



GE Capital

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Ms Christine McDonald
Secretary, Legislation Committee
Senate Standing Committee on Finance and Public Administration

Inquiry into Exposure Draft Bill: Credit Reporting

GE Capital Finance Australasia Pty Ltd ("GE") welcomes the opportunity to provide its input with respect to the proposed changes to the Privacy Act, as proposed in the Exposure Draft Bill: Credit Reporting (the "EDB").

GE has several financial services businesses operating in Australia, including the consumer finance business trading as "GE Money". We have a significant and distinctive interest in proposed reforms affecting the regulation of consumer credit reporting.

We appreciate the inclusion thus far and request the continued opportunity to participate in any consultation processes.

About GE Money

GE Money is a group of legal entities that commenced operations in Australia in 1995. GE Money is now one of Australia's leading specialist consumer finance companies, offering a range of consumer lending products, including personal loans, auto loans, credit cards, and promotional retail finance, offered both directly to customers and via intermediaries. GE Money has over 3 million customers across Australia and New Zealand. As part of GE Capital it has its Australian and New Zealand headquarters in Melbourne, and now employs in excess of 4,500 people in Australia alone. GE Money is part of the global GE network, a company with a AA+ rating and global lending experience.

We are currently regulated by the *Privacy Act 1988* (Cth) ("**Privacy Act**") and have processes in place to meet the obligations imposed by that Act, and by the numerous other state and federal laws, codes and guidelines that also regulate the handling of personal information. We support the initiative of the federal government to review privacy regulation in Australia.

Credit risk assessment is fundamental to GE Money's business. Consequently, many of GE Money Australia's key personnel are recognised experts in the field of credit risk assessment. Expertise has been developed in numerous countries and under various credit reporting regimes across the US, UK, Europe and Latin America. In addition, GE Money's extensive international consumer finance presence (54 countries and territories) gives the local GE Money team access to global expertise.

More Comprehensive Reporting

The purpose of our submission is to advocate for the implementation of privacy regulation that permits and facilitates comprehensive credit reporting.

Benefits to Lenders

- Our experience in a number of international markets is that comprehensive or "positive" credit bureau data adds significantly to our ability to accurately assess an applicant's credit risk. This improved capability enables us to more accurately assess risk, which can in turn reduce credit losses (including fraud losses), a cost that is ultimately borne by consumers.

Specific to the Australian context, in 1999 the World Bank commissioned research into the benefits of positive credit reporting. The Barron & Staten¹ study compared the US and Australian credit reporting regimes and found that the predictive power of comprehensive credit reporting significantly increases credit providers' ability to identify "bad risks" before credit is provided, thereby significantly increasing the ability to assess risk.

- Where GE Money provides credit products to consumers, it has an obligation under the National Consumer Credit Protection Act 2009 to assess applicants' capacity to repay. Comprehensive credit reporting would greatly enhance our ability to comply with that obligation and would also significantly assist us in determining an applicant's willingness to repay.

¹ "The Value of Comprehensive Credit Reports: Lessons from the U.S. Experience" by John M. Barron and Michael E. Staten (in Margaret Miller, (ed.), 'Credit Reporting Systems and the International Economy,' MIT Press 2003

- Additionally, access to comprehensive data would greatly enhance credit providers' ability to detect and prevent money laundering and fraudulent activities.
- Competition between credit bureaux is likely to result in improved data accuracy and a greater range of related services available to consumers and credit providers.
- Data accuracy would be improved, since fully automated systems would replace the manual processes currently used by many credit providers and by credit bureaux.

Public Benefits

- At a time when the level of household debt in Australia is coming off its highest ever levels, the introduction of comprehensive credit reporting must be considered in light of its potential to reduce the number of consumers who commit to unsustainable levels of credit.
- As demonstrated by the U.K. & U.S. experience, a comprehensive credit reporting model is likely to lead to increased competition between credit providers, resulting in competitive pricing for consumers.
- Increased transparency to consumers and improved data quality are likely to decrease disputed "negative" entries on credit files, and give consumers the means to "repair" their credit records (credit providers currently see all of the bad but none of the good), and facilitate increased financial literacy.

Regulatory and Monitoring Benefits

More comprehensive credit reporting would provide credit providers with a key tool to assist them meet their responsible lending obligations under the *National Consumer Credit Protection Act 2009*. Since 1 January 2011, credit providers have an obligation to ensure that credit is not extended to customers who would suffer substantial hardship in complying with repayment commitments.

We urge the Committee to recommend that revisions to the Privacy Act are accelerated to enable comprehensive credit reporting to take effect at the earliest possible opportunity.

2. GE CAPITAL SUPPORTS A MORE COMPREHENSIVE DATA MODEL

GE has been an active member of the Australasian Retail Credit Association (ARCA). GE has had representation on ARCA's board since ARCA's incorporation, and a GE representative has been the Chair of ARCA's Board of Directors since November 2010. We have contributed to ARCA's submission to the Committee, and we fully support ARCA's positions on reform proposals.

However, with respect to the permitted content of credit reporting files, our view is that the government should take this opportunity to review the policy basis for limiting the content of credit reporting files as proposed in the EDB (the "**limited data model**"). In our view, the limited data model will not adequately address the failures of the existing credit reporting model, which we have outlined in previous submissions with respect to reform of the Privacy Act². These failures can only be addressed by facilitating the use of full account performance data and extended application data (the "**comprehensive data model**") in the credit reporting system.

² We would be happy to provide these previous submissions to you upon request.

In GE's view, three key factors support the necessary transformational change that can only be achieved by adopting an even more comprehensive data model:

- Australian empirical evidence that the increase in predictive power from the additional data permitted in the EDB (that is, the limited data model) still only reaches a threshold of less than 55%³ of the predictive power that is potentially available.

Empirical evidence shows that lenders are improving their lending decisions (lending more responsibly) in those instances when they have the full picture of the consumer's borrowings (when the consumer has only one lender – that lender has the equivalent of a reduced internal comprehensive credit bureau).

- A move to comprehensive reporting requires significant systems investment for Credit Providers, Credit Reporting Agencies and Regulators (due to the data and compliance that needs to be managed). Economic incentive to get a return on investment with the current proposed limited data model exists in financial services context, but would be more questionable in Telecommunications and Utilities where amounts borrowed are smaller. Further data would ensure more participation in the credit reporting system including more investment into compliance and monitoring process; resulting in more economic benefits for all stakeholders.
- Strong regulatory and compliance frameworks to ensure consumer data privacy protections are critical in building trust in the credit reporting systems for all stakeholders. We support ARCA's submission in taking a leadership position in developing these mechanisms in consultation with various other stakeholders.

Moreover, GE's experience overseas has shown that the development of more comprehensive credit reporting will increase transparency to consumers and regulators. Along with improved data quality this will decrease disputed "negative" entries on credit files, and give consumers the means to "repair" any previously blemished credit records. To accelerate this increase in financial literacy, a structured educational awareness program will be required and GE's expectation is that all stakeholders would have a part in this program.

3. SPECIFIC COMMENTS ON THE EDB

As mentioned above, GE has had input into the ARCA submission to the Committee and we support the comments and recommendations with respect to the EDB made in that submission. In addition:

- While we urge the Committee to recommend a review of the policy that has resulted in the limited data model being proposed in the EDB, we note that the definition of "Credit Information" in section 181 of the EDB is exhaustive and does not include current account balance information held by a credit provider. The result is that current account balance is "Personal Information", the disclosure and use of which would be governed by the Australian Privacy Principles. We endorse this approach, given that it reflects the current position under the Privacy Act that permits credit providers to disclose current account balance directly to other credit providers under the "banker's opinion" exception.

³ Research developed by ARCA based on consolidated data from ANZ, CBA, Citibank, GE Money, NAB, & Westpac Australian customer & behaviour scorecards.

We further note that this result (that is, facilitating the continuation of the banker's opinion exception) is consistent with the government's current policy position that account balance should not be collected by credit reporting agencies for disclosure to credit providers.

- We note the omission from the EDB provisions of information about the auto-correction of derogatory credit reporting information, where a complaint is not resolved within 30 days. This information was included in the ALRC report and the Government's response to that report. We expect that there will be further industry consultation should a proposal be made to re-introduce this proposal. We reserve our right to comment on this issue, including practical models for implementation, and possible impacts on the customer.
- Our understanding of the EDB is that the use of same data elements that a credit provider holds internally (and which a credit provider can use as it sees fit) may become more restricted by virtue of being returned to a credit provider as part of a credit report. An example of this is credit limit. Prior to supplying this data to a credit reporting agency, a credit provider is subject only to the Australian Privacy Principles with respect to that data. Once it is supplied to a credit reporting agency, and is then returned to the credit provider as part of a credit report, it would seem to be classified as "credit eligibility information" – the use of which by the credit provider is more restricted.

We recommend that this is resolved by excluding from the definition of "credit eligibility information" data that is provided by a credit provider and is subsequently returned to that credit provider by a credit reporting agency as part of a credit file.

In conclusion, GE supports the comments and recommendations made by ARCA in its submission to the Committee and we additionally advocate a review of current government policy (as reflected in the EDB) to limit the content of credit reporting files to the limited data models. We support the continuation of the banker's opinion exception which permits disclosure of current account balance between credit providers. Finally, we stress the importance of more comprehensive credit reporting as a key tool to enable responsible lending and call for it to be implemented at the earliest opportunity.

Yours sincerely,

Skander Malcolm
President and Chief Executive Officer