greater support (38%) than opposition (21%) to more data being included to protect consumers from taking on debts they cannot afford.⁵

Adding data to the credit reporting system – including balance and richer repayment data – would help the credit reporting system fully realise the benefits mentioned above. A credit reporting system that supports a competitive credit market to offer wider access to finance would underpin productivity growth throughout the Australian economy. For further information about the specific data which should be added to the credit

⁴ See e.g. Arca's [Submission to the Review of Australia's Credit Reporting Framework](#) at page 41, which draws on publications from the ALRC, FSI and Productivity Commission as well as myFICO (US data) and the experience of Arca's Members.

⁵ ARCA CreditSmart research, conducted by Yougov.



reporting system, see Arca's [Submission to the Review of Australia's Credit Reporting Framework](#) at pages 41-45 and 50-51.

- **Improving protections and simplifying processes for victims of widescale data breaches:** At present, in the credit reporting system the onus is on consumers to protect themselves from risks of fraud by placing a ban on their credit file, which prevents access to their information. There are significant issues with bans: all the onus is on consumers to protect themselves, bans (especially ban removal) imposes unnecessary friction and cost to the credit system, and bans prevent lenders from using information to protect consumers from risks of default.

Creating a fraud flag system would remove much of this complexity, providing consumers with consistent, automatic protection and shifting the onus onto other parties. A reform of this nature would remove the costs and complexity associated with running the current credit ban system, freeing up resources for more productive uses and simplifying the operations of credit reporting bodies. For more information see Arca's [Submission to the Review of Australia's Credit Reporting Framework](#) at pages 70-72.

- **Exploration of credit reporting for small and medium enterprises:** Small businesses contribute more around \$700 billion in added value the Australian economy and employ more than 7.4 million people,⁶ and as such are a key focus point for efforts to improve productivity. Appropriate access to finance is essential for the continued success of Australia's SME sector.

Australia's comprehensive credit reporting system only relates to consumers and consumer lending. Designing and implementing a credit reporting system for small businesses has the potential to significantly increase access to credit, simplifying application processes and speed up decisions, all of which would support business growth and productivity. Recent research has shown that using new technology and data sources has supported lending to SMEs⁷ - establishing a credit reporting system for the sector would further support SME lending. Small businesses with ready access to finance on competitive terms will be better able to grow and innovate, and in turn drive productivity improvements.

Designing a credit reporting system for small businesses will be a substantial piece of work. As such we recommend that Government consider establishing a working group made up of industry, Government and small business participants to consider the design, dataset and sharing arrangement such a system would require.

Driving productivity through increased financial inclusion

A key benefit of the priority credit reporting reforms mentioned above is that they would promote financial inclusion – providing more consumers and small businesses with easier access to appropriate credit will improve productivity throughout the economy.

Given the importance of financial inclusion on both economic and social grounds, Government should also conduct a piece of work to consider what further steps could be taken to support the offering of financially inclusive products that promote good consumer outcomes. Consumers should be protected when using such products, but there may be a need for clarity about the desired outcomes and the regulatory requirements for credit providers to be comfortable to design a suitable offering.

Detailed engagement with policymakers and regulators would help resolve uncertainty and create an environment within which carefully designed products could contribute to a productive Australia.

⁶ Productivity Commission, [Small Business access to finance: the evolving lending market](#) (2021) at page 5

⁷ Productivity Commission, [Small Business access to finance: the evolving lending market](#) (2021) at pages 27-29. Due to the restrictions on access to repayment information, the benefits from the consumer credit reporting system referred to on page 29 are not fully available to commercial-only lenders. This outcome should be addressed as a priority.