



HOW DOES COMPREHENSIVE CREDIT REPORTING AFFECT ME?



INTRODUCTION

Most Australians apply for credit at some point in their lives. Whether you're buying a mobile phone, a car or even a home, chances are you'll need to borrow money to make certain purchases.

Banks and other lenders assess your ability to repay before agreeing to give you the money, which they do by examining your credit history. But what information is available to credit providers? And how do they use this data to make their decisions?

Comprehensive Credit Reporting is a regime that helps lenders judge how well you can manage your borrowing commitments. Let's take a closer look at what the system is, how it works and the potential impact on credit scores.



WHAT IS COMPREHENSIVE CREDIT REPORTING?

Comprehensive Credit Reporting (CCR) – also known as ‘positive reporting’ – refers to the type of data used to compile your credit report.

In Australia, credit reporting bodies (CRBs) create your report using information gathered from credit providers and publicly available sources¹. CRBs include illion (formerly Dun & Bradstreet), Equifax, Experian and the Tasmanian Collection Service.

CCR includes both ‘good’ and ‘bad’ credit information in your file. Negative reporting, an alternative regime, only gives lenders access to adverse information within your history², as well as credit enquiries.

Supporters of CCR say the regime is more robust and provides a fairer picture of an individual’s financial reliability³. This is likely to lead to increased competition between lenders and higher credit scores, on average, for consumers.



WHAT DOES 'POSITIVE' AND 'NEGATIVE' CREDIT INFORMATION MEAN?

Understanding what information is on your credit report can help you build a better credit score and negotiate more favourable deals.

Negative credit data includes⁵:

- Credit defaults;
- Credit enquiries;
- Bankruptcies;
- Court orders and judgments;
- Personal details; and
- Employer details.

Not all the data is inherently negative, such as your personal details, but most of the information lenders can view to judge your borrowing behaviour is unfavourable.

Under a CCR system, CRBs also receive updates on⁵:

- New accounts opened;
- Account credit limits;
- Account opening and closing dates; and
- Payment histories.

The additional information can help lenders differentiate between individuals who would otherwise look identical via negative credit reporting.

For example, two potential borrowers may both have a bankruptcy against their name. While one could have a recent history of excellent credit behaviour highlighted by reliable payments, the other may have simply stopped borrowing, making it more difficult to assess their credit-worthiness.



DOES AUSTRALIA USE A CCR SYSTEM?

Yes and no.

Before 2014, Australia's Privacy Act 1988 only allowed negative reporting in the country⁵. However, amendments to the Act on March 12 of that year introduced CCR to enable CRBs to collect and distribute positive information on consumers.

But the system is currently voluntary, which means credit providers aren't required to pass on information about their customer accounts to CRBs. So far, adoption of the regime has been slow.

The Federal Government said a mandated CCR regime would be introduced if lenders failed to voluntarily report at least 40 per cent of consumer data by the end of 2017. The figure stood at less than 1 per cent at the beginning of November⁶.

As a result, Treasurer Scott Morrison said the Turnbull Government will legislate for mandatory CCR, with the updated regime coming into effect by July 1 2018⁶.



WHAT CHANGES WILL THE MANDATED CCR BRING?

A mandated regime means credit providers must release the credit data they hold on their customers, although the legislation will not apply to all lenders immediately.

The changes will initially only affect the 'Big Four' banks:

- National Australia Bank (NAB);
- ANZ;
- Westpac; and
- Commonwealth Bank.

These financial institutions account for approximately 80 per cent of all lending to Australian households, making them a priority for the Federal Government⁶.

Under mandated CCR, the major four banks have two deadlines to hit⁶:

- Load 50 per cent of eligible consumer credit accounts between July 1 2018 and September 29 2018; and
- Have 100 per cent of eligible consumer credit accounts loaded between July 1 2019 and September 29 2019.

The banks must also release the data in a form that makes it easily shareable with other credit providers⁵. The information will be reported to any CRBs with which the Big Four have service agreements for credit risk assessments⁵.



WILL MANDATED CCR APPLY TO OTHER CREDIT PROVIDERS?

NAB, ANZ, Westpac and Commonwealth Bank represent a huge share of the market, but there are many other credit providers in Australia. These include retailers that offer credit cards and payday lenders.

The Federal Government has not yet committed to extending mandated CCR to smaller lenders, although discussions with the industry about a widespread roll-out are expected⁵. The four major banks, the Australian Retail Credit Association and the country's CRBs will likely be consulted during this process⁵.

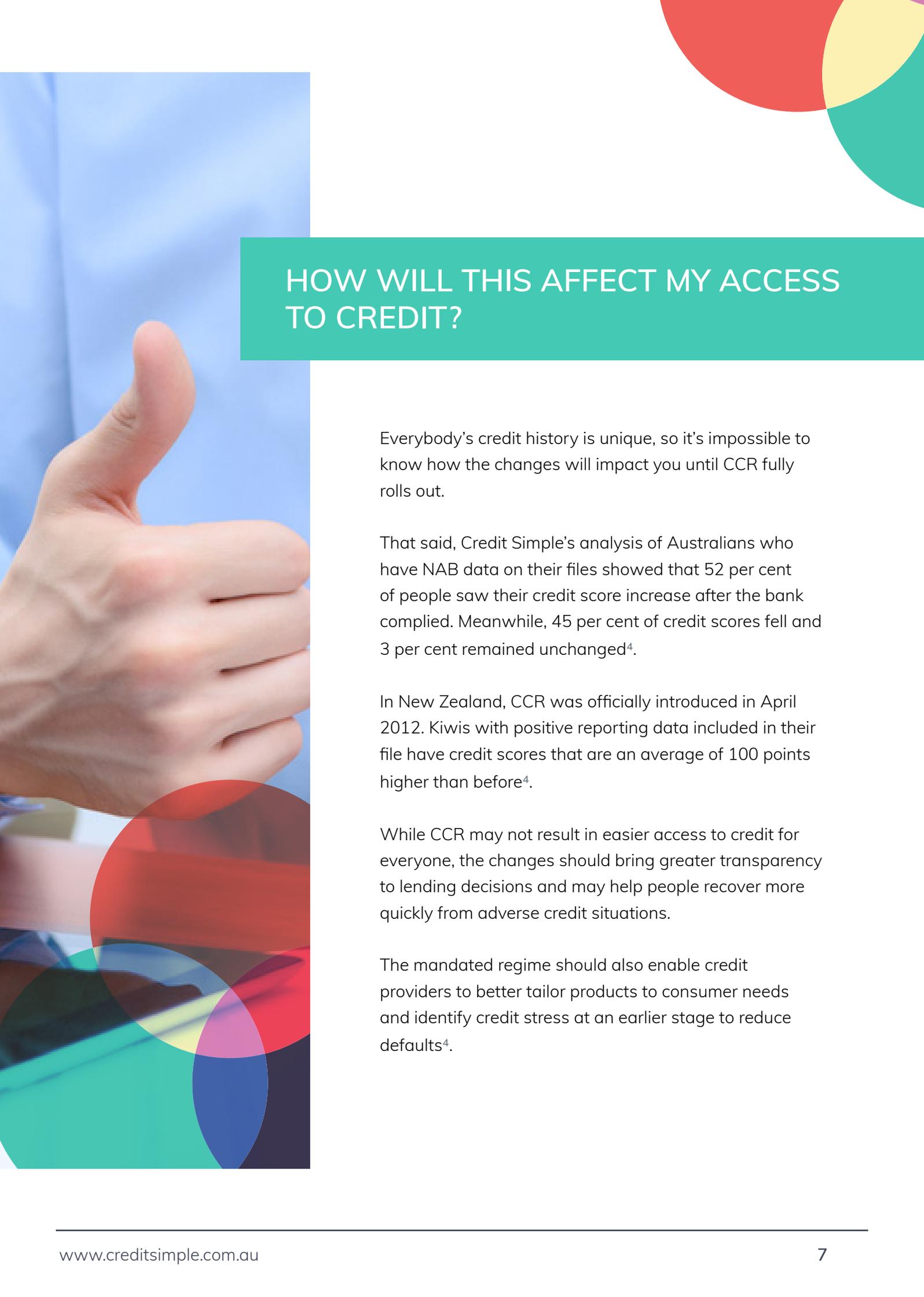
Small lenders can also participate voluntarily under the existing CCR regime.

NAB gets the ball rolling early

The Big Four have until July 1 to comply with the mandated CCR, but NAB decided to get a head start by rolling out the new reporting system in February 2018⁷.

NAB commenced CCR across personal loans, credit cards and overdrafts, with other types of lending scheduled for a later date.

“Under CCR, we now have a more holistic picture of a customer’s credit situation, so we’re better able to make sure our customers receive the right type and amount of credit for their individual circumstances,” said NAB Chief Operating Officer Antony Cahill⁷.



HOW WILL THIS AFFECT MY ACCESS TO CREDIT?

Everybody's credit history is unique, so it's impossible to know how the changes will impact you until CCR fully rolls out.

That said, Credit Simple's analysis of Australians who have NAB data on their files showed that 52 per cent of people saw their credit score increase after the bank complied. Meanwhile, 45 per cent of credit scores fell and 3 per cent remained unchanged⁴.

In New Zealand, CCR was officially introduced in April 2012. Kiwis with positive reporting data included in their file have credit scores that are an average of 100 points higher than before⁴.

While CCR may not result in easier access to credit for everyone, the changes should bring greater transparency to lending decisions and may help people recover more quickly from adverse credit situations.

The mandated regime should also enable credit providers to better tailor products to consumer needs and identify credit stress at an earlier stage to reduce defaults⁴.



WHO CAN SEE MY CREDIT REPORT?

The Privacy Act provides strict guidelines to ensure your credit report is only available to certain individuals and organisations. These include⁹:

- CRBs;
- Banks, building societies and credit unions;
- Small amounts lenders;
- Energy and water utility companies;
- Mortgage and trade insurers;
- Telecommunications carriers; and
- Retailers that offer credit cards.

This is by no means an exhaustive list, so please download 'Privacy power: Here's everyone who can check your credit report' for a full rundown. A credit provider must contribute comprehensive information in order to get back comprehensive information.

HOW CAN I CHECK MY CREDIT REPORT OR CREDIT SCORE?

Our research indicated that Australians with positive NAB data on their file saw a median increase of 35 points in their credit score, while the typical decrease was 72 points⁴.

To see how you've been individually affected, you must request a copy of your credit report or check your credit score online.

One free copy of your report is available per year from CRBs. Provide the relevant agency with your name, address and other personal details to receive your report within a few days¹. If you want more than one copy each year, you may need to pay¹.

Checking your credit score is also free and simple. Find out how by [clicking here](#) for more information. Remember, regularly monitoring your score will give you a better idea of how the mandated CCR changes are affecting your ability to access credit.



CONCLUSION

Positive credit reporting is designed to give lenders a more complete picture of potential borrowers. While voluntary CCR has been in place since 2014, mandating the changes will encourage Australia's biggest banks to share consumer credit information more freely with CRBs.

The effect on credit scores will be mixed, although early indications suggest more people will see rises than falls. Nevertheless, mandated CCR is likely to bring increased competition, greater transparency and better decision-making to the market.

Would you like to learn more about CCR and your credit score? Please **get in touch** with Credit Simple today to see how you could be affected.

SOURCES

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- 4 - Credit Simple analysis conducted in February 2018
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