



4 September 2024

Phil Khoury
Independent Reviewer
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Dear Mr Khoury

INDEPENDENT REVIEW OF THE PRINCIPLES OF RECIPROCITY AND DATA EXCHANGE (PRDE)

The Australian Finance Industry Association (AFIA) is the only peak body representing the entire finance industry in Australia¹.

We represent over 150 members, including banks, finance companies, vehicle and equipment finance providers, car rental and fleet providers, and fintechs. We are the voice for advancing a world-class finance industry and our members are at the forefront of innovation in consumer and business finance in Australia. Our members finance Australia's future.

We collaborate with our members, governments, regulators and customer representatives to promote competition and innovation, deliver better customer outcomes and create a resilient, inclusive and sustainable future. We provide new policy, data and insights to support our advocacy in building a more prosperous Australia.

INTRODUCTORY COMMENTS

AFIA appreciates the opportunity to contribute to the independent review of the Principles of Reciprocity and Data Exchange (PRDE) given its critical role in the credit industry through the facilitation of a standardised, open and transparent system for the exchange of comprehensive credit information between signatory credit reporting bodies and credit providers. The PRDE, in conjunction with the Australian Credit Reporting Data Standards (ACRDS), ensure the integrity of the credit reporting system.

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AFIA acknowledges the importance of a modern and effective credit reporting framework and system in Australia, which is fit for purpose, both now and into the future, and caters to all the requirements of the variety of credit providers.

AFIA's membership is diverse, and our members vary in size, with many of our members relying on and engaging with Credit Reporting Bureaus (CRBs) for credit risk assessments. We note that Comprehensive Credit Reporting (CCR) is not generally mandatory. Therefore, some of our members are required by law to participate, but many of our members voluntarily participate and, as such, are signatories to the PRDE. We recognise that the information accessed through CRBs supplements other data used by credit providers and adds value to the credit decisioning process, which only underscores the importance of a robust and accountable PRDE regime that continues to be fit for purpose and commercially sound for participants.

As at 1 June 2024, there were 115 signatories to the PRDE, representing over 96 per cent of regulated credit accounts in the Australian market. The maintenance of robust business-to-business rules and data standards under which credit-related personal information is exchanged between credit providers and credit reporting bodies is critical to the proper functioning of a resilient credit industry. The PRDE's essential place within the credit reporting framework is its assurance that all credit providers can access the same type of credit reporting information that they contribute.²

OBJECTIVES

AFIA's position is that the PRDE's place within the whole credit reporting framework must support and preference the following objectives:

1. *Support Responsible Lending Obligations (RLOs) and credit assessments:* provide effective and timely support to credit providers for their credit assessments and decisions.
2. *An inclusive financial system:* promote an inclusive financial system where consumers have access to a choice of financial and credit products.
3. *Promote industry innovation, competition and technology-neutrality:* the credit reporting framework must be proportionate, scalable and targeted, with compliance costs and regulatory burdens for credit providers considered in its design and implementation. Embedding technological developments are critical to ensuring consumer choice, accessibility and efficiency are maximised, while costs are minimised. Promoting competition and innovation by assisting credit providers to facilitate accurate pricing and allocation of credit is critical to ensuring industry is incentivised to create new products, services and technologies and the system does not penalise new, tech-enabled entrants to the market.
4. *Improve data quality:* promote consistent, up-to-date, accurate data, with common data collection and information sharing between credit providers.

² Principles of Reciprocity and Data Exchange, Version 23 (1 November 2023).

5. *Credible governance arrangements*: ensure credible credit reporting/industry governance arrangements, which are quick to respond to emerging issues.
6. *Protect personal and financial information*: ensure the protection of consumer's personal and financial information.
7. *Promote good consumer outcomes*: allow consumers to access their credit information and be able to easily record, amend and remove information, where appropriate. The credit reporting system should enhance consumer understanding and awareness of the credit reporting framework and how consumer information is collated and used. The credit reporting system should also ensure protection for vulnerable customers, with specific and discrete information sharing between credit providers, such as financial hardship arrangements.

PRDE PRINCIPLES

This review is an important opportunity to examine the continued effectiveness of the PRDE, including its accessibility, affordability, interoperability and consistency. AFIA believes the current credit reporting system in Australia is complex and lacking in the seamlessness that credit providers and customers require, especially in the current economic climate. Therefore, by addressing the frictions and asymmetries within existing processes, it is hoped that improvements and efficiencies of practice will emerge.

As a result of significant economic, social, policy and technological developments that have taken place in our economy and in the finance industry since the last review of the PRDE in 2019, it is important that underlying policy rationales and decisions arising from this latest review are evidence-based and support proportionate, scalable and targeted regulation, consumer choice, accessibility and efficiency, and industry innovation, competition, and technology- neutrality.

With more Australians dealing with increasing cost of living pressures placing considerable tensions on household savings and secured and unsecured loan repayments, the PRDE's integral role in ensuring high standards of accurate and prompt reporting of credit information will continue to play a critical role in Australia's economic productivity, growth and wellbeing.

The way in which PRDE participants operate and cooperate in the credit reporting framework to ensure the timeliness and accuracy of data being submitted and exchanged is crucial. With this in mind, AFIA advocates for a proportionate, scalable and targeted approach to regulatory guidelines like the PRDE that tackle the challenges confronting Australian consumers and businesses today. Equally, ensuring that such guidelines are adaptable and responsive to technological advances and that keep abreast with developments of business practices and customer expectations should not be deprioritised.

OPERATIONAL ENHANCEMENTS

The credit reporting framework and the PRDE present challenges that make it difficult for certain credit providers, such as small business lenders, to voluntarily participate effectively. Small business lenders currently use a mix of information, data, reports and processes to complete credit assessments and decisions. SME customers and their representatives often identify these information gathering and assessment processes as cumbersome, time consuming and inefficient. Tech-enabled lenders are using screen scraping to ensure processes are more efficient and reliable. We believe that the credit reporting framework could be reconsidered to promote further voluntary participation.

The current framework could benefit from enhancements that would make it more effective for those already participating. While many AFIA members, particularly those who are voluntary signatories, see significant value in the PRDE, there is a clear opportunity to improve the system to better meet their needs. These voluntary members, who represent a substantial portion of the credit market, have recognised the benefits of participating in the PRDE, especially in terms of accessing comprehensive credit information that supplements other data used in credit decisioning.

Certain operational restrictions and the current design of the framework may inadvertently limit broader and more effective participation. For example, small business lenders that wish to participate in the system may face challenges related to the framework's design, which is tailored more towards consumer credit providers. The framework's complexity and the specific data standards required may also pose challenges for smaller entities or those that operate in niche markets. These challenges can act as barriers to entry or limit the full utilisation of the PRDE by certain participants. We believe the current structure could be adjusted to better support the needs of small business lenders who might find value in accessing comprehensive credit information under the PRDE.

The PRDE could benefit from enhancements to better support those already participating, such as refining data exchange processes, streamlining reporting requirements, and enhancing interoperability to reduce the burden on participants. This would ensure that the system remains adaptable to the evolving needs of credit providers.

COSTS

AFIA holds real concerns at the lack of clarity and mathematical reasoning behind the PRDE's allocation of tiers to credit providers with correlative annual fees being payable. The absence of any formula against which signatories can measure their annual fees against the frequency (or infrequency) of participation in the exchange is an area that could be better articulated and justified. This is especially the case in the financial services industry where multiple regulatory bodies have consistently tended to adopt ever-

increasing industry-funded model regimes that lack transparency and probity. The PRDE's fee structure should be clearly articulated to ensure fairness and trust among participants.

EFFICIENCY

AFIA recommends a holistic approach to achieving the above outcomes and endorses a collaborative approach between industry participants and key regulators and other stakeholders. We believe that better consumer, industry and market outcomes can be achieved through carefully considered and soundly constructed regulatory frameworks, supported by industry-led initiatives and aligned with other legislation. Furthermore, we believe it is important for regulatory systems to be coordinated to achieve efficiencies and to minimise direct and indirect costs and risks.

This review should be considered alongside the Attorney-General's Department's current statutory review of Australia's credit reporting framework, which is focused on the credit reporting provisions in the *Privacy Act 1988* and the mandatory CCR provisions of the *National Consumer Credit Protection Act 2009*. The overlap of highly pertinent issues in these interrelated reviews are significant. With this in mind, AFIA considers it essential that this review consider all the issues relating to the credit reporting system and framework in Australia, in conjunction with the objectives of the *Privacy Act* review.

Given the essential nature of the credit reporting system, the framework which allows the system to operate effectively is extremely important. For these purposes, the framework is not just the *Privacy Act*, but also industry-led components such as the PRDE and ACRDS. Collectively these components:

- enable the operation of the comprehensive credit reporting system, which is an essential piece of Australia's economic infrastructure, and
- provide certainty to all parties about what information can be retained within the credit reporting system, how that information is to be collated and provided, and what the information can be used for.

CONCLUSION

AFIA believes the PRDE is crucial to the proper functioning of Australia's credit reporting framework and system on the proviso the regime is proportionate and adaptive to technological and commercial developments and in the absence of an alternative approach or system. It should support efficiency, innovation and competition in the financial services industry by allowing the effective use of technological solutions and supporting interaction with other credit providers and with CRBs. We underscore the necessity for any revisions to the PRDE arising from this review to be aligned with anticipated financial services regulatory changes, including the Consumer Data Right (CDR), and other regulatory changes, including consequent to the *Privacy Act* review.

AFIA reiterates that the PRDE's place within Australia's credit reporting framework must be proportionate, scalable and targeted, ensuring the cost of participation and subscription for credit providers are considered (particularly in the current economic climate for smaller and less-resourced providers) compared to the benefit of some businesses providing credit reporting data to the pool of credit information accessed through CRBs.

Should you wish to discuss our submission or require additional information, please contact me via diane.tate@afia.asn.au or on 0421 441 777.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Diane Tate', with a stylized, cursive script.

Diane Tate
Chief Executive Officer