National Consumer Credit Protection Amendment (Supporting Economic Recovery) Bill 2020

Building futures and protecting what matters

SUNCORP

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Committee Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
CANBERRA ACT 2600

By email: **economics.sen@aph.gov.au**

Dear Sir/Madam

NATIONAL CONSUMER CREDIT PROTECTION AMENDMENT (SUPPORTING ECONOMIC RECOVERY) BILL 2020

Suncorp Group Limited (Suncorp) welcomes the opportunity to provide a submission to the Senate Economics Committee's inquiry into the National Consumer Credit Protection Amendment (supporting Economic Recovery) Bill 2020 (the Bill). This submission is provided in parallel with the Australian Banking Association's (ABA) submission, which Suncorp supports.

Suncorp supports the Bill introduced in December 2020. We believe it will help stimulate the national and Queensland economies at a critical point in the COVID-19 recovery without compromising the extensive consumer protections which are built into Australia's financial services system.

Suncorp's understanding of the national and Queensland economies

Suncorp provides banking services to more than one million customers across the country with a strong focus on lending, deposits and transaction account services to personal, small and medium enterprise (SME), commercial and agribusiness customers. Suncorp is one of several banks offering Australians an alternative to the major banks with competitive loan offerings and zero account keeping fees on deposit accounts.

While Suncorp Bank operates nationally, we have a proud Queensland heritage that stretches back to 1902. Approximately, 50 per cent of our lending is to Queenslanders with housing making up 80 per cent of our lending assets, the majority of which are conservatively geared, owner-occupied home loans.

Our experience over the past 120 years means we are accustomed to supporting customers throughout the State as they respond to the unique opportunities and challenges posed by Queensland's diverse economy, geographies and climate.

Although Federal and State Governments have done an admirable job in mitigating some of the COVID-19 impacts so far, Australia's economy is facing ongoing challenges. The Reserve Bank of Australia's most recent Key Economic Indicators Snapshot (7 January 2021) underscored the tough repair job that lies ahead, showing economic growth down 3.8 per cent, unemployment at 6.8 per cent and employment contraction of -0.6 per cent.

While Queensland's economy is seeing some green shoots of recovery (housing market valuations, for example), there are significant parts of the State where full recovery is expected to be a considerable way off.

In these areas, which include large parts of north and coastal Queensland traditionally dependent on overseas tourism, it is critical that Governments, financial services and the business community work together to find ways to stimulate growth and spending as well as support higher employment rates.

In this context, Suncorp believes the Government's intention to enable faster and simpler credit applications will help increase credit flows and support consumer confidence.

1. CUSTOMER BENEFITS

i. Improved customer experience and certainty

Although the overarching principles of responsible lending obligations (RLOs) remain sound, much has changed since their introduction in 2009.

The banking industry is now far more tightly regulated through progressive regulatory change. While each change has come with a clear purpose, constant reform has contributed to additional complexity and uncertainty as to how RLOs should be applied by banks.

In the current regulatory environment, this uncertainty has resulted in many banks, including Suncorp, feeling obligated to take a conservative approach to credit assessment. Over time this has impacted on the flow of credit due to:

- An increasing focus on discretionary spending as opposed to the vital and/or fixed costs of living relevant to making an informed assessment around the capacity to service a loan. While discretionary costs should be considered, better balance needs to be achieved in how vital/fixed costs and discretionary costs are weighted when assessing serviceability.
- Significantly increased timelines to process and settle loans due to the requirement for banks to validate that applicants have accurately disclosed all their expenses and liabilities. In turn, this can cause unnecessary friction in the relationship between lender and borrower.
- Inconsistency around how RLOs are applied by individual credit providers making it difficult for consumers to understand how much they can borrow and how long it will take for their loan application to be approved.
- Although RLOs were always intended to make it easier for applicants to understand the transaction, they have resulted in considerable paperwork that is burdensome for applicants and, in some cases, can encourage them to use credit providers where the credit assessment thresholds are lower (non-Authorised Deposit-taking Institutions or ADIs, for example).

Generally, when customers' circumstances change to the extent that they are no longer able to service their loan, it is because they experience a life-changing and unforeseen event such as change in their employment or relationship status, or serious illness.

Since their introduction in 2009, RLOs and the regulatory environment have evolved to the point where banks feel obligated to conduct an exhaustive assessment of everyday expenses. This places considerable strain on the lending process (both from an ADI and customer perspective) while providing little assurance or safeguard against the possibility of a life-changing event occurring.

Under RLOs, in combination with other regulation introduced in recent years, Suncorp's lending assessment process has slowed significantly, creating an additional burden and uncertainty for applicants, a poorer customer experience and, for the most part, unnecessarily impacting the flow of credit through the economy.

For example, given the current regulatory environment, our lending assessors feel obliged to regularly seek clarification and further information from applicants to fully understand and verify individual everyday expense items (both discretionary and non-discretionary). In many cases, these granular assessments add little value to the overall credit risk assessment.

In 2020, it is estimated that Suncorp's assessment teams investigated approximately 10 million individual bank statement expense line items as part of the verification of applicants' expenses.

While careful scrutiny of loan applications must continue to occur, Suncorp strongly believes there is significant scope to streamline this process without compromising consumer safeguards through a sharper focus on non-discretionary expenditures (which are already captured in Australian Prudential Regulation Authority (APRA) requirements) and through broader acceptance of borrower declared information.

Case Study

A customer applied for a $330,000 home loan (at 80% loan to value ratio) following the purchase of a new property. As part of the assessment process, Suncorp requested bank transactional statements from the applicant to verify expenses.

It was noticed during this assessment that an additional travel transactional card was used for a short period of time within in Australia. Suncorp asked the applicant for more information, and the customer informed Suncorp that the card was used temporarily as their regular transactional card was subject to a fraud incident and it took a short period of time for a new card to be reissued.

In order to fully verify the applicant's expenses, Suncorp requested the transactional statement for the travel card as well, resulting in a five-day delay while it was sourced, uploaded to the application and verified by the assessor. Given the property purchase timelines, this delay caused significant uncertainty and stress to the customer.

The proposed framework, which simplifies requirements and removes duplication in the assessment process, is likely to provide an enhanced customer experience, including improved turnaround times on credit applications, without increasing the risk materially for either the customer or the bank.

Importantly, it will also give consumers more confidence to deal with banks when they want to borrow without feeling that there will be an exhaustive examination of their day-to-day spending.

ii. Credit assessments based on individual customer circumstances

In the majority of cases, banks feel obliged to apply a prescriptive 'one size fits all' approach to assessing living expenses to ensure compliance with RLOs.

This leads to examples where customers who have more basic or frugal lifestyles may be disadvantaged as the bank feels the need to apply higher expense assumptions in the current regulatory environment. This can materially impact whether proposed loans are deemed 'responsible' or not.

Case Study

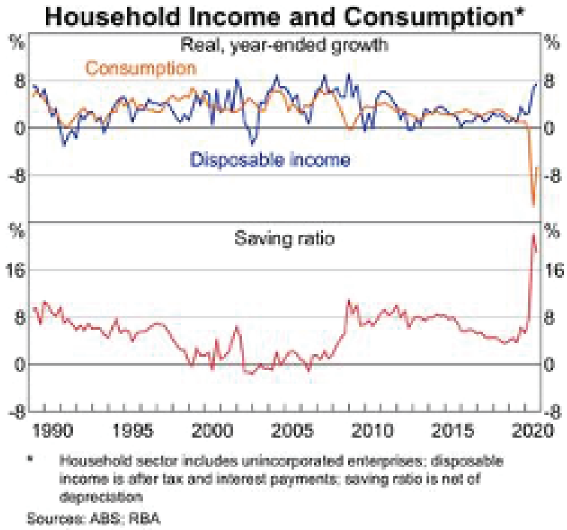
Suncorp recently received a home loan refinance application for approximately $385,000 with a conservative loan to value ratio of 65 per cent. The couple involved was in advance of the home loan repayments by six months, both applicants had been in government jobs for more than 10 years and they had a savings history.

In addition to their home loan, the applicants had a $15,000 credit card which they used to pay all day-to-day expenses. The applicants had paid off the card in full for 10 years.

However, when assessing their application, our assessment team felt obligated to include the full limit of the credit card due to the conservative application of RLO requirements in concert with other aspects of the regulatory framework. As a result, the loan did not service by $150 per month and the refinance application was declined, meaning they were unable to enjoy the benefits of a cheaper home loan from Suncorp.

The new framework will also give credit providers more scope to recognise that most customers conservatively adjust their expense bases depending on their specific circumstances and the broader economic environment.

In times of economic stress when disposable income reduces, Australian households are more likely to save and reduce their consumption. As the below chart shows, saving ratios increased during the global financial crisis and the COVID-19 pandemic.



iii. SME support and stimulus

While RLOs were not originally intended to capture SME lending, the increase in SMEs operating with home and business loans being secured against family homes, means that many SME loan applications are being assessed according to RLO requirements.

The net effect of this has been that some small business operators – due to ambiguity of whether the National Consumer Credit Protection (NCCP) Act applies to business lending and co-mingling of business and personal finances – have found it difficult to obtain credit as banks take a similarly conservative and prescriptive approach to their loan applications.

Segments of Suncorp's small business term lending portfolio are subject to RLO. Given that SMEs are the lifeblood of the Australian economy, simplification of lending requirements will also provide stimulus to this sector at a critical time in Australia's economic recovery.

2. ECONOMIC AND COMPETITION BENEFITS

iv. Economic benefits

Over the last 12 months, Australian banks have sought to support their retail and business customers through the economic hardship created by the COVID-19 pandemic. They have done this through a combination of industry and tailored customer support packages that have included loan repayment deferrals and other hardship support mechanisms.

Working with Federal and State Governments, banks moved swiftly to provide consistent, industry-wide support packages for their retail and business customers. The first support packages were announced on 14 February 2020 with additional measures introduced in March and April 2020 as the full scale of the pandemic's economic impact and health response hit individuals and businesses.

Like the rest of the sector, Suncorp has remained focused on supporting customers and assisting them through the COVID-19 crisis.

The onset of COVID-19 had a significant impact on Suncorp's customers, with around 8.4 per cent of our lending portfolio under deferral arrangements at June 2020 when applications for support were at their peak. Although the number of customers under deferral arrangements significantly reduced to 1.1 per cent in December 2020, we still have customers who need ongoing support to recover from COVID-19 impacts and uncertainty for the future remains.

As outlined in the introduction to this response, the national and Queensland economic recovery will vary from region to region depending on the different sectors they are exposed to.

Suncorp strongly supports the industry view that the proposed amendments in this Bill will be critical to Australia's and Queensland's economic recovery by underpinning the ongoing and efficient flow of credit to consumers and small businesses at a time of record low interest rates while maintaining strong consumer protections.

v. Competition benefits

Under the current framework, non-major banks compete on an uneven playing field against major banks that have more resources to respond to regulatory requirements. We are also disadvantaged in competing against non-ADIs that are not required to meet the same level of regulatory safeguards required of ADIs. The Federal Government's proposed amendments would go some way to addressing these competitive discrepancies by simplifying requirements for ADIs and increasing requirements for non-ADIs.

Suncorp believes this will enhance the ability of non-major banks to compete, which will in turn maintain competitive pressure within the credit market and deliver additional consumer benefits in relation to competitive pricing, service and product innovation.

3. CUSTOMER SAFEGUARDS

vi. Banking industry regulation and customer safeguards

ADI customers are protected by a range of customer protections including:

— The licencing and conduct requirements of the National Consumer Credit Protection (NCCP) Act,

— APRA lending standards (which already require scrutiny of living costs),

— The Banking Code of Practice which is aligned to the NCCP Act and compliance is enforced by an independent Banking Code Compliance Committee,

— Recent regulatory changes including the Banking Executive Accountability Regime, Design and Distribution Obligations, Australian Securities & Investments Commission's (ASIC) Product Intervention Power for credit products, enhanced protections for credit card customers and the best interests duty for mortgage brokers,

— External dispute resolution provided at no cost to consumers by the Australian Financial Complaints Authority (AFCA),

— ASIC's unconscionable conduct and consumer protection provisions, and

— Customer and regulator recourse to the courts.

Through the Bill, this strong protection will remain in place for ADI customers and will be enhanced for non-ADI customers.

Australia's regulatory environment has evolved significantly since the introduction of RLOs in 2009.

For example, one of the most significant developments in recent years has been the creation of AFCA which provides a one-stop shop for consumers and small business to resolve financial disputes.

All costs of any matter considered by AFCA are borne by the financial institution involved, not the customer or small business. AFCA's determinations are binding on financial institutions but not customers and small businesses.

This incentivises financial institutions to resolve any disputes quickly and fairly and provides consumers with an accessible, affordable and independent means of reviewing disputes.

vii. Better protection for non-ADI customers

Suncorp believes there is a lack of regulatory alignment between ADIs and non-ADIs which compromises consumer protections by incentivising credit applicants to use non-ADI lenders who have simpler credit assessment standards and less regulatory oversight.

We strongly endorse the ABA's view that there needs to be proper alignment between requirements for credit provision for ADIs and non-ADIs to provide certainty and consistent protection for consumers. This included proposed requirements that will allow non-ADIs to rely on customers taking some responsibility for providing accurate information, which should also be extended to ADIs.

viii. Suncorp's risk appetite

It is not in any credit provider's interest to lend to customers who lack capacity to repay their loans – in almost every case, this will result in financial loss for the credit provider and customer.

Over the last decade, Suncorp has worked hard to significantly de-risk its banking operations. Our lending book is heavily weighted towards home loans (approximately 80 per cent) and towards owner occupiers (approximately 70 per cent).

Our lending book is relatively lower risk, with around 80 per cent of our home loan customers having a loan to value ratio less than 80 per cent. Prior to the onset of COVID-19, our impairment losses to gross loans and advances were less than 5 basis points – one of the lowest levels in the market.

Suncorp's approach to credit risk means that, when assessing credit applications, it takes a range of considerations into account including borrower history, credit reports, purpose and term, volatility of cash flows, income and expenses, current financial obligations, future likely performance, payment profile and available security.

Suncorp does not believe the Bill will, in any way, compromise its approach to risk management and credit provision or expose its customers to additional risk.

Conclusion

It's a critical time for Australia as we rebuild our economy after the COVID-induced recession of 2020. The proposed changes to the legislation are sensible – they simplify the customer experience when accessing credit whilst retaining important consumer protections. Measures to provide borrowers with improved certainty at the time of application, will in turn assist in rebuilding confidence and supporting the economic recovery. But such measures must also strike the balance between protecting customers and ensuring a level playing field for all credit providers.

Suncorp believes that the proposed amendments to the National Consumer Credit Protection Amendment (supporting Economic Recovery) Bill 2020 will achieve these objectives.

Please contact me or Joshua Cooney, Executive Manager Government, Industry & Public Policy, at **joshua.cooney@suncorp.com.au** for more information.

Regards

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