

2 March 2021

**Customer Owned Banking Association (COBA) responses to Senate Economics
Legislation Committee's Questions on Notice from public hearing 26 February 2021**

**1. Question regarding potential cost saving if the National Consumer Credit Protection
Amendment (Supporting Economic Recovery) Bill 2020 is successful.**

***Senator BRAGG:** So there must be a cost saving for your customer owned banks if this legislation is successful?*

***Mr Lawrence:** Absolutely.*

***Senator BRAGG:** Yes. Have you given any thought as to what that might be?*

***Mr Lawrence:** I've given it thought, but could I articulate what that amount is? No. We haven't done that amount of work.*

***Senator BRAGG:** You could survey your members or something, I don't know. Maybe you could take that on notice.*

It is difficult to quantify potential cost savings from these reforms because relevant data is not readily available and individual lenders will each have their own timeframe for identifying and implementing potential operational changes flowing from the reforms.

However, we have obtained feedback from COBA members that Treasury's approach, outlined in the Bill's Regulation Impact Statement¹, for estimating costs savings based on reduced time needed to undertake verification of expenses is reasonable. Treasury assumes a saving of \$100 per loan for each mortgage.

Using this approach, we estimate savings for our sector of \$3.9 million to \$6.6 million based on savings of \$75 to \$125 per new home loan.

This is based on new loans funded for our sector in the last 12 months of \$24 billion² with an average home loan of \$460,000³ producing an estimate of 50,000 new home loans per year.

For context, CANSTAR data shows that the average home loan application fee for 188 products charging these fees is around \$500 with a median of \$600 (198 products don't charge a fee).

Note that we have been unable to obtain and quantify information about potential costs savings from other effects of the reforms. These other areas of cost savings could include other staff costs, training costs, legal costs, risk-management costs, audit costs, and systems and processes costs. The reforms could increase the capacity of lenders to use technology to focus on key credit criteria and to streamline application processes.

¹ Paragraph 2.24 of the Bill's Explanatory Memorandum

² APRA's Quarterly ADI property exposures statistics

³ ABS Lending Indicators

One of COBA's largest member ADIs noted that the efficiencies to be realised would result from the reduced time to collect and verify information with expense verification being by far the most complex activity in the home loan process. For this single COBA member, initial estimates "suggest that the efficiency gain on this activity could be in the order of \$1m per year."

Cost savings for borrowers

While cost savings for lenders are important and in a competitive market would be passed on to borrowers, the direct benefits to borrowers are even more important.

The reforms should deliver an improved borrower experience due to:

- faster application process
- more certainty on outcomes
- reduced need to provide updated documents due to processing delays
- fewer inquiries for information that is not essential for the lending decision
- reduced borrower discomfort at intrusive lender inquiries into spending habits, and
- saved time and effort for borrowers in terms of finding additional documents.

These effects are hard to quantify in cost saving terms but will reduce customer inconvenience and promote competition.

2. Question regarding whether there is anything that the Government could do to strengthen AFCA.

Senator BRAGG: *The other thing I wanted to ask you about—because your testimony today has been very clear; I thank you for it and your statement was very good—was whether or not you thought there was anything we could do to strengthen AFCA. Maybe you can take it on notice?*

Mr Lawrence: *I'll take that on notice. As the committee would be aware, Treasury has now released the consultation around the review of AFCA.*

COBA is currently consulting members to inform our industry submission to Treasury's independent review of the operation of AFCA. The terms of reference for the review were published on 19 February and submissions are due by 26 March. At this stage we would prefer not to pre-empt this process by expressing views now on how to strengthen AFCA.

AFCA provides consumers and small businesses with free and independent dispute resolution for financial complaints. It considers complaints about credit, finance and loans, insurance, banking deposits and payments, investment and financial advice, and superannuation.⁴

AFCA is required by legislation to operate in a way that is accessible, independent, fair, accountable, efficient and effective. Fairness requires complaints to be considered objectively and without bias, and by staff and decision makers with appropriate expertise.⁵

AFCA resolves disputes via negotiation and conciliation or it can make a determination if a settlement is not reached. Determinations are the final stage of AFCA's complaints resolution process and decisions by AFCA are binding on financial institutions, i.e. not open to appeal.⁶

⁴ <https://www.afca.org.au/>

⁵ <https://www.afca.org.au/about-afca/fairness>

⁶ <https://www.afca.org.au/what-to-expect/the-process-we-follow>

AFCA has received 153,000 complaints and awarded more than \$474.5 million in compensation in its first two years of operation.⁷ The average time it takes for AFCA to close banking and finance related complaints in the last year is about 62 days.⁸

In the context of the Committee's inquiry into the National Consumer Credit Protection Amendment (Supporting Economic Recovery) Bill 2020, we note Treasury's evidence⁹ about AFCA's role:

"Importantly, consumers maintain the ability to seek dispute resolution and redress through AFCA for individual contraventions of the lending standards from both ADIs and non-ADIs. AFCA has been the primary means of redress for RLO complaints and other complaints due to the cost of going to court, and this is expected to continue."

"Consumers can go and do go to AFCA to make complaints. Those get resolved, and consumers receive redress. There is no plan to change any aspect of that under this legislation."

We also note APRA's evidence¹⁰ about AFCA's role and APRA's approach to enforcing lending standards.

"We have regular engagement with AFCA. We share information with them; if we receive individual complaints from consumers we refer them directly to AFCA. AFCA would also refer systemic information to us; if there's an institution that's seeing multiple complaints, they'd let us know. We meet on a regular basis with them. As far as we understand, consumers retain direct access to AFCA; there isn't change from that perspective. AFCA, as far as we understand, have got quite a broad remit in terms of what they can rely on and look at in their own determinations."

"From APRA's perspective, we have quite specific expectations and rules around borrowing process. I think the committee has heard that in the APS 220, the credit risk management standard, there are a number of paragraphs that govern what we expect a bank to do when it originates a loan to a borrower, and that includes a number of checks over whether the borrower has the capacity to repay that loan."

ADI lenders will continue to be subject to legally-enforceable lending standards prescribed by APRA. These standards are being tightened in Prudential Standard APS 220 Credit Risk Management that is due to commence at the same time or soon after the provisions of this Bill. Clause 44 of APS 220 sets out requirements for ADIs in relation to loans to individuals:

Exposures to individuals

44. For exposures to individuals, an ADI's credit assessment must include consideration of the following criteria, where relevant:

(a) the purpose and structure of the exposure and sources of repayment, including making reasonable inquiries and taking reasonable steps to verify income or cash flows;

(b) the current risk profile of the borrower, including making reasonable inquiries and taking reasonable steps to verify commitments and total indebtedness;

(c) the borrower's repayment history and capacity, assessed under various scenarios such as:

⁷ <https://www.afca.org.au/news/media-releases/afca-member-forums-two-years-of-operations-future-of-membership-experience>

⁸ Senate Economics Legislation Committee Hansard, Evidence from Treasury, 26 February 2021

⁹ Senate Economics Legislation Committee Hansard, Evidence from Treasury, 26 February 2021

¹⁰ Senate Economics Legislation Committee Hansard, Evidence from APRA, 26 February 2021

- (i) an increase in interest rates;
 - (ii) a change from a fixed-rate to a floating interest rate (and vice versa);
 - (iii) a decrease in income or cash flows, particularly for less stable income or cash flow sources; and
 - (iv) for exposures with an interest-only period that subsequently converts to principal and interest payments, on a principal and interest basis of repayment;
- (d) the borrower's expenses, including the collection of reasonable estimates. Expense benchmarks must not be used as a substitute for an ADI making reasonable enquiries of a borrower's expenses;
- (e) the proposed terms and conditions of the exposure, including covenants designed to limit the ADI's exposure to changes in the future risk profile of the borrower to an acceptable level to the ADI; and
- (f) where applicable, the adequacy and enforceability of collateral, guarantees and other risk mitigants, including under various scenarios.

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