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### **Discussion paper – Strategies for reducing reliance on high-cost, short-term, small amount lending**

- ☞ Credit reports are critical to responsible lending, detailing credit applications and defaults on commitments.
- ☞ Reforms to credit reports will increase the ability of people to access mainstream credit.
- ☞ Credit reports also provide an early-warning sign that a person is becoming credit stressed.
- ☞ Veda has been working with short-term lenders to encourage greater use of credit reports by industry.

#### **Introduction**

Veda is best known as Australia's leading provider of consumer credit reports. Credit reports are recognised as a critical tool when assessing risk and form part of ASIC responsible lending guidelines.

Our accumulated experience has given us extensive insights into consumer risk behaviours, including detection of improving or deteriorating financial health.

For people with a poor credit history, access to mainstream credit can be difficult. A default – where a person is more than sixty days late without making a required payment – stays as a black mark on a credit report for five years.

Australia's consumer credit reporting legislation is undergoing reform to provide better information on credit reports and create improved access to mainstream credit.

For people who went through a financial rough patch – typically due to relationship breakdown or unemployment – the reforms will give them the opportunity to demonstrate they are once again credit-worthy.

In the immediate term, present-day credit reports offer significant insight into credit enquiries, recording when an application was made and the amount applied for.

Short-term credit lenders have unique characteristics that Veda has been working with to enable better use of credit reporting information.

## **Veda and providers of short-term credit**

Veda recognises the legitimate need for small amount lending and supports the industry in its drive to comply with responsible lending and anti-money laundering legislation by providing sophisticated products at commercially viable price points.

Lenders must assess applicants with the following considerations:

- Credit risk
- Responsible lending requirements
- Anti-Money laundering requirements

Veda can support this by providing consumer credit reports and electronic identity verification.

Consumer credit reports represent the only independently provided method of assessing the credit worthiness of applicants. Bank statements and payslips can validate only the income element of a customer's financial situation – they provide no information on either their borrowing behaviour or failure to make payments on existing credit.

Further, customers may have multiple bank accounts but Veda's world class matching capabilities will typically detect an individual with multiple credit reports.

The enquiry history included can indicate unhealthy patterns of behaviour such as multiple short term loans or repeat lending (meaning loans are taken out to pay off prior debts). Default information is a strong indicator of the financial position of the consumer and as such highlights vulnerable consumers who should not be extended further credit.

Veda is actively engaged with the industry and has identified that many lenders are unable to perform credit checking and ID verification on all applicants due to cost constraints.

To this end Veda has developed a new package or products for the sector and is discussing this with several providers. This aims to encourage proper review of applicants in a way that makes sense economically.

## **Financial Exclusion**

Australia's negative-only credit reporting system unfairly prevents a segment of the credit active population from accessing mainstream credit.

The move to include additional data elements, including repayment history, will help change that.

Based on international experience and research, these additional data fields will allow access to mainstream credit for people presently excluded because of an historic default or 'thin' credit file.

In Australia, a 2008 Access Economics Study found there will be increased acceptances without increasing defaults. Further, Access found the people most likely to benefit will be low-risk individuals currently viewed as high-risk

For consumers to benefit from this new ability to demonstrate their creditworthiness, they must have credit activity recorded with a consumer credit bureau. This in turn requires there to be providers whose commercial models allow them to lend to consumers when they present a relatively high risk of default.

For example, a consumer with a poor credit history may improve his position by taking and promptly repaying of a short term loan whose provider is able to service consumers that mainstream providers cannot.

The availability of alternative types of non-lending support will not enable the rebuilding of consumers' credit profile in this way.

## **Hardship**

Veda notes the Report's assertion that there are many utility customers who seek various means of finance to pay for utility expense, including short term borrowing, whom may be better off utilizing hardship programs.

Often these customers are unaware of 'hardship' types of facilities that are available to them. Ongoing increases in utility bills are likely to make this an increasingly common issue.

Veda has encouraged utilities to heed the Australian Energy Regulator guidelines and take a more proactive approach to identifying and properly servicing customers that fall into financial hardship.

Scoring and data analytics on application as well as regular reviews of a customer's financial situation can be used as flags that trigger further investigation by a utility. This will ensure hardship customers do not incur significant arrears balances prior to self-identifying themselves to the applicable utility provider.

While an oral indication of hardship may be a starting point, in the interest of self-determination there need to be checks and balances in a hardship application process to ensure that an applicant is a true hardship case. Data analytics and scoring can act as a filter and be the first stage of a more in-depth evaluation that will likely also require some individual contact.

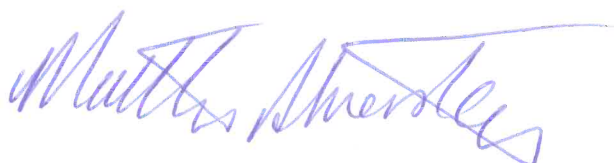
## Conclusion

Veda agrees with the direction and intentions of the government as outlined in the discussion paper but feels there is greater scope for a positive contribution by the short term credit industry than is perhaps recognized therein.

By making full use of data analytics and particularly consumer credit reports there is potential to ensure those consumers that should be accessing alternatives do, and that those that do not are able to take advantage of the quick-turnaround, minimum fuss service that the best of these providers offer.

If you need any further clarification, please contact me and I can arrange for a response (02) 9278 7838 or [matthew.strassberg@veda.com.au](mailto:matthew.strassberg@veda.com.au)

Yours sincerely



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