

Veda Update

Comprehensive Credit Reporting

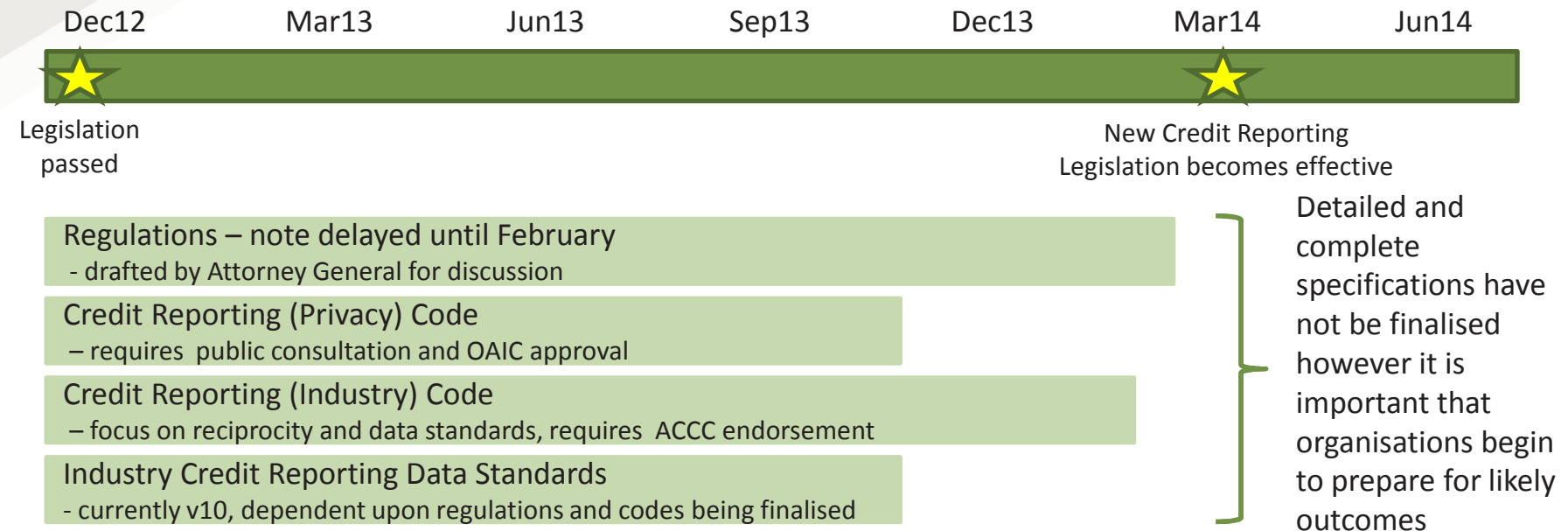
October 2013



Comprehensive Credit Reporting

Regulatory Timeline

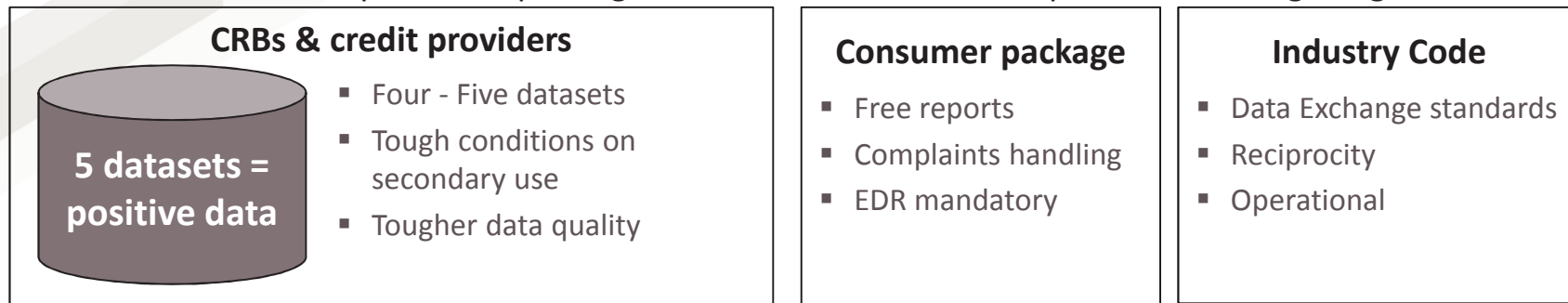
Comprehensive reporting legislation has been passed in parliament and will be effective from March 2014. Industry is continuing to work on codes, data standards, reciprocity rules etc. through the Australasian Retail Credit Association (ARCA).



Credit reporting reform in Australia

Privacy Act Amendment 2012

- Australia's move to positive reporting is in the context of new Responsible Lending obligations.



- More data able to be shared for Credit Reporting
- Consumer credit data (Credit Reporting Information) becomes far more regulated - expressly permitted collection, use and disclosure can take place
- Consumer rights of: access, complaint, correction and general knowledge of their credit history increase substantially. Brings:
 - Increased interest in credit files by the consumer
 - Increased cost of compliance for industry

Changes are not retrospective but compliance is required from day one – Mar 12, 2014.

New data fields

There are five new data sets that are available for Comprehensive subscribers:

**Date Account
Opened**

**Credit Limit of
Account**

Type of Credit

**Date Account
Closed**

**Repayment
History**

Data element	Insight
Account open date	All of customer's open accounts and age of accounts
Account limit	All current limits – shows potential exposure
Nature of credit	Customer's risk appetite and ability to get mainstream credit
Date account closed	Record of accounts responsibly managed but no longer open
Repayment history – last 24 months	Willingness to repay and potential to self cure

Sharing of repayment histories permitted for credit licensees only (as defined by the NCCP (2009) Act and subject to Responsible Lending obligations). For now, telecommunications and utilities are locked out of the repayment history sharing

Small Amount Lending - Scenario

Risks of non-participation – adverse selection

Welcome to Moonee Ponds!



Justine is seeking a small amount loan

- Will you approve the loan?
- How will you price for risk?



Small Amount Lending - Scenario

Risks of non-participation – adverse selection

Welcome to Moonee Ponds!



Negative Tier



Justine is seeking a small amount loan

- Will you approve the loan?
- How will you price for risk?



Summary Characteristics

Known Identities	2	Known Addresses (last 5 yrs)	2
Adverse on file	Yes	Age of credit file	14 yrs 3 mt
Enquiries – last 12 months	2	Current Directorships	0
Enquiries – last 5 years	6	Previous Directorships	1
Total Default Value	\$0	Proprietorships	0

Consumer Default – HSBC Credit Card Sep-11 Paid

Small Amount Lending - Scenario

Risks of non-participation – adverse selection

Welcome to Moonee Ponds!



Partial Tier



Justine is seeking a small amount loan

- Will you approve the loan?
- How will you price for risk?



Summary Characteristics

Known Identities	2	Known Addresses (last 5 yrs)	2
Adverse on file	Yes	Age of credit file	14 yrs 3 mt
Enquiries – last 12 months	2	Current Directorships	0
Enquiries – last 5 years	6	Previous Directorships	1
Total Default Value	\$0	Proprietorships	0

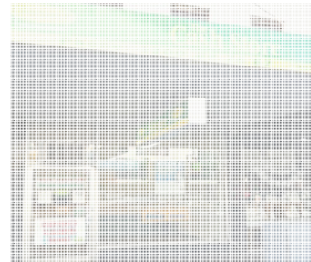
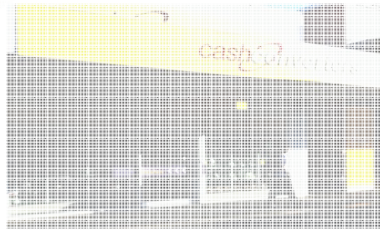
Consumer Default – HSBC Credit Card Sep-11 Paid

Start Date	Subscriber	Status	Account	Relationship	Limit
21 Aug 2012	Bank	Open	Mortgage Monthly	Co-borrower	\$348,000
15 Nov 2011	Bank	Open	Personal Loan – Fixed Monthly	Principal	\$10,000
14 Jul 2008	Bank	Open	Credit Card Monthly	Principal	\$2,000
24 Apr 1999	Large FiCo	Closed	Credit Card Monthly	Principal	\$0

Small Amount Lending - Scenario

Risks of non-participation – adverse selection

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Comprehensive Tier

Justine is seeking a small amount loan

- Will you approve the loan?
- How will you price for risk?



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- The study involves 10 large Australian lenders and 24 portfolios, combining over 30 million records
- Aim is to simulate a Comprehensive Reporting Bureau information sharing environment: A first for Australia
- Preliminary findings indicate that Comprehensive Credit Reporting delivers significant benefits:

To **lenders**, it provides a broader view of their applicant and their overall risk (internal and external)

To **lenders** and **credit reporting agencies**, it allows them to understand the required data content and quality and align their processes in readiness for the new regime

To **lenders** and **consumers**, this additional information provides a better view of the individual's overall credit commitment and their ability to service credit debts and so supports responsible lending

To the **economy**, it has the potential to release the amount of credit extended to individuals while keeping the overall risk the same (or, alternately, lower the risk of the Lenders' credit portfolios)

Overseas experience suggests that the credit market grows, competition increases, cost of credit falls and risk - based pricing becomes far more widespread.

Consumers take more interest in actively improving their credit scores in this environment as it becomes increasingly in their self interest to do so



Insight 4: Improved ability to predict credit risk

Credit Cards (CC) example

Better credit assessment leads to positive swaps: Lenders can significantly lower bad rates while maintaining current approval rates, or increase approval rates (lend more) while maintaining the same level of risk, or adopt any combination of the two strategies.

Approval Rate	Negative Bureau Score		Positive Bureau Score		% Change in Bad Rate
	Reject Score	Bad Rate	Reject Score	Bad Rate	
90%	452	4.5%	407	3.9%	-14.7%
70%	611	3.2%	600	2.4%	-24.9%
60%	652	2.9%	642	2.1%	-27.2%

Bad Rate	Negative Bureau Score		Positive Bureau Score		% Change in Approval Rate
	Reject Score	Approval Rate	Reject Score	Approval Rate	
2.5%	698	48.1%	589	71.5%	48.6%
3.5%	573	77.1%	456	86.5%	12.2%
4.5%	455	89.7%	328	94.3%	5.0%

Risk Reduction

- To approve 70% of CC applications risk-ranked by Negative Bureau score, the cut-off score is set to 611. The accepted applicants have 3.2% bad rate
- To approve 70% of these applications as risk-ranked by the Positive Bureau score, the cut-off is set to 600. The accepted applicants have a 2.4% bad rate
- The lender achieves a **24.9%** reduction while accepting the same volume of applications

Growth Opportunity

- To maintain a portfolio bad rate of 3.5% the Lender can increase approval rate from 77.1% (risk-ranked by Negative Bureau score) to 86.5% (risk-ranked by Positive Bureau score) resulting in 12.2% growth in approvals

Why should my business join CR

Why should my business join CR

- Improved **risk discrimination** in your customer base
- Fulfilling **responsible lending obligations** given there is the best available data
- Credit reporting can be used to support 'capacity to pay'



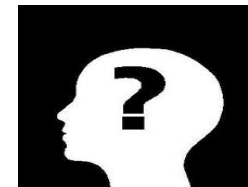
Early / late
Adoption



Price for
Risk?



The level of
Investment



What if my business ignores CR

CR is not mandatory, Veda will continue to support all customers, however consider....

- Brand/reputation - adverse selection based on better pricing for risk by competitors
- Swap set loser – competitors use information differential to take the better risk customers
- Regulatory – Is my business now exposed to compliance risk regarding NCCP?