Retail Credit Association of NZ

16th December 2016

Credit Reporting Privacy Code Amendment
Office of the Privacy Commissioner
P O Box 466
AUCKLAND

Delivered by email to: submissions@privacy.org.nz

Submission to the Office of the Privacy Commissioner on :

Review of the operation of Amendments No 4 and No 5 and selected other aspects of the Code

Please find attached our submission.

For further comment or clarification in relation to this submission please contact:

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Retail Credit Association of New Zealand

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A.Introduction

These comments are made by the Retail Credit Association of New Zealand (RCANZ).

RCANZ developed from a series of discussions between credit providers and credit reporters commencing in 2010. These discussions had as their focus the development of comprehensive credit reporting in New Zealand. This development was made possible by proposed amendments to the Credit Reporting Privacy Code.

RCANZ is a specialist industry association set up to create a forum for:

- Providers of credit to individuals (major bank, non-bank and utility service organisations);
- The major credit reporters; and
- Organisations able to access positive credit data under the credit reporting privacy code.

Our members comprise a significant portion of credit provided in the New Zealand.

One major reason for the creation of this forum was the need to establish a practical and workable basis on which comprehensive credit reporting, compliant with new credit reporting privacy regulatory requirements, might be implemented.

Our objects include:

- to advocate initiatives that enable continuous improvement in credit risk assessment and management
- to facilitate the establishment of standards regarding data as permitted by the Credit Reporting Privacy Code and/or other regulatory and /or legislative requirements;
- to develop, and promote relevant policies and Codes of Conduct;
- where appropriate, to educate on these and promote change to assist in achieving such outcomes

RCANZ encourages greater clarity, transparency and efficiency in credit risk assessment and management in order that the benefits gained may be shared by consumers and providers. Further information can be found on our website: http://www.rcanz.org.nz/

The following comments are made on behalf of those member organisations listed in Appendix A.

A number of our members have indicated that they will also be making their own and more detailed submissions.

The comments in this submission are therefore of a more general view from our members. The comments made in this submission are either a consensus view of members or are made by specific members. It is important to note that some comments may not apply to all members.

B.Executive Summary

RCANZ continues to be generally supportive of amendments 4 and 5 and selected other aspects of the Code as outlined in the review. In principle we also support the proposed amendments and the future direction of the Code.

Since the Comprehensive Credit Reporting Code was introduced in April 2012 all members have been working towards becoming both Comprehensive Credit Reporting (CCR) contributors and users. However, the past four years has been marked by a period of high regulatory impost whereby members have had to prioritise their limited resources across a number of projects. A number of other new regulatory requirements have been mandatory whereas CCR was an optional project. Consequently not all members are providing or receiving CCR data.

It is certainly the intention of most if not all members to eventually become full contributors and users of CCR. However, it is expected that the full benefits of CCR for our members, other stakeholders and consumers will not be gained for a further few years.

Without exception, all members expect that there will be benefits to consumers and to the members from the adoption of CCR. The members who are already fully embracing CCR are seeing benefits and a number of other members who are not yet receivers of CCR data have back-tested their customer base to see how decisions would have differed had they used CCR data.

The summary of findings suggests:

- The greatest benefit will be derived by marginal customers. These will fall into two categories:
    - Individuals of marginal credit standing who will benefit from being able to obtain additional credit as better credit information becomes available to credit providers
    - Individuals of marginal credit standing who will be restricted credit and therefore not placed in a position of hardship
- Credit providers and other CCR users will certainly be more able to proactively manage customer accounts
- Improved risk based pricing will evolve
- There is expected to be a net increase in overall lending.

There are a few provisions in the Code which currently have a low level of use, potentially have merit but could benefit from further education to improve their usage. These provisions include:

- Credit freezing
- Pre-screening to support responsible lending practice
- Serious Credit Infringement
- Credit Non-Compliance Action
- Quotation enquiries

Whilst credit providers and credit reporters do have a reasonably good understanding of the Code the same can not be said for consumers. There is minimal knowledge by individuals on their credit scores yet the bureaus do provide information around what a score means and details of a credit file.

Overwhelmingly our members consider that there is a need for greater consumer education. A number of members are taking proactive steps to contribute to consumer education but any further assistance that the Office of the Privacy Commissioner (OPC) can provide to increase consumer awareness on the Code would be welcome.

Members support the Code and the main provisions are working well.

Members unanimously support the proposal to introduce account balance. The lack of account balance means that the benefits for individuals and members can not be fully gained. This is because members are applying a more conservative approach to credit decisions when only limit information is available. In the absence of account balance under the Responsible Lending Code members have to make certain assumptions around the use of credit limits with most members assuming that their customer's are fully utilising their credit limits which may not be the situation. The provision for account balance is certainly the area where most gain from a future Code amendment is likely to be made and where most future benefit to individuals will become available. The provision of account balance means that members will be able to make more accurate credit assessments especially around debt servicing ability and this will also aide in better fulfilling credit providers' obligations under the Responsible Lending Code. A number of members also suggested that monthly instalment amount would also be very beneficial in determining whether an individual is actually paying down their debt or just paying sufficient to cover interest on their debt.

Driver licence numbers are enabling members to improve their identity matching. Whilst some members have seen minimal improvement others have experienced material improvement. All members are aware of the required privacy safeguards associated with driver licence information.

The reporting and retention periods, especially for repayment history and negative information, are considered reasonable and working well. Certainly 5 years of negative information is considered appropriate. As noted the use of Credit non-compliance action information and Confirmed credit non-compliance action provisions are not well used so there was little comment by members of the retention period of this data.

The majority of our members support the introduction of tax debt information and consider its disclosure as a positive move which will better enable members to identify and verify this type of debt. Such disclosure will continue to enable members to undertake better quality credit assessment and debt servicing capacity of customers.

RCANZ supports:

- The introduction of business numbers
- The provision which allow for tracing of current addresses for customers with unclaimed money.

Members have noted that credit reporters are taking their credit reporter accountability and in fact Code responsibilities very seriously.

C.Detailed Responses to the Code Review

A more detailed response to the questions in the code review follows using the same numbering sequence as the Code Review

C.1 General Issues

Comprehensive credit reporting: Adding positive elements to New Zealand's traditional negative reporting system

1.1 What benefits for individuals have resulted from the introduction of more comprehensive credit reporting? Please provide specific examples.

Whilst the Code has permitted CCR since April 2012 it has really only been in the past two years that CCR has been live in the NZ market. Benefits to individuals have yet to be fully realised. At least three of our members are not yet contributing or receiving CCR data. One member is contributing but not yet receiving data and our remaining members who are credit providers and fully using CCR. CCR has really only started gaining momentum more recently as more parties start to receive data.

There is significant cost, time and effort required to fully participate in CCR. This has also come at a time when there has been a heavy regulatory agenda on these parties. This agenda includes AML, Responsible Lending, CCCFA changes etc.

So at this stage there is still a mismatch of participants in the contribution and use of CCR information. CCR is still in evolution but is moving in the right direction. Across the board credit providers are looking closely at CCR opportunities.

By the end of 2017 we expect that all major banks will be utilising CCR to some degree and this will likely be a watershed year for CCR for financial services. There has also been steady growth in the participation of telecommunication and utility providers.

We expect more benefits to materialise as more credit providers adopt CCR.

For credit providers utilising CCR data in their underwriting there is a broad range of evidence emerging of the benefits of CCR. These benefits include:

- A reduction or avoidance in bad debts associated with less lending to marginal credits
- More appropriate lending to higher risk consumers with a good repayment history

- A general increase in lending with one member expecting to increase lending by 10%-12%
- Assisting customers avoid hardship
- Under CCR it is easier to fulfil responsible lending code requirements as the credit provider has the ability to better assess credit risks
- CCR data allows for omissions or mistakes by the borrower in their credit application to be corrected. CCR will be helpful in verifying information provided by consumers and to identify any undisclosed debt.
- A few credit providers who are not yet using CCR have run pilot schemes which suggest that can potentially lend more under CCR particularly to consumers who have a demonstrated track record of rehabilitating themselves where they may have previously had a missed payment.
- CCR has led to more robust credit decisions.
- Customers are starting to take more responsibility for managing their own behaviour.
- It is expected that CCR will over time lead to more risk based pricing decisions
- CCR has enabled larger loan sizes to people at the margin
- CCR has enabled a better understanding of customer's liabilities
- CCR has reduced the amount of information requested from customers
- CCR has made the application process quicker and smoother
- CCR enables services to be offered on more favourable terms
- More consumers will be rehabilitated under CCR
- From a bureau perspective CCR is starting to be used for better credit assessment and account management. Lending is being responsibly declined and the benefits of CCR are starting to be realised across the industry

Most members who are receiving data are currently typically experiencing two to three benefits. The most prevalent benefits realised so far are associated with marginal customers where CCR provides a deeper level of risk assessment to enable more lending to be given to some marginal customers but credit is curtailed to higher risk marginal customers.

Certainly any additional data that provides credit providers with better ability to assess credit risk and make an informed credit decision has to be good from each party's perspective.

Once all credit providers are operating under CCR it may be more difficult to divest of a problem account.

Comprehensive Credit reporting has delivered greater clarity for consumers and is assisting with financial literacy initiatives. CCR is also considered to be a good step for improving financial understanding on consumers. Consumers are starting to take note of what is on their credit file.

Overwhelmingly our members say that there is a need for consumers to be better educated and that is essential for CCR to benefit all to the fullest potential.

In summary there have been clear benefits to both credit providers and to borrowers and the level of benefits are expected to increase.

Credit reporter accountability: Demonstrating compliance with Clause 9, schedule 6

1.2 Do the accountability requirements for credit reporters provide a good basis for the public to have confidence that the credit reporters and their subscribers are acting compliantly?

Overall there is sufficient accountability. The OPC's guidance to members is considered good and useful and appears to work well.

The reports produced by credit reporters to fulfil their accountability and assurance requirements are informative and transparent.

The key issue is lack of financial literacy by consumers. We question public awareness of CCR and whether the provision is achieving its objectives. We note that the equivalent of the OPC in Australia publishes "Activity Sheets" on education matters associated with CCR. Whilst the OPC does have some good articles on CCR and the OPC's website is rich with information, it is not easy to find information on CCR.

RCANZ support participants adopting and abiding by a standard to ensure compliance with accountability requirements. This is a good and proper role.

RCANZ has set, reviewed and supported the data protocols and has supported fix enhancements where necessary. CCR participants hold group sessions to identify action plans to further improve CCR data.

The data standards and data sharing rules have been ratified by the industry. The intent is to ensure that the standards are in line with the Code and commercially fair to all participants.

There is a set process for dispute resolution within the credit reporters. The process is meaningful and standardised and each participant follows the same process to correct any data issues. The accountability requirements do protect the consumer.

From a credit provider perspective the credit bureaus take their role and accountability requirements seriously. The bureaus are passionate about the quality of their data and take a proprietary view.

Annual assurance reports are made available from all credit bureaus in New Zealand. There is still some potential to improve the quality of information and scope to refine data definitions.

A number of members advise that they either have subscriber agreements or terms and conditions which are provided to their clients and disclose information on CCR.

The OPC can be assured that the accountability requirements are being disclosed and that there is a good basis for the public to have confidence.

There is a need to provide improved education around CCR to consumers. Education needs to focus upon the role and purpose of CCR and education needs to drive financial literacy so that consumers understand what CCR means and its impacts on the consumer.

1.2.1 What is your experience with the accountability processes?

The accountability process is now working well. Initially the code and RCANZ data standards were developed with little operational knowledge as to how the process would work in reality. RCANZ has gone through several iterations of standards to make the process more effective.

RCANZ receives copies of the credit reporter's annual assurance reports, and review each report in its entirety even though some sensitive data has been redacted.

In situations where a customer has had a complaint the bureau will approach the credit provider to validate information.

Some members question to what extent credit providers and consumers read the assurance reports that credit reporters produce but the process is clear and relatively easy to deal with.

In more recent times members have found the OPC approachable and reasonable in their responses. The OPC takes a collaborative approach to finding resolutions. This style of approach is welcome.

RCANZ consider comprehensive and timely feedback from the OPC on the Assurance Reports is an important part of the process. Feedback is useful to assist in getting the most out of the process and for future assurance reports.

Members have in the past provided answers to the additional information sought each year by the OPC, but would welcome being given as much time as possible to consider the questions, even being advised during the specific Assurance Report period so that if additional work is required to provide the information it can be completed.

1.2.2 How aware are stakeholders (such as subscribers to credit reporting services and individuals and consumer groups) of these accountability processes and their views about the effectiveness of assurance reporting and associated requirements.

RCANZ and its members are well aware of the process and their accountability requirements.

Consumers are generally not aware of the credit reporter requirements and there is a need for improved consumer education

At least one bureau undertakes quarterly compliance audits of its subscribers to reinforce their obligations as part of our accountability requirements.

1.2.3 Can you give any specific examples of what measures you have taken to make stakeholders aware of your accountability process?

Members are taking steps at several points in their processes to keep subscribers and customers informed of the members accountability requirements. This includes:

- Obtaining permission from customers to access their information from the bureau.
- Advising customers of their rights regarding access to their credit file and the obligation of the credit reporters to keep the information up to date and accurate
- In the collection process advising customers of their right to access their bureau credit file to check that information contained in their credit file is accurate and up to date.
- Making the annual assurance report available to customers and this is also published on the OPC website.

Some members are playing their part to support financial education of consumers by offering financial literacy programs.

1.3 Credit freezing: Suppression of credit information for victims of identity fraud Schedule 7

1.3.1 Have the credit freezing provisions been useful?

Also called file suppression.

Most credit providers and other members using the bureaus have little or no experience with this provision.

Credit reporters receive a low number of requests on a regular basis from individuals to freeze their credit files. Most of these requests are for temporary freezes for 10 working days. One credit reporter requires consumers to provide evidence if there is a request to continue a credit freeze beyond 10 working days. This ensures that the requests are for legitimate reasons.

This is a useful provision and has been used a number of times for lost identity and where there has been marriage separation e.g. parties are jointly responsible for debt. True identity theft is rare (typically they're synthetic or invented identities).

Credit freezing is certainly a useful safeguard where there has been identity fraud and an important feature for consumers. The low level of use could be due to a general lack of awareness of the availability of this facility.

From a credit reporter perspective, the operational requirements of the Code for the management of credit file suppressions are perhaps overly complicated. By way of comparison, the corresponding provisions in the Australian regulatory framework are simpler and easier to administer, without compromising on the security and integrity of consumers' information held by credit reporting agencies.

From an education perspective it may be beneficial to educate consumers on the importance of protecting their identity and being careful as to whom consumers provide identity documents so that the consumer can reduce the risk of having their identity stolen or impersonated.

1.3.2 Have you had to apply a credit freeze provision?

Credit reporters have had a low but steady number of requests.

1.3.3 If so what where the experiences in the operation of the freeze for?

- Your company
- The individual affected by the freeze
- Other credit reporters
- Client subscribers

RCANZ is not aware of individuals having difficulty in suppressing their credit information.

Occasionally credit reporters may receive a request from a subscriber to explain why a file is suppressed.

Noting that there are two periods within the code, one allows for an initial suppression of 10 days. Extension requests require the suppression to be retained for a period of at least one year, or an indefinite period. We question why there needs to be a minimum period beyond the temporary suppression period.

It appears a number of the suppressions are being made as a consequence of members making consumers aware of the suppression provision within the code.

RCANZ considers that the initial freeze process is logical and generally works fine for all parties. Removing the freeze status upon consumer request to enable an application for credit for a specific Subscriber can be operationally problematic. This process may be better served by removing the freeze request for a limited timeframe.

Pre-screening: Using credit reporting system to support responsible lending practice in marketing of credit offers Rules 10 (1B) and (1C), Schedule 3 clause 9

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

RCANZ considers this is a useful tool but is not being used by most of our members.

The general methodology appears sound and is a good mechanism for credit providers to ensure they avoid providing inappropriate credit facilities.

It was noted that there is sometimes an issue in utilising the information after screening out derogatory accounts such as judgments bankruptcies and defaults. The Privacy code says this provision does not permit the user to see who is filtered out. This has stopped at least one member using the provision for marketing campaign purposes. Instead some members use the tool to assist with credit risk rather than as a marketing tool. There is also a cost versus the benefit in using the tool which affects some members' decision as to whether they use the tool.

There is a need to clarify whether this provision is able to be used by members who don't have a relationship with a customer or whether it can be used for existing customers. Perhaps the OPC could be clearer on the circumstances that this provision can be used. Potentially the tool may be used more if the rules were less restrictive.

Not all bureaus offer the tool.

1.4.1 Has the authorised use of credit information for this secondary purpose assisted subscribers to perform 'responsible lending'?

Yes, the more information members have on a customer the better they can understand the credit risk of the customer and to enable responsible lending duties to be more effectively applied.

Credit providers can make different interpretations. It is useful in eliminating customers with a problem history.

It is early days to determine the economic value but still an important part of the product offering.

1.4.2 Has this marketing opportunity yielded benefits for responsible lending?

There has not been enough use of this facility by members so far to make an informed assessment of the benefits.

C.2 Operational issues: Are amended Code provisions working well?

Serious credit infringement: Credit reporting system warns of previous fraudulent acts

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

Most members do not have any experience of this provision so at this stage the provision does not appear to be working as well as it could.

One member has identified a low number of fraudulent customers and has put rules in place to better protect against fraud in future. They have developed internal processes rather than used the external process.

The issue with the external process is that such customers can have several credit files so it can be difficult to identify which credit files pertain to a fraudulent customer. Some members do however give the information to the bureau and let the bureau decide how to use the information i.e. to merge files pertaining to the same customer of to load a serious credit infringement on the credit file(s).

It is considered a powerful tool in identifying fraud even in the negative world. It is also a good tool to assist victims of fraud.

Members commented that they would have expected to see more serious credit infringement cases on the bureaus than has been the case. There has been a recent change to the RCANZ data standards for CCR which should make it much easier to report this type of information.

While utilisation of this provision has not been significant to date, we recommend it be retained as members should increase their use of it in the future once they fully understand its purpose.

There may be a need for the OPC and or credit reporters to provide more information and education of this provision to non-credit reporter members.

Credit non-compliance action: Reporting on debtors who simply 'clear out'

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

Most members do not have any experience of this provision.

Potentially it is considered a useful tool but it was mentioned that a similar approach should be taken for both categories (e.g. credit-non compliance and as serious credit infringement). It is often hard to identify fraud in some cases e.g. should someone who has never made a loan repayment be considered to be a case of fraud?

It is important that the OPC carefully consider the impact that such a provision has on participants. For a provision to work effectively the provision must be able to be implemented with relative ease. The benefits must outweigh the cost and time to implement.

There may be a need for the OPC and or credit reporters to provide more information and education of this provision to non-credit reporter members.

Driver licence numbers: Additional information to improve matching of identity details Schedule 5

2.3 Has Schedule 5 worked well in operation to improve identity matching while appropriately limiting the use and retention of driver licence information?

Yes this data element has improved the matching process and has assisted identification purposes and for fraud purposes for most members. Driver licence matching provides better protection for consumers and enables us to make more timely decisions.

Whilst driver licence numbers has assisted improve the matching process some members report issues around duplicates, version issues and expired licences.

From a credit reporter perspective if credit providers used driver licence information more extensively and provided such information more extensively to credit reporters then it is expected to result in more identity matching benefits.

2.3.1 Has the addition of driver licence information to the credit reporting process improved reliability?

It is a dominant form of information, it is very useful and a cost effective piece of information to obtain. Members have experienced a mixed range of success from this additional information.

2.3.2 What has been your experience in implementing the privacy safeguards such as?

- The requirement that providing driver licence information is voluntary
- That numbers be verified as valid and
- That driver licence information is retained in hashed form only

There appears to be no significant issues with the voluntary disclosure of driver licence information and consumers appear comfortable to provide their driver licence details.

Not all members collect or store driver licence information.

Members make subscribers or customers are aware that the driver licence information is voluntary. However there can be confusion where credit providers require consumers to provide driver licence information as one form of identification for AML compliance purposes.

The hashing protects the consumer but equally provides useful information to credit providers. One member considers that requiring driver licence details to be saved in hash form is an over engineered safeguard that may dilute the benefits from obtaining this information. There has been no issue in implementing the saving of driver licence details in a hashed form although for ease of matching and verification although one member notes it would be preferable to not have to retain it in hashed form.

Most members verify driver licence information via a credit bureau with a link to the NZTA.

Reporting and retention periods: Maximum reporting limits for positive information and additional leeway on retention Schedule 1

Types of credit information Maximum reporting periods	Credit non-compliance action
Credit non-compliance action information	6 months from date of action
Confirmed credit non-compliance action	5 years from date of action
Repayment history information	2 years from month following due date of periodic payment

2.4 Have the new reporting and retention periods worked satisfactorily in operation?

The retention periods for repayment history and negative information are considered appropriate and well balanced. The consumer history is useful in demonstrating whether a consumer can be rehabilitated.

A number of members appear to place more weight on the current repayment history and therefore there is less value in obtaining older repayment history. Adding more positive history may be an administrative issue if suppliers had to provide more than 2 years positive history.

Most credit provider scorecards use positive information for up to 12 months and beyond 12 months the data becomes less predictive of credit risk.

The reporting and retention periods are workable from a risk management perspective.

Because most members are not using the non-compliance action provision at this point of time RCANZ is unable to make comment on the appropriateness of the retention periods relating to these area.

2.4.1 Have the splitting reporting and retention periods brought benefits for credit reporting?

Yes.

Quotation enquiries: Consumers should not be penalised in credit scoring for prudently ‘shopping around’ for a good deal Rules 10(3)(a) and 11(2)(b)(i)(B)

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

A mixed response was received from our members. Whilst the credit reporters are able to offer this provision which some refer to as an access seeker enquiry this provision is not being actively used.

Bureaus offer the ability for subscribers to distinguish between the types of enquiry which they are making by product code type and this includes whether the enquiry is for quotation purposes.

The provision is likely to be more important once consumers have more knowledge of CCR. It was noted that from overseas experience users companies that have made use of CCR data for a number of years already, this was definitely a CCR attribute that added value to the credit lifecycle process.

Whilst the provision may be a good concept it is not actively being used in market. There are similar challenges to operationalise this functionality as with Credit Non Compliance Action.

It is not always apparent whether a consumer is “shopping” for credit. Consumers are not always likely readily to volunteer this information.

There appears to be a perception by the OPC that someone shopping around for credit is considered a higher risk but most members do not see this as the case. Some members use their own scorecards to make their credit decisions and do not penalise customers based on the number of credit enquiries they have had.

There appears to be a need to look at how the provision could better work in practice. Some members do not have the systems technology to implement and other credit providers rely on the bureau to correct any credit enquiries that are quotation enquiries and trust the bureau not to penalise the customer if there is a quotation enquiry.

2.5.1 Has the flexibility created by the Amendments been put to good effect to ameliorate some identified problematic aspects of the credit reporting system?

It was noted that quotation enquiries appear to account for less than 1% of all credit enquiries.

2.5.2 Are the provisions for quotation enquiries useful and desirable or are they unnecessary?

The provision for a quotation enquiry could be useful but because there is little use by members it is difficult to determine the overall value at this time.

Some overseas countries use CCR extensively and quotation enquiries are a useful in identifying potential fraud.

2.5.3 Should the Code address the issue differently?

Members gave no evidence that consumers have been penalised for 'shopping around' and therefore see no need for any changes to the Code in this regard.

There is a need to look at how the provision could work better from an operational perspective given that it appears challenging for a credit provider to determine whether a customer is shopping for a quote another way of approaching.

Credit scores: Are the interests of individuals suitably protected?

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?

In general yes but there is a greater need for consumers to understand their credit score, what the score means and how it may impact their credit needs.

The Code provisions for access to, and correction of, credit information by individuals are clear and efficient in their operation. There appears to be little evidence of individuals experiencing undue difficulty in obtaining further information from credit reporters with respect to disputed information and in having validly disputed information corrected by credit reporters.

Whilst algorithms are intellectual property general information about the credit score descriptors should be and is available. Education needs to be about driving good credit behaviour and protection of credit profile.

Each bureau has different data contributors and they have each produced their own customer score models. Whilst subscribers to bureaus have a reasonable understanding of consumer scores the principles the bureaus use should be the same and each bureau should be as transparent as possible.

The reporting process is robust and shows a strong predictive power of picking good and bad credits. The reviews the one member has undertaken show a high correlation of bureau score to credit risk.

All participants need to get better about informing consumers about what the scores mean and this requires consumer education. As an industry we need to decide who should take ownership of consumer education. A number of members are playing their part in developing consumer education tools, but the credit industry as a whole need to do more on this.

There is more opportunity to educate consumers but the market and regulations are moving in the right direction.

It was noted by some members that they get fewer enquiries from New Zealanders than their consumer counterparts in Australia in respect to their credit scores and queries on their credit files.

2.6.1 Do you have any different perspectives on the issue including from?

- Individuals
- Credit providers and
- Credit reporters

It is important from an individual perspective that an individual should be able to understand what their credit file means and what the impact a particular credit score may mean for obtaining credit.

When people start to understand and use their scores more proactively then the importance of scores will become more apparent by all participants

Consumers can query their score and find out how their score is calculated, how they rank relative to other individuals and the code permits individuals to correct any data and challenge their score.

Most consumers would not appreciate that missing a payment now impacts their credit score. There is a need for education on the impact that CCR has on credit scores.

The value of a good credit score to an individual (or even what a good credit score actually is) is not as widely recognised in New Zealand to the extent that it is in some other countries. In the US the FICO credit score is well understood by all parties including consumers but that market has a deeper and longer history of using positive data.

Some members have launched recent initiatives to improve consumer education on credit scores and also provide information as to how an individual might improve their score, and other financial education content.

Credit reporters know how their reports work and use either a numbering or colour system. Credit reporters have a vested interest in ensuring the accuracy and reliability of their scores. Credit providers use these bureau scores to various degrees. Some use the bureau score as part of their overall credit decision process whereas others, namely smaller lenders place a heavier reliance on the bureau scores. From a consumer perspective there can confusion as to what the score means and why the score may differ between bureaus.

This is an evolving process through education and helping consumers become more financially savvy we can see that eventually consumers will take more ownership of their credit profile.

Additional comments on the operation of Amendments No 4 and No 5

2.7 Are there any significant problems with the operation of the amendments that you would like to raise?

RCANZ does not consider that there are any significant problems with the amendments but there is a need to provide further education particularly for consumers.

It is complex and can be costly for credit providers to make the required system changes to implement the enhanced credit processes that become available as an outcome of the code. There are many inputs to making the code work in practice. Whilst it is relatively easy to provide data, the more complex need is for credit providers to build or amend the lending systems, revise scorecards etc. Until these changes occur and are properly optimised then the benefits for the credit provider and the customer are limited.

Changing systems and scorecards is an evolutionary process which can take several years to properly tune. The code is an enhancement rather than a regulatory obligation and each organisation will be working to timeframes within their capabilities and prioritising against other work streams including other regulatory compliance changes.

At present it is unclear whether a credit reporter is providing all credit information as they may be offering CCR data for only one or some of their products.

In general RCANZ encourages the OPC to look at what amendments it could make to the Code to enable better data matching. The OPC should consider how participants can be given more tools to better identify clients.

The OPC needs to provide more education on what is permitted, what is prescribed and what is optional i.e. not mandatory under the code.

Perhaps the Reserve Bank of New Zealand could be an interested party in providing comment into and help with refinements to the code. This is because the RBNZ is the supervisor of registered banks, non-bank deposit takers, insurance companies and therefore many of the participants affected by the Code.

The current definition of credit default is narrow and is a little unclear. There are other types of debts that could also be covered by its definition.

C.3 Future directions for the Code: Are further changes to credit reporting warranted?

Account balance information: More fine grained information about utilisation of available credit

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

Yes account balance is expected to provide substantial benefits. Members are strongly in favour of seeing account balance information being allowed under the Code.

Disclosing the account balance is a step in the right direction and will mean that:

- Credit providers will be able to be more effective in fulfilling their responsibilities under the Responsible Lending Code with positive outcomes for the consumer
- It would enable better understanding of a consumer's capacity to repay debt

- It will provide a clearer picture of the consumers overall debt position
- It would be helpful in validating information given to us by the consumer
- Account balance or utilisation details would lead to a more refined assessment of affordability and therefore should lead to a more informed credit decision
- It is likely to provide increased lending to appropriate consumers.
- It will also enable lenders to better predict credit risk.

Without the balance information it is more difficult to monitor for hardship.

The limit information currently allowed is based on the original limit information rather then dynamic limit which means for facilities with reducing limits CCR data does not provide current limit detail. Currently credit providers have to make assumptions about utilisation of credit limits. This is detrimental to the consumer and some providers assume 100% utilisation of the (original) limit which does not necessarily lead to the correct decision for lenders or borrowers.

For consumers who do not utilise their credit limit they may be currently being denied additional credit.

An individual's privacy is important but we do not consider that disclosing account balance affects a person's privacy to any material degree beyond what the person will already be disclosing for their credit application. Credit providers already request the individual to disclose this information.

The bottom-line is that the use of CCR data is controlled by an individual and it is their choice whether they permit its disclosure to a credit provider. The second control is the credit provider and credit reporter's obligation to maintain the customer's privacy – the protection of a customer's privacy is a core embedded competency of credit providers.

We would expect that consumers would be happy to disclose their account balances especially if they understood the benefits which this brings. Allowing the disclosure of account balance under the code could lead to a smoother lending process whereby the consumer does not have to provide as much evidence of debt commitments because this information will become more transparent and verifiable if permitted under a future amendment to the Code.

ARCA produced some evidential information of the benefits of positive data. This research was based on UK data. It showed that balance information was an important component of credit assessment and that credit utilisation was also a powerful predictor of credit risk. This level of information provides the ability to undertake a more accurate assessment of debt servicing. It especially enables a credit provider to determine whether a consumer is making the minimum monthly payment or a payment that is reducing the credit obligations of that consumer. Current CCR data only tells you if a payment has been made.

Credit providers will make better credit decisions with more current, accurate and granularity of information.

Balance data is considered valuable information and will give credit providers the ability to better to assess debt servicing capacity.

Account balance would be more helpful if the RBNZ decides to bring in the debt to income ratio for lending to consumers.

From a credit risk perspective any the addition of account balance and ideally payment information is considered to be incremental information.

Whilst RCANZ's supports balance information being permitted under the Code the OPC is requested to also consider allowing:

- For limit information to be based on current limits rather than original limit data
- For instalment and or remaining term of facilities so that a full assessment of debt servicing capacity is able to be undertaken.

3.1.2 What evidence can you provide of the benefit to the measurement of credit risk that adding account balance information to the system would have?

It provides ease of verification. There are benefits to the credit provider in reducing information required in the credit application process. There is improved transparency and accuracy of the consumer's debt and credit obligations.

Utilisation of credit facility is also an early predictor of a potential collection account of for discussing potential loan holidays with customers. Balance information will certainly provide the basis and supporting information to allow of more meaningful discussion with customers.

It will provide more accurate assessment of debt servicing and thus credit affordability.

Account balance provides a level of information which makes it much clearer to determine the total exposure of an individual and hence be able to more effectively calculate debt servicing capacity and meet responsible lending obligations.

There are numerous international studies that point to balance information being a benefit.

If balance information were to be made available the process is then likely to be beneficial to consumers and credit providers. It is expected that there will be time savings and the process will be more convenient. Consumers will not need to provide additional information to support what borrowings they have instead the information will be readily available on the consumer's credit file.

The provision to obtain balance information is expected to reduce the level of bad debts and therefore improve the quality of credit decisions

Balance information will enable more accurate assessment of a consumer's debt servicing capacity demonstrated by the fact credit scorecards used in other international markets incorporate capacity and utilisation attributes derived by account balance information.

3.1.3 Is a departure from the approach taken in Australia now justified?

Yes to enable credit providers to improve the sophistication of credit risk assessment.
To not have balance information makes it difficult to assess debt servicing.

We are not sure of the relevance of needing to align the New Zealand code to Australia.

Australia is behind other countries who allow for account balance. Around 2006 Australia did permit credit providers to "ring around' other providers to check consumer account balances. At that time is was found that approximately 70% of individual consumer debt was not disclosed.

We see no problems in departing from what Australia may do. The successful implementation of changes like this may prompt Australia to do the same, given there is an appetite within the financial services industry to have account balance information included in comprehensive reporting.

In some parts of the Code we have already departed from the Australian approach. In Australia utilities and telecoms are locked out of providing repayment history which is not the case in New Zealand. It is more important to look at other overseas jurisdictions than Australia.

We consider that Australian CCR is stagnating because some bigger players are holding back. We do not think it would be a positive step to align with Australia. There are many other jurisdictions where CCR is now well developed and working well such as in the USA, UK, and Singapore.

3.1.4 Are you comfortable that you have the capability to reliably report and update this information?

Yes and we would envisage that balance information would be reported with dynamic limit information (not the original limit information) and that data standards (and therefore credit reporter and providers systems) would need to be updated.

It would require an enhancement to the system and another round of RCANZ discussions to agree on the settings.

3.1.5 Suggestions as to the best approach to drafting a provision dealing with credit utilisation or current balance are welcomed.

RCANZ would set the standards which should include balance, should include the latest limit and possibly instalment amount. It would require industry agreement.

There would be a need to determine the definition of account balance i.e. whether it should be at statement cycle, end of month or mid month. You can get a materially different picture of the creditworthiness of an individual depending upon the time of month the account balance is taken.

The standards may vary by product.

Utilisation of a facility on its own is not considered very helpful. Some members do not offer credit limits to their customers and therefore could not provide utilisation information.

It was noted that there may need to be careful drafting of the Code changes as some customers obligations may not be a direct obligation but may be an obligation as a Trustee, therefore there may need to be caution against a blanket one size fits all drafting.

Tax debt information: Should Inland Revenue information be added

3.2 Should credit reporters be permitted to include tax debt information in credit reports?

Yes tax data is important as it is a legal obligation and affects debt servicing. It is therefore logical to report this information. It would provide a clearer overall debt position of customers and enable credit providers to better meet their responsibilities under the Responsible Lending Code and to provide better credit assessment of an individual.

Certainly it is hard to identify tax debt unless it has been declared by the borrower. This type of information is less likely to be declared so from a credit risk and credit assessment perspective and the disclosure of tax debt information is perceived to be useful.

It would also be helpful to know if the tax debt is under arrangement and the history of instalments.

Credit providers already require the customer to complete a disclosure of their obligations. This disclosure normally takes the form of a statement of position which should disclose this information but IRD disclosure would be a useful verification tool. Some members also see benefit in the IRD disclosing other information e.g. around self-employed income which would be equally useful.

There may be complexity in the detail of disclosing tax debt which deserves careful consideration.

It was noted that a legislative change is being considered but focussed solely upon corporate accounts and not consumers and that there may be a cut-off limit under which the IRD would not report tax debt.

3.2.1 Can you provide any evidence that including tax debt information in the credit reporting system for individuals would provide a substantial benefit to the assessing creditworthiness?

It would improve transparency of financial obligations. It is beneficial information and we do not consider that it would be detrimental to include such information in the Code. We consider the disclosure of tax debt will help verify information provided by the consumer. It would certainly provide a better understanding of a client's debt position and therefore more accurate debt servicing analysis.

Some members find a large portion of their customer base have no information on their credit files. Tax information would enable a more accurate assessment of an individual's credit risk.

As this is information is not currently disclosed it is difficult to provide evidence but experience from overseas suggests that it is beneficial to report any non-payment information as an indication of the individual's behaviour and this is regularly incorporated within credit scorecards.

The accuracy of credit decisions is dependant upon the accuracy of information provided so being given IRD tax debt information improves the quality of the credit decision process.

3.2.2 Do you consider there would be overall marginal benefit of the inclusion assuming that the information is first incorporated into in the credit reporting system for corporate business entities?

We consider this would be a good step in the right direction and we don't have the same level of privacy issues for a corporate as compared to an individual.

This information is considered useful as it provides us with an early indicator of stress and therefore enables us to be more proactive in assisting the consumer address any tax issues.

Benefits may be initially limited and will take a while to get to a good level of volume.

This provision would allows a test and learn approach with non personal entities first.

3.2.3 How useful is the criteria proposed by Inland Revenue in relation to the purpose of assessing credit risk?

It will provide a better overall position of the customer's financial position.

It is generally agreed that tax debt would be of benefit for assessing risk.

Mostly useful although more granular information would better support credit assessment.

3.3.4 Would a business identification number supplied in these conditions serve the purposes of a credit reporting system?

It would assist in the customer matching process. Some members note that matching on a company name alone can be problematic.

3.3.5 How useful would this new class of information be? (i.e. tax debt details held by the state and not currently held by credit reporters or in public records)

Tax debt is still a debt recognised by law therefore it is considered to be useful information.

It would provide a more comprehensive understanding of a customer's position and enable members to better fulfil their Responsible Lending requirements.

The more information we have on the obligations of a consumer the better the quality of the credit decision. This information will be useful for credit providers and ultimately benefit consumers through better credit decisions being made.

Introducing such a class of information potentially open the door for other information such as student debt, statutory fines and liable parent obligations etc.

Disclosing tax debt will assist with debt servicing capacity and its disclosure will also assist credit providers form a view of consumer behaviour.

3.3.6 How would you view the Inland Revenue Department and tax debt information under the Code in the event, for example, that the information is disputed by an individual?

Members would typically view a tax debt dispute the same as any other disputes.
If the consumer disputes the IRD debt the same processes should apply that currently apply if a consumer disputes a debt per the latest RCANZ standard 3.1.

Current mechanisms are well tested and there have been minimal complaints to the OPC.

Lenders should necessarily presume that government have acted responsibly in ensuring that debt owed to the state is correct. This position may be biased against the consumer.

Similar protocols would need to be developed to ensure consumers had a path to investigate and dispute information.

New Zealand business number: A new identifier for sole traders

3.3 How useful would the New Zealand Business number be the credit reporters reporting system?

Yes, a business number is considered useful and it would fall into the same category as a driver licence which has also aided in better matching of customer information.

3.3.1 Do you anticipate any problems in relation to adding this number into a system mainly focused upon individuals rather than businesses?

RCANZ does not anticipate any problems for its members but it will cost time and money. If adopted it should be optional under the Code.

Access: Outer time limit Rule 6

3.4 Should the Code require credit reporters to respond more quickly to access requests than currently is the case? (i.e. currently 20 days in NZ and currently 10 days in Australia)

Credit reporters advise that they typically meet their time limits for production of credit files to consumers well within the period permitted under the Code. It would appear there may be spikes in the timeframe to produce credit files after a media article on consumer credit files. This occurrence is infrequent.

We note that the OPC did a mystery shop about 6 months ago which found that the bureaus typically produced information for consumers around 10 working days.

It is appropriate the consumers have reasonable and timely access to their credit files.

The code provides the outer limit timeframes.

3.4.1 What do you consider the appropriate maximum time frame should be and why?

20 days appears to be a generous timeframe to produce a consumer credit report but may be required for the occasional spike in consumer demand.

We therefore consider that the current 20 day period should be retained to enable the industry to cope with spikes in demand although the aim will always be to action the request as quickly as possible.

Unclaimed money: Expanding permitted use of credit reporting system

3.5 Should credit reporters be permitted to use credit reporting systems to trace individuals to whom money is owed and, if so, in what circumstances?

We note that there may be a numbering error in the Code review as the review refers to both 3.5 and 3.7.

RCANZ members support credit reporters being permitted to use credit reporting systems to trace individuals but the benefit must outweigh the cost. There should be an option for members to be able to pass the cost onto customer if desired.

The provision is considered to be a positive move and really allows a limited amount (address details) of data elements to be disclosed. This provision could be made available where all other options to find the consumer have been exhausted. It will certainly have a direct benefit to the consumer, insurance companies and Kiwisaver schemes.

The OPC may need to consider whether there should be a cut-off amount below which it would not be economical.

It makes good sense to extend the code to enable return of unclaimed monies to individuals.

3.5.1 Is this is a role credit reporters are interested in performing?

The majority of our members favour allowing credit reporters to perform this role. One member thought that the IRD should be responsible for tracing customers with missing funds.

Credit reporters facilitating the process of consumer contact for credit balance management is a good idea – an indirect role - there are already obligations on financial institutions to ensure that reasonable steps are taken to return unclaimed monies (credit balances) prior to remitting funds to the IRD.

This can easily be accommodated within the Code and with the appropriate safeguards.

A credit reporter notes that a number of their subscribers such as insurance companies, organisations issuing dividends and superannuation/Kiwisaver administrators would be keen to see this provision.

3.5.2 What are the conditions under which such a function might appropriately operate?

Perhaps there should be a restriction on the amount especially to ensure it is economical to trace. How effective this provision would be would depend upon how much the credit reporters charge.

We would envisage it being an ad hoc batch file type service.

There are perhaps too many permutations of product type and reason for credit balance for credit reporters to be directly involved in follow up. The Credit Reporters role could remain the provision of up to date information on consumer contact details for subscribers – maybe in this process they could provide subscribers with lists of "dormant" credit balances that could be followed up before remittance to the IRD is required.

It should allow parties to seek address information for tracing purposes only.

The holder of the account will already have most of the customer details so they should only need to be provided with up to date address details.

This Code provision would need to be tightly governed, controlled and regulated. It would need careful thought on the control and design. It should be in line with current provisions but expanded access enabling Credit reporters to disclosure address information to subscribers in certain circumstances.

There should be an agreement in place between the bureau and the subscriber, that the subscriber should 1) confirm in their terms that the information is being sought for the specific purpose of locating the consumer for the purposes of returning unclaimed monies 2) that all other avenues to locate the consumer have been exhausted.

D.Appendix A

Comments made on behalf of the following RCANZ Members:

- ANZ
- ASB
- BNZ
- Centrix
- Dun & Bradstreet
- Flexicards (Previously Fisher & Paykel Finance)
- Heartland
- Kiwibank
- Latitude (Previously GE Finance)
- Spark
- Veda Advantage
- Westpac