TAKE CHARGE: CREDIT REPORTING AND MILLENNIALS

Research commissioned by
Customer Owned Banking Association (COBA)

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Good Shepherd
Microfinance

INTRODUCTION

Australia's credit reporting framework has recently undergone a fundamental shift away from a negative only reporting system to comprehensive credit reporting (CCR). Under the changes, lenders can report additional information about borrowers including repayment history such as whether a borrower has paid all credit obligations in a given month, and whether payment was on time, late or missed.

This report investigates the knowledge and attitudes of millennials (consumers born between 1980 and mid-2000) towards credit. The report also considers future implications of the shift to CCR in Australia, including the potential use of non-traditional data to assess creditworthiness. Millennials comprise almost a quarter of the population and are the fastest-growing segment of the consumer lending market in Australia. As millennials apply for credit cards, personal loans, car loans and home loans in coming years, lenders will have a range of new tools to assess credit risk and determine millennials' access to credit.

This research, commissioned by the Customer Owned Banking Association (COBA), aims to stimulate discussion about the implications of changes to credit reporting for millennials among Australian consumers, policy makers and industry.

This report is based on a three-stage study conducted over a 12 week period, which relied on a primarily qualitative approach. This included: a comprehensive review of domestic and international literature, 15 semi-structured interviews across seven key informant groups, and two focus groups with 12 millennials. The findings presented are strictly informed by the literature and the qualitative data collected; they do not reflect the views of Good Shepherd Microfinance.

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Australia's 5.7 million millennials make up almost a quarter of the country's population

Young millennials
18-24 years of age

- More tech-savvy
- Value mobility and not being tied down. They are not interested in owning a home.
- More willing to share personal information, especially with big brands
- All about rewards and incentives

  More likely to see CCR as rewards based
- Searching for wealth and status generated through either their own business or investments
- Want it fast, want it now

Older millennials
25-35 years of age

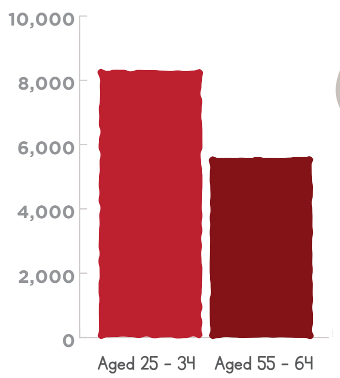
- Consider themselves to have technical initiative
- Owning their own home is an important aspiration
- More reserved about what information they share
- More traditional view of financial success

  See disadvantages associated with CCR
- Expect things and information quickly

Millennials have DEBT

Average personal debt

including credit card debt



Source: REST Industry Super

but not mainstream credit products

89% of young millennials do not have mainstream credit products

65% of older millennials do not have mainstream credit products

Source: Centre for Social Impact

40% of millennials do not know what a credit score is

73% of millennials are not aware of the CCR changes

48% of millennials are willing to make more effort to better understand their credit score

Millennials are REWARD driven

73% like the idea of getting a better deal because of a positive score

Source: Essential Research (2016), The Essential Report: COBA Questions.

EXECUTIVE SUMMARY

Despite being the fastest-growing segment for consumer loans, global and domestic research shows that young people are more likely to be 'thin file' or 'credit invisible' and are over-represented among financially excluded people. Credit providers rely on previous credit history to make decisions, yet without any prior credit usage, providers have limited to no visibility of the creditworthiness of this group. Their lack of access to mainstream financial products may also make this group vulnerable to predatory lending products.[1]

Our study finds that millennials have a lack of awareness of CCR, hence it will be imperative to raise their awareness to ensure the benefits of CCR are realised. Millennials do not know what data will be collected about them and they have little idea of how their behaviour will impact their creditworthiness now and in the future. Nearly two-thirds of millennials (64%) have never heard of, or do not understand, the term 'credit report', according to consumer research commissioned by COBA.[2] Targeted education and transparency of credit assessment decisions will therefore be essential.

This report divides millennials into two distinct groups — the young millennials (18 to 24 years of age) and the older millennials (25 to 35 years of age). The difference between the young and the older millennials lies in their technological capabilities, their attitudes, and the degree to which they are willing to share their personal information digitally. Some millennials — especially young millennials — could more readily see the benefits associated with having a better credit rating as an incentive or reward for 'good' credit behaviour. Others had some reservations, seeing the potential for some groups (such as young millennials, those with low incomes, migrants, and early-school leavers) being disadvantaged as they were more likely to be credit-invisible. However, some studies argue that these groups may benefit from the introduction of CCR if payment behaviour from other sources is able to be included in credit-making decisions.[3]

Overseas experience of credit reporting strongly supports the potential for non-traditional or alternative data to complement, rather than substitute, traditional credit data used to assess creditworthiness. Use of this data is particularly relevant for millennials as they generate broad alternative data sets about themselves through their digital behaviours including online payment and social media activity. Using alternative data to determine creditworthiness can open the door to better credit access for many millennials. As a first step, including utility and telecommunications data in credit reporting could facilitate new to credit consumers, such as millennials, to build a credit history without the necessity of borrowing.

More data captured and used by credit providers may mean greater opportunities for millennials and others who are 'thin file' or 'no file', but it also brings with it risks, particularly for young people who are generally unaware of how this data is captured and used. Potential risks include concerns that over-indebted consumers could be disproportionately impacted; data quality and integrity could lead to inaccurate or misinterpreted credit decisions; privacy and security of personal data; potential use of data for unauthorised purposes e.g. identity theft or fraud; cross-industry differences in data-capture methods and requirements; treatment of hardship or repayment history information; risk-based pricing; as well as a fear of increasing financial or social exclusion resulting from loan defaults.

Millennials are a generation that is willing to take control of their personal information and CCR may provide them with an opportunity to do so. However, their lack of awareness and knowledge gaps in relation to credit puts a responsibility on all stakeholders to ensure that these are addressed through targeted education. Having more engaged and responsible consumers also benefits lenders, and can provide a positive flow-on impact on the economy as a whole.

1 Centre for Social Impact (2013), Measuring Financial Exclusion in Australia, The Centre for Social Impact for National Australia Bank.

2 Essential Research (2016), The Essential Report: COBA Questions.

3 Turner, M., Lee, A., Varghese, R., Walker, P. and Dusek, K., (2009), Credit Reporting Customer Payment Data: Impact on Customer Payment Behavior and Furnisher Costs and Benefits, PERC, USA.

Millennials want to hear three simple messages about CCR

Your credit and other financial decisions follow you

There are rewards from having a good credit history such as a better interest rate

There are consequences to poor decisions that can impact your ability to get the things you want

CCR SNAPSHOT

Competition in the credit market is fierce and lenders today must assess the creditworthiness of consumers quickly and accurately. Typically, lenders rely on credit assessments that detail a person's credit history. Lenders manage credit risk based on the principle that a person's use of credit in the past is the best predictor of their use of credit in the future. Lenders use internal records and information from credit reporting bureaus to create 'credit scores' that indicate the likelihood of a consumer defaulting on their loan.

In March 2014, after more than a decade of lobbying, the Australian Privacy Act 1988 (the Act), was amended to introduce comprehensive credit reporting (CCR). This marked the transition from negative only reporting to the introduction of positive reporting and brings Australia in line with the rest of the OECD nations. This system allows licensed credit providers to access more information to make better lending decisions, including additional information about the number and type of accounts held by a consumer, as well as their repayment history information.

CCR is a vital piece of Australia's economic infrastructure as it can facilitate more accurate pricing of credit, promote responsible lending, reduce over-indebtedness and default rates, and increase access to credit for those previously underserviced or excluded. Despite this, the uptake of CCR has been slow among Australian credit providers. CCR is currently voluntary with very few lenders capturing comprehensive data on customers and even fewer lenders exchanging comprehensive data. Research commissioned by COBA found that 78% of consumers were unaware of recent changes introducing CCR and 58% either do not understand or have never heard of a 'credit report'.[4]

Much of the literature reviewed for this study argues that CCR can result in proactive and empowered customers. Some studies suggest that at every point in the customer lifecycle, credit providers can make better-informed decisions balancing credit and risk with greater certainty resulting in "increased insight, reduced risk and improved profitability for lenders".[5] Other studies argue that CCR can lead to lower barriers to entry for competition and drive differentiated offers in the market.

These arguments were generally supported by the feedback provided by key informants of this study, who claimed that CCR could provide benefits to all players in the credit reporting ecosystem as shown in the next diagram.

4 Essential Research (2016), The Essential Report: COBA Questions.

5 VEDA (2011), Veda Pilot Study, https://www.veda.com.au/insights/comprehensive-reporting/vedas-comprehensive-reporting-pilot-study

Credit Providers

- Increased lending
- Fairer lending
- More accurate pricing
- Reduced bad debt
- Increase profitability
- Better lending decisions
- Drive innovation and more tailored products
- Cost savings
- Identify early signs of financial stress

Consumers

- Increased access
- Increased competition
- Lower interest rates
- Rewards good behaviour
- Faster recovery from adversity
- Quicker to establish credit history
- More balanced and transparent
- Reduced fringe lending
- Promotes inclusion

Regulators

- Easier to monitor both individual lenders and credit market as a whole
- Compliance with responsible lending requirements
- Signals warning of impending problems and systemic failures

Economy

- Reduced over indebtedness
- Lower default rates
- Better managed credit risk promotes financial stability
- Better financial services efficiencies and affordable growth in domestic consumption

Figure 1
Key Informant Interviews: Summary of Benefits

With new financial service providers and financial technology (fintech) disruptors in the market, traditional methods for granting credit may change. For example, internationally regulated businesses that collect financial data on consumers (such as eBay and PayPal) and non-traditional data (such as location and usage activity captured by Uber) may have the potential to understand a consumer's financial circumstances in a way that may be able to predict a customer's credit risk accurately.[6]

Several key informants interviewed for this study mentioned that the Productivity Commission Inquiry into Data Availability and Use ('the Inquiry') will look at these issues and also investigate the uptake and efficacy of the current CCR framework, as well as look at future innovation.

6 Kellerman, B. (2016), Alternative data sourcing for establishing the true credit picture, www.bankingday.com

CCR AND MILLENNIALS

Overseas literature on millennials points to this consumer group adopting a very flexible attitude to sharing information publicly. Millennials also exhibit a lack of loyalty towards mainstream credit providers and report being open to using non-traditional services. In the UK, this is demonstrated by a trend towards digital banks, which is proving particularly appealing to younger people.

The international literature highlights rapidly growing services that enable individuals to create and manage their credit history proactively. However, awareness of CCR is so low in Australia that it is difficult to say if there is real potential for a service like this to assist Australian consumers to enter the credit market or rebuild their credit history. Tech-savvy millennials could however be well placed to take advantage of this opportunity as their understanding of CCR and its implications develop over time.

The potential use of non-traditional data to determine creditworthiness is particularly pertinent to this cohort, as they are more likely to be 'no file' or 'thin file' consumers. Using alternative data can, therefore, open the door to better credit access for many millennials. As a first step, including utility and telecommunications data in credit reporting can facilitate new to credit consumers, such as millennials, to build a credit history without the necessity of borrowing.

AUSTRALIAN MILLENNIALS

Australia's 5.7 million millennials make up almost a quarter of the country's population. Compared to previous generations, Australian millennials have different patterns of spending, borrowing and asset accumulation.

Research by REST reveals that Australian millennials are acquiring housing and other long-term assets later than previous generations and do not have appropriate insurance to protect them in case of unexpected events for example, losing their jobs, with many of them taking out debts to cover their educational expenses.[7] Despite this, the research finds that millennials are primarily spending on basic needs and essentials rather than unnecessary goods and services, suggesting they are not careless with their finances.[7]

The following statistics relating to millennials were noted in the REST survey[7]:

Average personal debt

$8,300

for those aged 25–34

36%

Over a third of millennials do not have a credit or store card

74% 18 to 20 year olds
19% 31 to 35 year olds

Pay balance every month

50% of 18 to 20 year olds
35% of 21 to 25 year olds
44% of 26 to 30 year olds
46% of 31 to 35 year olds

Median debt

$1,001–$2,000

35% have debts in excess of $3,000

26%

Just over a quarter of millennials have a personal loan

Most commonly, 26 to 30 year olds with the median outstanding debt between $5,001 and $10,000.

Key Attitudes, Preferences, and Opinions

Young millennials

- More tech-savvy
- Want it fast, want it now
- More willing to share personal information, especially with big brands
- All about rewards and incentives
- Value mobility and not being tied down
- Not as interested in owning a home
- Searching for wealth and status generated through either their own business or investments
- More likely to see CCR as rewards based

Older millennials

- Consider themselves to have technical initiative
- Expect things and information quickly
- More reserved about what information they share
- Owning their own home is an important aspiration
- More traditional view of financial success
- See disadvantages associated with CCR

Figure 2
Millennials Focus Groups: Key Attitudes, Preferences, and Opinions

Attitudes and awareness

Australian millennials exhibit a significant lack of awareness of CCR and what it might mean for them. Polling of 300 millennials indicated that 36% had heard the term 'credit report' and understood what it meant while only 27% were aware of the recent shift to a CCR system.[8] Our focus group participants clearly demonstrated this lack of awareness stating "zero people would know the term exists." None of the focus group participants could define what a scorecard was or how to access their credit files.

We divided millennials into two distinct groups — the 'young' millennials (18 to 24 years of age) and the 'older' millennials (25 to 35 years of age). The difference between the young and the older millennials lies in their technological capabilities, their attitudes, and the degree to which they are willing to share their personal information digitally. While young millennials said that they would willingly share their personal information with well-established sites such as Uber, PayPal and Facebook, older millennials were less enthusiastic and more wary of doing so. The distinct attitudes, preferences, and opinions of these two millennial groups are highlighted above.

It is hard to overstate the importance of technology and connectedness to millennials, especially younger millennials, and the pace is accelerating. The focus group findings show that millennials are a tech-savvy group who are accustomed to getting things fast. They are of a generation where the 'I' takes precedence, where personal brands are cultivated and created online and where the social-political environment, with its focus on health and wellbeing, encourages self-expression. While millennials are not loyal to any particular brand, trust is a key factor in their purchasing decisions and in their willingness to share private information. Millennials correlate big brands and presence (whether online or otherwise) with being more trustworthy and reputable.

7 White Paper (2011), WealthStyle: Gen Y's Spending, Saving and Debt Choices, REST Industry Super.

8 Essential Research (2016), The Essential Report: COBA Questions.

Equifax found millennials say credit cards have a negative stigma and view them with both caution and practicality.[9] Our focus groups confirmed that millennials do not like the idea of being in debt. Heavily in debt with student loans already, millennials are refusing credit cards but are happy to take out loans for luxury items such as holidays and cars. While the idea of owning a home is a dream for many, several have resigned themselves to the notion that it is an unreachable aspiration. The Co-op's Future Leader Index confirms this, finding that 8 in 10 young people are concerned about the mortgage debt they will face over their lifetime, with 87% believing that many of their generation will never own their own home outright.[10]

The Centre for Social Impact has found that although demand for credit and insurance is likely to be lower among 18–24 year olds, a large proportion of this population (89%) do not have any mainstream credit products.[11] Lack of access to mainstream products makes this group vulnerable to predatory lending products and the loss of uninsured assets.[11] The majority of our key informants spoke of the benefits of CCR to millennials, particularly with the use of alternative data to complement it, and argued that it will enable credit providers to widen their assessment of risk and improve accessibility for creditworthy millennials.

Research by COBA revealed that 58% of millennials are interested in their credit score although 64% of millennials surveyed have never heard of, or do not understand, the term 'credit report'.[12] These findings are concerning since it is the millennials, making up around 25% of the population, who will be the largest wave of consumers entering the credit market for 'big ticket items' including houses and cars; yet, it also highlights an opportunity.

73% of millennials are unaware of the change to comprehensive credit reporting

Millennials want to know more about CCR

Our research showed that millennials are keen to learn more about CCR despite having a very low level of awareness of it. CCR brings potential benefits and challenges for this group.

Some millennials — especially young millennials — say they see the advantages of CCR because it offers an incentive with a reward attached. For example, you may be rewarded with a lower interest rate in return for good behaviour. Others had some reservations and could see the potential for some groups, such as young millennials, those with low incomes, migrants, and early school leavers being disadvantaged. However, evidence suggests that migrants and early school leavers may be beneficiaries of CCR due to an expanded data set improving access where the previous system failed.[13] Therefore, reservations were likely related to a lack of awareness and risk-based pricing as an outcome of CCR, though the term risk-based pricing was not specifically used.

Risk-based pricing can be a positive for consumers with a higher credit rating, who will potentially be able to access lower-cost credit with CCR. However, some of the participants in this study expressed concern that this could result in higher costs for vulnerable Australians who can least afford credit. This is a risk in Australia and could negatively impact millennials and other 'thin file' consumers.

Dynamic pricing, where constant and immediate pricing variations can result from any changes to personal circumstances, for example, divorce, moving house or losing employment, is seen as less of a threat in Australia, thanks in large measure to policy and regulatory frameworks that protect consumers.

Millennials in our focus groups expressed concern about being disadvantaged in these pricing scenarios because they have not established the history or the income required, for strong credit scores and do not feel they have the power to effectively negotiate with their credit provider. However, they are able to build up their history more quickly in a comprehensive reporting regime.

9 Equifax (2014), 'Straight Talk from the Next Generation of Credit Card Customers'.

10 Co-op Future Leaders Index White Paper (2016), Spending, Saving & Debts, A detailed study of Australia's 18–29 year olds

11 Centre for Social Impact (2013), Measuring Financial Exclusion in Australia, The Centre for Social Impact for National Australia Bank, June.

12 Essential Research (2016), The Essential Report: COBA Questions.

13 Turner, M., Lee, A., Varghese, R., Walker, P. and Dusek, K., (2009), Credit Reporting Customer Payment Data: Impact on Customer Payment Behavior and Furnisher Costs and Benefits, PERC, USA.

Educate, educate, educate

Millennials are willing to take control of their personal information and CCR may provide them with an opportunity to do so. Stakeholders all share responsibility for addressing the knowledge gap, and lenders who are proactive in educating their customers about CCR also stand to benefit from more engaged and aware consumers. As consumers become more knowledgeable, a fundamental shift is likely to occur in the way consumers approach credit.

Young millennials in our focus group suggested some creative ways in which CCR awareness can be enhanced among the Australian public generally, and with millennials specifically. This included online and viral campaigns that are eye-catching with messages that relate to the everyday experience of millennials and that carried some type of reward. For example, TV advertisements that used a catchy jingle focusing on a single consequence of a poor credit score. Other ideas included the development of education websites and not-for-profit education initiatives targeting people with low financial literacy and marginalised communities.

Millennials want to hear three simple messages about CCR:

Your credit and other financial decisions follow you

There are consequences to poor decisions that can impact your ability to get the things you want

There are rewards from having a good credit history such as a better interest rate

The focus group participants all agreed that the responsibility to educate the public rested with credit providers, government, peak bodies, and parents. The participants also highlighted the need for schools to act as a significant player in raising awareness, not just on issues relating to CCR but financial literacy more broadly.

The fintech sector also has a major role to play, since they have ‘speed to market’ advantage with millennials. So too do consumer advocate groups, whose responsibility it will be to educate the people they represent so they are clear on the changes and the impacts. This will help mitigate some of the concerns and risks associated with financial exclusion and disadvantage for those represented by the advocacy groups. The Australian Retail Credit Association has developed the CreditSmart website[14], which provides simple and easy to understand information for consumers, but there is more that should be done. With respect to millennials, messages around CCR should be simple and speak to their specific experience.

14 http://creditsmart.org.au/

THE ROLE OF ALTERNATIVE DATA TO ASSESS CREDITWORTHINESS

Overseas experience with credit reporting strongly views non-traditional or alternative data as a complement, rather than a substitute, for traditional credit data.

Alternative data is particularly important for millennials as it can increase access and affordability of credit for those who are 'thin file' or currently excluded from the market, as well as reduce default rates. These 'no file' or 'thin file' consumers can get trapped in a catch-22: to obtain credit, they have to be using credit. Expanding the type of data contained in a credit file can make these consumers 'visible' and open doors for those who are currently kept out of the credit market.

Alternative data includes industries (retail, telecommunications, utilities such as energy and water), products (for example, insurance and superannuation) and even public records. In recent years, the use of lifestyle and behavioural data, such as social media, is also being investigated to predict credit behaviour. Our study found that there is no universally accepted definition of alternative data and the term meant different things to different key informants.

The current CCR system only allows Australian Credit Licence holders to report repayment history information. This excludes providers such as telecommunication and utility companies, from reporting or accessing repayment history data. Informants representing both the consumer and industry perspectives say that widening the current CCR system to use alternative data must take into consideration potential impacts (both positive and negative) on financial inclusion, responsible lending, and competitive advantage.

In expanding CCR to include non-traditional data, consideration should be given to predictive value and financial inclusion. The literature provides compelling evidence for the use of some forms of alternative data (telco and utilities are indicated as highly predictive) for recently arrived migrants, the elderly, widows, divorcees and young people.[15] Some consumers in these groups may be less likely to have had access to credit or established a positive credit history.

Accion and the Centre for Financial Inclusion launched The Financial Inclusion 2020 Roadmap[16] in 2013, which presented five focus areas for increasing financial inclusion globally. The Roadmap highlights the value of alternative data as a tool for promoting financial inclusion suggesting that data, such as bill, phone, and rent repayments along with transaction data, as sources for determining the creditworthiness of excluded individuals.[16] However, the potential impact of including lifestyle and behavioural information to make credit assessments for groups that are financially excluded in Australia is yet to be determined.

CCR has the potential to facilitate responsible lending if the information provided to credit providers could help them to prevent vulnerable individuals from becoming financially overcommitted.[17] The use of alternative data in this context could enable lenders to make better and more responsible credit decisions as it can provide a more complete picture of consumers and their individual situations. For lenders, the use of alternative data may open the door to customers who have previously been outside their consumer base and could foster more innovation and the design of user-centred products and services.

15 Turner, M., Lee, A., Varghese, R., Walker, P. and Dusek, K. (2016), Credit Reporting Customer Payment Data: Impact on Customer Payment Behavior and Furnisher Costs and Benefits, PERC, USA.

16 ACCION (2013), Credit Reporting for Full Financial Inclusion: Financial Inclusion 2020, Credit Reporting Working Group, September, Washington.

17 Commonwealth of Australia (2008), For Your Information: Australian Privacy Law and Practice Report, Australian Law Reform Commission.

DATA USAGE AND PREDICTIVE VALUE

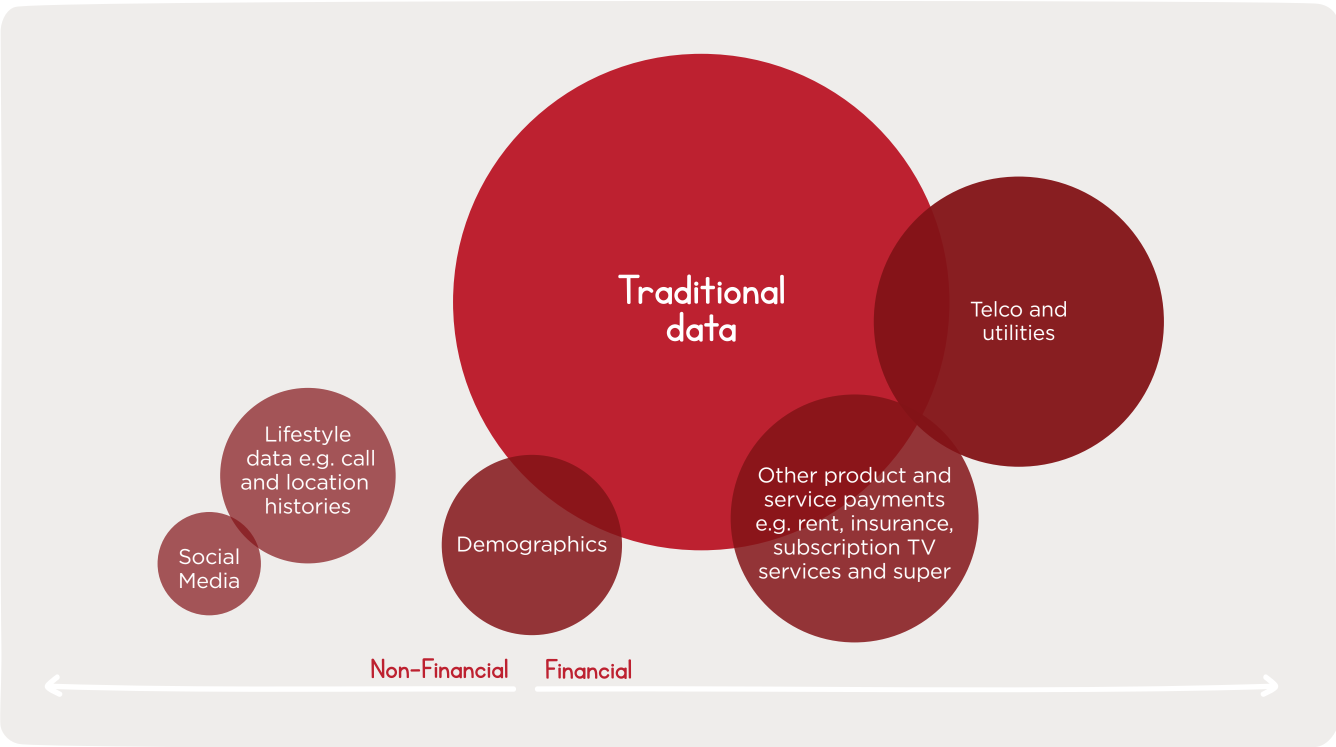


Figure 3
Good Shepherd Microfinance: Understanding data usage and predictive value

Alternative data also has the potential to enhance competition in the marketplace by allowing smaller lenders, who lack proprietary credit history data, to enter the market. In an effort to achieve this, Fintech Australia, formed in February 2016, is currently advocating for rule changes to attract more competition in the finance sector. Requests are being made for mandatory reporting to credit bureaus that would require authorised deposit-taking institutions (ADIs) to provide "more comprehensive data about customers' borrowing histories" and to allow outsiders to access their IT systems to aid in the development of innovative products.[18]

18 Eyers, J. (2016), Data Wars: The Banks Awaken, Australian Financial Review, Australia.

THE ROLE OF BIG DATA AND THE FINTECHS

Millennials are early adopters of the financial products and services emerging from the fintech revolution. In emerging markets, these early adopters are primarily using fintech products as complementary services for transactions where traditional options fail.[19] The demand for fintech products as an alternative to existing services is strong among this cohort of consumers; these new product entrants are appealing to consumers by being quick and convenient while providing good customer service and support.[19]

Internationally, some fintechs are relying on multiple forms of non-traditional data (for example, mobile call histories, internet usage patterns and social media activity) to create new approaches for assessing consumer risk. In many cases, the individual consumer, as support for their credit application, gives these service providers explicit access to their broader personal data set. While this practice is being used mainly by start-ups that grant smaller loans, some mainstream players claim to be considering incorporating more extensive behavioural data sets into their assessment process, although they admit the predictive value of social media is under question.[20]

The usefulness of some big data sets, such as social media data (e.g. Facebook) to determine creditworthiness, has raised further questions about data integrity. When asked about the predictive value of lifestyle, behavioural, and social data, our key informants questioned the use of these forms of alternative data for assessing creditworthiness. However, they did agree that they could be useful to prevent identity theft and fraud.

In the US, regulation has been recently introduced to prevent the use of social media behaviour to assess creditworthiness.[21] Facebook Inc. has taken steps to limit outsiders' access to its data while some start-ups have concluded that using the data for financial purposes does not come across well to consumers.[21] The role fintechs will play in the Australian market is yet to be seen and with the vast amount of data millennials, and consumers in general, are creating on a daily basis, issues of privacy and consumer trust will continue to be top of mind in this debate.

19 Costa, A., Deb, A., and Kubzansky, M. (2015), Big Data, Small Credit: The Digital Revolution and Its Impact on Emerging Market Consumers, Omidyar Network.

20 FICO (2015), 'Can Alternative Data Expand Credit Access', Insights White Paper No 89, Fair Isaac Corporation.

21 Demos, T., and Seetharaman, D. (2016), 'Facebook Isn't so Good at Judging your Credit Afterall', The Wall Street Journal, 24th February, www.wsj.com/articles/lendersdropplanstojudgeyoubyyourfacebookfriends1456309801, accessed 4th March 2016.

CONCLUSIONS

Our study concludes that millennials lack an understanding of credit in general and CCR in particular — it is therefore imperative to raise their awareness in order to ensure they are able to realise the benefits of CCR. As they are unaware of CCR and the data that will be collected about them, including their actively created personal data sets, these consumers have very little idea of how their behaviour will impact their creditworthiness now and in the future. Transparency of credit assessment and education will be essential.

Our key informants and focus groups agreed that education and awareness raising should be the responsibility of key stakeholders including government, peak bodies, consumer advocates, credit reporting agencies and credit providers. Some key stakeholders, such as ARCA, VEDA and ASIC, have already developed useful products. For credit providers, there is an opportunity to develop education products that help customers better understand the changes and the benefits of CCR.

Identifying and addressing deficiencies in the current system that impact lending decisions, indebtedness, transparency, consent, privacy and data integrity is critical for moving forward. The culture, integrity and prudence of credit providers has a significant impact on responsible lending more than the credit reporting system.

Key informants highlight that some Australian consumers are giving consent without fully understanding what their data is being used for. While we could not identify specific Australian studies on this topic, the anecdotal feedback from key informants expressed their concern of using such data in the absence of explicit consent and consumers fully understanding how their private data is being used.

It is possible that CCR may increase the overall amount of credit being issued and therefore, in some segments of the consumer credit market, more people could experience the negative impacts of inappropriate credit or default.[22] At the same time, innovation and competition must be allowed to thrive with balanced benefits to consumers, industry, and the economy. Identifying and addressing deficiencies requires dialogue between all stakeholders and the establishment of clear guidelines and processes. Initiatives that facilitate this discussion, such as conferences, working groups, and committees, will go a long way to progressing this.

For millennials, telecommunications and utility payments are often their first entry to credit. Until this data can be fully incorporated into the CCR regime in Australia, many younger millennials (18 to 24 year olds) and other 'thin file' or excluded consumers will continue to be disadvantaged. Enabling these demographics to demonstrate good repayment history through mobile phone and utility accounts is currently a missed opportunity.

Data in the credit reporting system is regulated by the Privacy Act making its use very prescriptive, however, alternative data is not subject to the same level of scrutiny. While the guidelines cover the collection, use, and disclosure of personal information and consumer consent, a key area to investigate further is the attitude of millennials and other consumers around giving implicit versus explicit consent. This is particularly true where alternative data will be used for credit making decisions.

Furthermore, while there is general support for the potential use of alternative data to determine creditworthiness, informants clearly recognise that some data may be more valuable. Overall, the informants agreed that for Australia to reap the benefits of using alternative data as part of CCR, there is still much work to be done to adapt to Australia's unique context. This includes a comprehensive consideration of what data sets will be collected (for example, lifestyle, location, or social media), how information will be used (for credit making decisions or to verify identity) and who will have access to the data (such as credit reporting agencies, ADIs, and fintechs). Key informants are hoping the current Inquiry will debate and provide guidance on these issues.

22 Consumer Action Law Centre (2007), Discussion Paper 72: Review of Australian Privacy Law.

ACKNOWLEDGEMENTS

We would like to thank the Customer Owned Banking Association (COBA) for commissioning this important scoping study into the implications of CCR for millennials in Australia, which has so far been under-researched.

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The Essential Report

COBA questions

31 May 2016

Prepared By: Essential Research

Essential. RESEARCH

Data Supplied:

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Our researchers are members of the Australian Market and Social Research Society.

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About this poll

This report summarises the results of a weekly omnibus conducted by Essential Research with data provided by Your Source. The survey was conducted online from the 26th to 29th May 2016 and is based on 1,007 respondents.

This report includes questions on credit reports.

The methodology used to carry out this research is described in the appendix.

Note that due to rounding, not all tables necessarily total 100% and subtotals may also vary.

Awareness of credit reports

QUESTION

Do you understand the term 'credit report'?

	Total	Men	Women	Aged 18–34	Aged 35–54	Aged 55+
Yes, I know what it means	42%	48%	36%	36%	41%	48%
I've heard the term but don't know what it means	37%	34%	41%	39%	38%	34%
Never heard of it	21%	18%	23%	25%	21%	18%

Awareness of changes to credit reports

QUESTION

A 'credit report' is information about a person's credit history which is collected and used by banks, credit unions and other lenders when they assess applications for loans and credit cards. Are you aware that there have been changes to the type and extent of information collected and used by credit providers?

	Total	Men	Women	Aged 18–34	Aged 35–54	Aged 55+
Yes	23%	26%	20%	29%	21%	19%
No	77%	74%	80%	71%	79%	81%

Awareness of comprehensive credit reporting

QUESTION

Under the new system known as 'comprehensive credit reporting' a much wider range of information will be collected about you and made available to lenders. For example, your credit report will show if you are overdue in making a bill repayment or late in repaying loans. Your credit file will also show details of your credit cards limits. The information will be shared with other credit providers such as banks, credit unions and other lenders. Were you aware of this change?

	Total	Men	Women	Aged 18–34	Aged 35–54	Aged 55+
Yes	22%	26%	18%	27%	20%	20%
No	78%	82%	74%	73%	80%	80%

Response to CCR

QUESTION

Under Comprehensive Credit Reporting, consumers will be able to achieve a positive credit rating by paying credit card bills and loan repayments on time, but if you're late by more than 15 days, this will negatively impact your credit report. Which of the following statements apply to you?

	Total	Men	Women	Aged 18–34	Aged 35–54	Aged 55+
I will have to make changes to the way I manage paying credit card bills and loan repayments to make sure they are on time.	18%	21%	16%	29%	18%	6%
I won't need to make changes as I always pay the credit card bills and loan repayments before or on the date due.	63%	61%	64%	56%	65%	66%
I wasn't aware of these changes and I've been pretty lax in the past with some bills, paying them after the due date.	19%	19%	19%	28%	19%	8%
I am going to make even more effort because I can see my credit file may be really important in the future.	36%	34%	38%	49%	36%	20%
I am going to find out my credit score because one day I might like to buy a home of my own.	29%	28%	29%	48%	26%	10%

Statements about CCR

QUESTION

The CCR changes are similar to systems in the US and UK. In these systems, consumers with good credit reports can use their credit score to get a better deal from credit providers (such as banks, credit unions and other lenders). Do you agree or disagree with the following statements about this system?

	Total Agree	Total Disagree	Strongly Agree	Agree	Disagree	Strongly Disagree	Not sure
I like the idea of getting a better deal because of a positive score, it's my reward for managing my money.	79%	7%	38%	41%	5%	2%	15%
I'm worried that it could mean I don't get a good deal if I have a bad credit report.	47%	36%	12%	35%	20%	16%	17%
I can see how I could miss out on getting a good deal on a loan if I don't pay bills on time.	71%	13%	20%	51%	7%	6%	15%
I can see how the system is designed to reward people who make payments on time.	76%	10%	31%	45%	6%	4%	14%
I want to learn more about this and find out my credit score.	54%	24%	18%	36%	17%	7%	23%

Aged 18–34	Total agree	Total disagree	Strongly agree	Agree	Disagree	Strongly disagree	Not sure
I like the idea of getting a better deal because of a positive score, it's my reward for managing my money.	72%	9%	36%	36%	6%	3%	18%
I'm worried that it could mean I don't get a good deal if I have a bad credit report.	53%	29%	16%	37%	20%	9%	18%
I can see how I could miss out on getting a good deal on a loan if I don't pay bills on time.	71%	11%	23%	48%	6%	5%	18%
I can see how the system is designed to reward people who make payments on time.	71%	13%	27%	44%	8%	5%	16%
I want to learn more about this and find out my credit score.	58%	20%	18%	40%	15%	5%	22%

Likelihood of taking actions

QUESTION

How likely are you now to take any of the following actions?

	Very likely	Somewhat likely	Not very likely	Not sure
Set up direct debits to ensure loans are paid on time.	23%	26%	37%	13%
Schedule loan repayments for payday.	20%	24%	40%	15%
Get a copy of my credit report so I know where I stand.	19%	31%	31%	19%

Aged 18–34	Very likely	Somewhat likely	Not very likely	Not sure
Set up direct debits to ensure loans are paid on time.	25%	34%	24%	17%
Schedule loan repayments for payday.	23%	29%	30%	18%
Get a copy of my credit report so I know where I stand.	22%	36%	23%	19%

Appendix: Methodology, margin of error and professional standards

The data gathered for this report is gathered from a weekly online omnibus conducted by Your Source. Essential Research has been utilizing the Your Source online panel to conduct research on a week-by-week basis since November 2007.

Each week, the team at Essential Media Communications discusses issues that are topical and a series of questions are devised to put to the Australian public. Some questions are repeated regularly (such as political preference and leadership approval), while others are unique to each week and reflect media and social issues that are present at the time.

Your Source has a self-managed consumer online panel of over 100,000 members. The majority of panel members have been recruited using off line methodologies, effectively ruling out concerns associated with online self-selection.

Your Source has validation methods in place that prevent panelist over use and ensure member authenticity. Your Source randomly selects 18+ males and females (with the aim of targeting 50/50 males/females) from its Australia wide panel. An invitation is sent out to approximately 7000 – 8000 of their panel members.

The response rate varies each week, but usually delivers 1000+ interviews. In theory, with a sample of this size, there is 95 per cent certainty that the results are within 3 percentage points of what they would be if the entire population had been polled. However, this assumes random sampling, which, because of non-response and less than 100% population coverage cannot be achieved in practice. Furthermore, there are other possible sources of error in all polls including question wording and question order, interviewer bias (for telephone and face-to-face polls), response errors and weighting. The best guide to a poll's accuracy is to look at the record of the polling company — how have they performed at previous elections or other occasions where their estimates can be compared with known population figures. In the last poll before the 2010 election, the Essential Report estimates of first preference votes were all within 1% of the election results.

The Your Source online omnibus is live from the Wednesday night of each week and closed on the following Sunday. Incentives are offered to participants in the form of points. Essential Research uses the Statistical Package for the Social Sciences (SPSS) software to analyse the data. The data is weighted against Australian Bureau of Statistics (ABS) data.

All Essential Research and senior Your Source staff hold Australian Market and Social Research Society (AMSRS) membership and are bound by professional codes of behaviour. Your Source is an Australian social and market research company specializing in recruitment, field research, data gathering and data analysis. Essential Research is a member of the Association Market and Social Research Organisations (AMSRO). Your Source holds Interviewer Quality Control Australia (IQCA) accreditation, Association Market and Social Research Organisations (AMSRO) membership and World Association of Opinion and Marketing Research Professionals (ESOMAR) membership. Both Essential Research and Your Source are ISO accredited market research companies. This research was conducted in compliance with AS: ISO20252 guidelines.

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