

16 December 2016

**DISCUSSION PAPER: CREDIT REPORTING PRIVACY CODE REVIEW – REVIEW OF THE OPERATION OF AMENDMENTS NO 4 AND 5 AND SELECTED OTHER ASPECTS OF THE CODE**

ASB Bank Limited (ASB) welcomes the opportunity to provide feedback on the Office of the Privacy Commissioner’s discussion paper: *Credit Reporting Privacy Code Review – Review of the operation of Amendments No 4 and 5 and selected other aspects of the Code* (the Consultation Paper).

ASB is a subsidiary of Commonwealth Bank of Australia and a related company of Sovereign Assurance Company Limited.

ASB has contributed to a detailed industry submission made by RCANZ where our views on the questions in the discussion paper are covered. The following additional submission is provided for your consideration and emphasises specific aspects of the discussion.

We acknowledge that ASB’s submission may be made publically available by the Privacy Commissioner or released under the Official Information Act. ASB does not seek confidentiality for any aspect of this submission.

If you require any further information in relation to this submission, please do not hesitate to contact me.

Yours sincerely



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**Manager Regulatory Affairs**  
**ASB Bank Limited**



## General

ASB has been broadly satisfied with the implementation of Comprehensive Credit Reporting (CCR) allowed by Amendments No 4 and No 5. In operation, these amendments have enabled ASB to introduce these new elements of consumer payment behaviour in to both credit origination and collections platforms. This allows for more informed and responsible lending decisioning for credit active individuals.

While ASB has seen tangible benefit for both customers and the bank, the overall industry benefit has underperformed initial expectations as the credit reporting landscape is still missing contribution from a significant portion of the lending industry. The slow nature of uptake by some industry players means this new source of data remains in an evolving state, making some of the expected use cases more challenging to deliver. Despite this, ASB remains positive about the operation of Amendments No 4 and No 5 of the code, and see this as a vital element in ensuring credit is made available to credit-worthy individuals, and the risk in extending that credit is better understood and managed.

### Part 1: General issues

#### ***1.1 What benefits for individuals have resulted from the introduction of more comprehensive credit reporting?***

ASB has extensively integrated this strategic data asset in its credit origination and debt collection systems as well as in its credit assessment practices. This implementation offered significant improvements in risk assessment capabilities, and in doing so has enabled an expansion in credit availability within the bank's prevailing risk appetite.

Note that had the adoption of positive reporting evolved at the expected pace the benefits of CCR for both consumers and the bank would have been greater.

#### ***1.4 Has pre-screening of marketing lists proved to be a beneficial use of information held by credit reporters?***

From ASB's point of view, the use of a CCR pre-screening facility generally produces a beneficial outcome for customers by supporting responsible lending practices. The benefits have been tempered due to uncertainty about the boundaries of the practice and what is and is not acceptable under the Code. Internally, this functionality has enabled the exclusion of individuals with payment arrears from receiving some marketing offers, ensuring that the consumer is responsibly meeting their current commitments before being extended any further offers. Previously the only bureau information that could be used for this purpose is default information, which often only occurs far later in the process.

### Part 2: Operational issues

#### ***2.1 Has the provision for reporting serious credit infringements worked well in operation?***

ASB welcomes the ability to report clear fraudulent activity or credit non-compliance activity. However, we believe there is an opportunity in this area that has not been effectively utilised across the industry. From ASB's perspective, the key challenge that needs to be overcome in

this regard is around industry uniformity of definitions of fraudulent activities. A credit provider would need to have a strong, incontestable definition of reportable activities if ever raising these types of statuses on an individual's credit report. Also, fraudulent actions are mostly discovered in retrospect, so from a reporting perspective this would fit alongside the retrospective corrections process rather than the more general 'current month' reporting structure for positive credit information.

***2.2 Have the credit non-compliance action and confirmed credit non-compliance action provisions worked satisfactorily for individuals, subscribers and credit reporters?***

Our comments in response to question 2.1 are equally relevant here.

***2.5 Has the provision for quotation enquiries been utilised and, if not, why not?***

ASB shares the view that consumers should not be penalised in credit scores for prudently "shopping around" for a good credit deal. With regard to the practice of utilising quotation enquiries, we consider that there are some challenges the industry faces now. Without full participation of credit providers in positive reporting, it is difficult to distinguish between a customer who is "shopping around" and one that is increasing his debt exposure. This is because without evidence of the limit created, there is no way to differentiate the two activities.

From an industry perspective, it should also be noted there are real challenges in separating out a 'reliable quote' from an 'application resulting in an irrevocable offer'. However, we expect that as the market evolves towards more risk-based pricing offers, enquiry activity will evidentially not be seen as a strong indicator of risk. Therefore in many cases enquiry activity will not be relevant in the making of a credit decision and as a result the use of quotation enquiries may ultimately be unnecessary.

***2.6 Have the Code's obligations, limits and processes been sufficient to provide an appropriate level of transparency and to provide meaningful opportunities to challenge accuracy and obtain correction?***

Please note that our response below talks to the scoring element alluded to in the discussion of 2.6 in the submission document rather than answering the above question directly.

ASB recognises that credit scores are a valuable method to summarise the credit worthiness of individuals, especially in a mature positive reporting market. However, we believe there are certain challenges in the way credit scores could be used in the New Zealand market at this stage of CCR maturity.

Firstly, we consider there needs to be greater transparency around the information used in generating a score, so that consumers fully understand which types of behaviours may influence their score.

Secondly, in the current New Zealand market, there is some worry that credit scores might be presented as the best or unique score available in the market or that everyone has a score. In practice, there are many scores available and a credit bureau score alone is not a complete reflection of the customer credit worthiness. These scores only go some way to supplementing

the information that a credit provider may also have about the credit worthiness of the consumer. Therefore in the current market considering one score in isolation may mean the consumer has a score that has no bearing on their credit worthiness or their ability to obtain credit. As a consequence, there is a risk that individuals will get confused with both the different representations of their scores and the assessment of their credit worthiness by credit reporters and providers.

### **Part 3: Future directions for the Code**

#### ***3.1. Would allowing the reporting of account balance information deliver substantial benefits to the credit reporting system while appropriately respecting individual privacy?***

ASB welcomes an opportunity to extend CCR capability to include current or outstanding balance information in the dataset.

In our view the enhancement could streamline the risk assessment of credit applications, in particular for customers holding revolving credit facilities. Understanding limit utilisation of such facilities will allow further insight into individuals' behaviour and would enhance responsible lending decisions. A limit that is rapidly increasing in utilisation is far different to one that has a stable utilisation and should prompt different customer conversations. In relation to the implementation of the enhancement, as an early adopter of CCR ASB have processes in place to supply and consume this extra information with relative ease.

**Note:** ASB appreciates any feedback from the OPC on any part of this submission. ASB also notes the request from the OPC for specifics around benefits but has chosen to withhold some of the detail from this submission due to its public nature. ASB welcomes any dialogue the OPC may wish to have directly about this submission or any other matter.