Credit data restriction makes little sense

Australia is one of the odd ones out on credit reporting, argues **Christine Christian**.

In an economy that makes up only 2 per cent of the world's markets the need for reform and improved efficiencies in the financial services sector is critical to our international competitiveness and the ability to attract major financial players to our shores.

Australia is one of only four countries in the developed world (besides New Zealand, France and Italy) that operate a negative *only* credit reporting system. Such a system allows credit reporting agencies such as Dun and Bradstreet (D&B) to collect only negative data such as defaults and court judgements, in addition to identity details. Importantly, while a reporting agency can record if a credit application has been made, we are unable to record whether that application has been approved or rejected.

Such a system provides very little data for lenders with which they can make appropriate lending decisions. This allows some consumers to credit-surf, sinking further into a cycle of debt from which they cannot escape, and raises overall risk to lenders.

The international experience clearly demonstrates that by allowing some additional information to be collected on credit reports, such as whether a credit application has been approved and if so with what limit, lenders are able to make decisions that have the potential to cut to the core of the debt cycle, dramatically reducing default rates.

In both Hong Kong and Japan there has been dramatic reductions in credit card write-offs and general defaults after the introduction of more comprehensive credit reporting.

The worldwide research shows that better-quality information is overwhelmingly beneficial for consumers. Interest rates are reduced, greater access to mainstream credit is provided to consumers who because of a poor credit record are reliant on pay-day lenders, and small and medium-sized enterprises are able to access better-priced credit because of their improved ability, through the inclusion of some positive data, to demonstrate their capacity to pay.

Central to these benefits is the capacity for lenders to better assess risk. And it is the assessment of risk that is critical to the continuing competitiveness of our financial services industry.

Around the world the benefits of an improved credit reporting system have arisen because a system that is better able to assess risk is far more attractive to international financial services companies. It is the entry of these players into reformed markets that has brought higher levels of competition, driving down the cost of credit and ensuring consumer credit needs are better matched to products and services.

This increased competition clearly has a benefit for consumers but also brings a broader economic benefit to the nation. MasterCard International research conducted by ACIL Tasman has shown that in Australia, reform of our consumer credit reporting system would produce a one-off $5.3 billion benefit to the Australian economy through an increase in capital productivity. Interestingly, some international experts regard this figure as very conservative.

The benefits of a reformed reporting system are not unknown to Australian legislators. The Wallis inquiry listed improved credit reporting as an important reform to be considered by government back in 1997.

There are, however, a number of stakeholders who have concerns about the introduction of better-quality data onto credit reports. The concerns are twofold: that errors on existing credit reports should prevent any reform until improvements are made; and that change to a full-file system will lead to a credit explosion as seen elsewhere in the world.

It is correct to say that errors in credit reports are an important issue that the industry must work harder to address. But the issue of errors is different to the one about the type of reporting system we have. Also, it is wrong to suggest that reporting errors resulting in credit being denied can contribute to spiralling debt.

With regard to the second argument, D&B does not believe that Australia should move to a full-file credit reporting system. Our consistent argument has been for a fairer model that finds a balance between the extremes of the existing, negative system and a full-file system like in the United States.

A system that allows lenders to make more informed decisions while adhering to the existing strict rules about how that information can be used is the one to be preferred.

Regardless of whether people support the arguments for reform or the status quo, the issue is clearly one that requires more examination. With consumer debt at historic highs and the need to ensure that our financial services industry is equipped to respond to the ever-changing demands of consumers, now is the time to examine this issue.

■ *Christine Christian is the CEO of D&B Australasia.*

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