



17 August 2009

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

As Australia's leading consumer credit reporting agency, Veda Advantage welcomes the National Consumer Credit Protection Bill.

The NCCP legislation dovetails with Australian Law Reform Commission's (ALRC) recommendations to allow greater information on consumer credit reports. The ALRC specifically recommended account payment history, the most predictive element of credit stress, be introduced concurrent with responsible lending obligations.

Ensuring lenders meet their obligations under the NCCP Bill will be greatly assisted by better information on credit reports. Veda understands there is broad support for reform of consumer credit reports and awaits a formal Government announcement on policy and timing.

In considering reform to credit reporting provisions, the Senate will also become acquainted with debate over a practice referred to as "pre-screening." The submission from the Office of the Privacy Commissioner has specifically raised it in the context of the NCCP Bill.

By way of background, pre-screening ensures people with a bad credit history do not receive marketing material encouraging them to apply for further credit.

This is achieved by a credit reference agency removing people with defaults from mailing lists supplied by credit lenders. The list, now "pre-screened", is sent to a mailing house for onward posting of marketing material.

This harm reduction measure should be part of any responsible marketing strategy. The OPC however, raise concerns on privacy grounds, essentially because pre-screening "uses" credit reporting information (even though this information is *never disclosed*).

In the context of the NCCP Bill, OPC once again raise this issue:

*"The office is uncertain whether the requirement the Bill places upon licensees to conduct a preliminary assessment and make reasonable inquiries about a consumer's financial situation encourages and could be interpreted as sanctioning pre-screening activities."*

*OPC Submission, clause 27*

Veda sees no relevance between the provisions of the NCCP Bill and pre-screening.

However, in the broader question of responsible marketing and competition and the economy, Veda has significant evidence Honourable Senators should be aware of.

Access Economics researched the question of pre-screening and made significant findings about its impact on competition among credit providers and the quality of lending (default rates).

**Pre screening is critical for smaller institutions to compete**

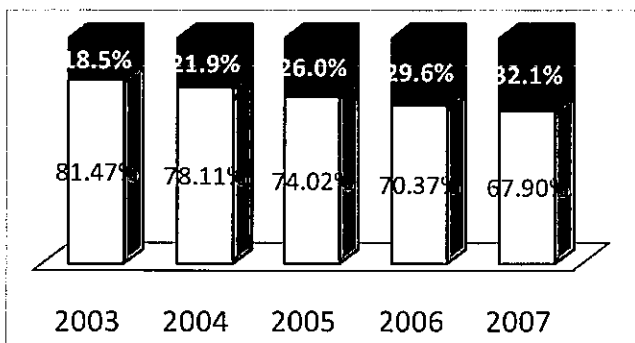
Without branch structure and facing entirely new-to-bank customers, pre-screening is critical to a new competitor attracting good risk customers.

Access Economics found that direct marketing accounts for between 7-10% of new accounts for domestic banks with a large branch network.

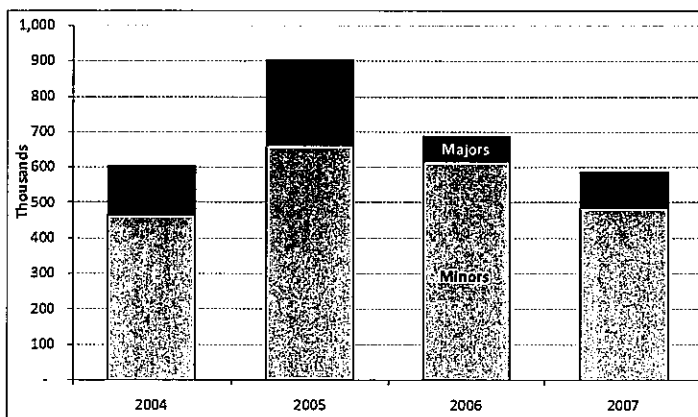
For smaller institutions, 30% of new accounts come from direct marketing.

**New competition helped shift the source of credit cards.**

In 2007, the four major banks account for 68% of all credit cards on issue. In 2003, that share was 81%.

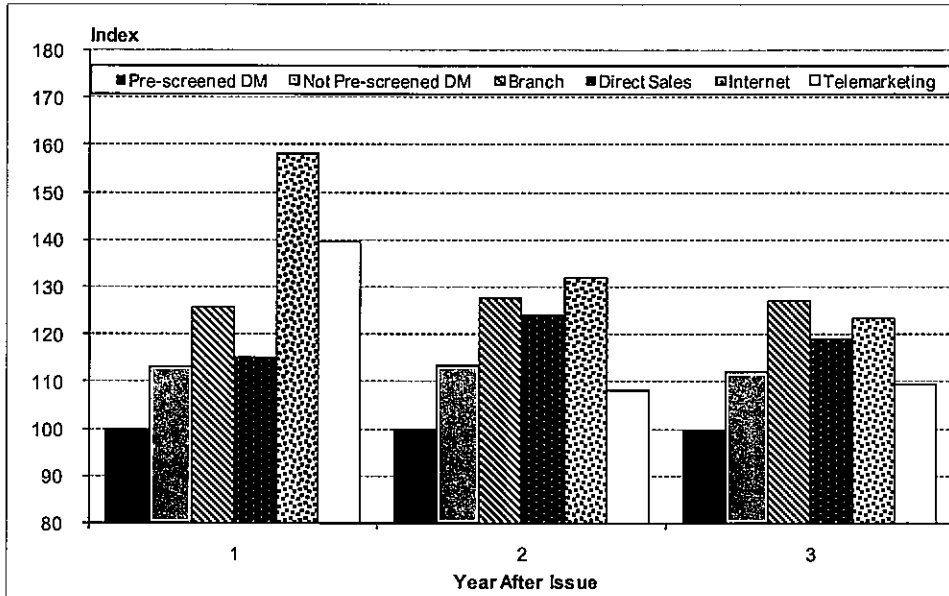


The trend in new credit card accounts shows that in recent years the significant majority of new credit card accounts are being issued by the non-majors, the most active user of pre-screening services:



## Credit applications from pre-screened offers have reduced incidence of defaults

Comparing default rates from various channels over three years from one lender, Access Economics found credit applications through pre-screened direct marketing consistently had the **lowest rate of defaults**.



## Conclusion

While Veda does not accept that provisions of the NCCP legislation relate to pre-screening, the work by Access Economics reveals the importance of pre-screening as a competitive tool for smaller lenders and as a means of attracting better risk applicants.

Veda looks forward to further discussion on this topic in the context of credit reporting reforms.

Yours sincerely

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