HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS

NAB

NAB62QW: In regards to Responsible Lending Obligations (RLO): During your evidence on 11 September 2020, you indicated that RLOs are being managed by NAB and are not causing disruption to credit applications.

Answer

a) In regards to your credit application process:

i) How did RLO change your credit application process?

NAB constantly uplifts its processes to ensure compliance with regulatory obligations, guidance and industry expectations. RLOs are not the only consideration for NAB in relation to credit applications. These various requirements impact the information NAB is required to obtain from a customer, the time taken to verify the information and the time taken to service a customer (not only during application stage). NAB has undertaken significant actions to strengthen its controls over the past 18 months.

When analysing process times, consideration should also be given to initiatives implemented to improve the credit application process, for example through process improvements. When NAB makes changes to its credit application processes, it aims to minimise adverse impacts, including those to customer experience such as servicing times.

NAB has invested in improvements such as system-assisted suitability assessments, which is not a requirement from a prudential perspective, to ensure it both adheres to RLOs and maintains a similar credit application timeframe and customer experience.

Another example relates to activities NAB has undertaken relating to customer expenses. NAB reviewed and updated its policies and mandated commentary around expenses in certain scenarios, which increased Time to Unconditional Approval. However, uplifts to tools and processes such as expense modules, automation of customer conversation prompts and customer transaction reporting resulted in a corresponding decrease to the Time to Unconditional Approval.

ii) How much longer is your credit application form following implementation of RLO?

Credit application information is captured in NAB systems rather than physical credit application forms.

RLOs are not the only consideration for NAB in relation to credit applications; there are additional requirements, such as prudential requirements and the Banking Code of Practice, which NAB must ensure loans comply with. These requirements impact the information NAB is required to obtain from a customer, the time taken to verify the information and service a customer (not only during the application stage).

iii) What is your appeal process for customers when denied credit?

NAB has an internal process in place to review declined decisions. Bankers can have a decision reviewed if they do not believe the correct outcome has been given. Customers can raise disagreements with credit decisions with bankers. The final decision always remains the decision of the credit assessment team and is a risk-based decision.

If customers remain unhappy with a decision that has already been reviewed, customers are able to submit a complaint to NAB. This will be reviewed through business as usual complaint management practices.

iv) What are the most common points of appeal?

There are a number of reasons customers appeal credit assessment decisions. The most common appeals relate to reasons such as property valuations, income policy, and discrepancies between a customer's Household Expenditure Measure and general living and entertainment expenses.

A specific example relates to circumstances where a customer obtains most of their income from an investment property. There are various obligations from both ASIC and APRA that ADIs must adhere to regarding the treatment of this income. This can result in an applicant's surplus being eroded and potentially lead to an application being declined.

v) How many more applications are refused now compared to prior to RLO being implemented?

Data which impacts lending application approval rates is influenced by a number of factors in addition to RLOs, such as macro-economic conditions, other regulatory requirements and NAB's risk appetite. Any difference in application approval rates could be explained by one or more of a number of these factors rather than specifically as a result of the implementation of RLOs

b) Have you, similar to that undertaken by Westpac for their case with ASIC, undertaken an analysis of credit impairment from cohorts both pre and post RLO?

i) If so, does this analysis show that impairment was higher post introduction of RLO?

Credit impairment may be caused by a number of factors in addition to RLOs, such as various life events. NAB has not undertaken an analysis of credit impairments specifically as they relate to RLOs.

In 2019 NAB undertook analysis to determine whether there is correlation between customers' expense and income information and impairment. It was found that the relationship between expenses and impairment is not statistically significant, however that there is a relationship between income and impairment.

c) In regards to the number of staff working in this area:

i) How many people did NAB have working on RLO system changes?

Changes to meet new or updated RLOs are executed in conjunction with other improvements to NAB's lending products. As colleagues work across multiple changes, NAB is unable to quantify the number of colleagues who specifically worked on RLO system changes. NAB has a team of up to 100 colleagues responsible for implementing changes to its lending products. This team works with other teams which are responsible for the day to day management of NAB's lending products, such as product managers and support units (e.g. legal and compliance), to implement changes where necessary.

ii) How many more people are now working in credit compliance area post RLO?

The number of colleagues working on credit compliance at NAB has increased. NAB is unable to quantify the number of additional colleagues working in credit compliance which are directly attributable to RLOs; this increase is attributed to a number of policy and regulatory changes, including RLOs.

As a result of RLOs and other regulatory requirements, there are now large teams in NAB's retail and business operations areas which focus on ensuring compliance with internal policies and regulatory requirements.

As part of NAB's credit application process, a verification team independently verifies information gathered from customers. This team did not exist prior to the introduction of RLOs. NAB also has assurance teams which monitor compliance with policies and regulations on a sample basis across different points of the credit application process. There are four assurance programs:

1. Lender Quality Assurance;
2. NAB's Enterprise Consumer Lending Assurance Framework;
3. Broker Monitoring; and
4. Secure Lending Compliance Monitoring.

NAB also applies a Three Lines of Defence operating model in relation to its management of risk and has supporting teams which monitor risks regarding consumer lending requirements.

iii) What is the cost of these changes and ongoing increase in overheads?

The cost of implementing RLOs for NAB or customers and the ongoing increase in overheads has not been estimated by NAB.

NAB is constantly implementing changes to accommodate new technology, simplification and regulatory requirements. RLO changes have been implemented as part of NAB's broader change management program. NAB also has teams responsible for all elements of the ongoing, business as usual management of lending products. The costs of this are not directly attributable to RLO.

d) How has ASIC updated guidance changed NAB's approach to RLO?

The subjective nature of RLOs allows for multiple interpretations of requirements. ASIC's updated RG209 guidance provides further clarity on RLOs and NAB believes the guidance is adequate in most cases. NAB is comfortable with APRA's guidance notes. The additional examples in ASIC's updated regulatory guide on how RLOs are applied in practice have been well received.

NAB remains supportive of the concept of scalability in RG209. Scalability allows credit providers to tailor systems and processes to achieve appropriate customer outcomes. It also gives credit providers flexibility to innovate in relation to customer experience, whilst still meeting RLO.

There are instances where the requirements of APRA and ASIC do not align, which has the potential to erode efficiencies. An example of this is when a home loan customer switches from a principal and interest repayment basis to an interest only basis; ASIC guidance indicates variations to existing credit contracts should not trigger an assessment, however APRA's guidance in APG223 states that a serviceability assessment is required. In these circumstances, NAB therefore requires a customer to complete the same standard assessment that a new customer taking out a new loan would undertake.

e) APRA's prudential guidance specifies information that banks must ask from consumers in order to comply with lending requirements.

i) Does NAB take the view that it must ask for all of this information, or most of it?

Yes, NAB requests this information.

ii) Does NAB need to be able to cite all the required documentation or is it satisfied with other forms of proof such as the customer's word?

NAB adheres to a number of requirements relating to the verification of documents in the credit assessment process. Where verification is required, NAB obtains and verifies independently created documents such as financial statements, pay slips, credit bureau reports, and rental agreements. NAB also uses technology to support, supplement or validate information received from customers.

In instances where customers are unable to provide required information and have good reasons, NAB will exercise its right to apply a waiver and request alternative documents. This may occur, for example, if NAB requests a customer's latest tax return however the tax return has not been filed yet.

Areas where the customer's word may be sufficient include discussions on foreseeable changes to the customer's financial position or the customer's requirements and objectives. Responses are cross-referenced against information provided in the assessment and where discrepancies exist, further enquiry or verification may be necessary.