

REVOLUTION IN RISK MANAGEMENT

An economist has proposed that the federal government establish a central electronic clearinghouse for residential, personal and business credit originated in Australia.



NEELSH KALE

A new clearinghouse, to be called the National Electronic Credit Register (NECR), would help regulators “think more creatively about how they monitor, measure and ultimately manage risk”, according to high profile economist and Rismark International managing director, Chris Joye, a keynote speaker at the LIXI Industry Forum in Sydney earlier this month.

“I have put this to government economists and industry participants, and they have, without exception, enthusiastically embraced it. Thus the only thing preventing us from implementing this policy is political will,” Joye said.

“If you think about it, credit is effectively an over-the-counter (OTC) contract. There is no centralised exchange novating the relationship between the parties as we see, for instance, with companies listed on the stock exchange, or with listed derivatives and futures contracts. In the latter cases, the ASX acts as both a contractual and informational intermediary. NECR’s role would be purely around the aggregation and transmission of information between parties,” Joye said.

“As we discovered during the GFC, one of the profound shortcomings associated with OTC markets is that they effectively eviscerate transparency. The only people who know what is going on are the counterparties themselves. This causes significant ‘information asymmetries’ that destroy confidence, and is one of the principal explanations for the evaporation of liquidity in many markets during the crisis.

“In Australia, APRA and the RBA do collect a great deal of ex post facto credit data. But this is normally aggregated information and does not tell them much about the individual loan-by-loan risks. It also does not necessarily furnish them with any insights into the ex ante, or before the event, credit assessment standards employed by lenders.”

The establishment of NECR would “presumably be very straightforward”.

“All Australian lenders have electronic lodgment processes and there are standardised communications formats that allow lenders to communicate with one another - in the mortgage market this is known as LIXI,” Joye said.

“APRA, the RBA, and ASIC (to cover the non-banks) could, therefore, simply

insist that any licenced entity involved in the creation of personal, residential or business credit sends NECR a simple data packet upon the settlement and, notably, discharge (i.e., repayment) of every single loan. The lender’s transmission to NECR would contain, amongst other things:

1. A unique loan identification code (so that NECR can track the loan);
2. The loan amount;
3. The loan type (e.g. 3 year fixed)
4. The interest rate;
5. The settlement and discharge date;
6. The collateral value (e.g. property value);
7. The collateral address; and
8. Importantly, a nationally-defined debt serviceability standard measuring the ability of the borrower to meet the repayments on the loan (all lenders use these in one form or another, so it should be easy to define a standard metric that they have to supply, which in turn would allow us to make cross-sectional comparisons of ex ante credit quality for the first time).

“NECR might also provide the architecture required for the transmission of broader customer information between counterparties.

“That is, it might help resolve the current bottlenecks around customers ‘switching’ accounts between institutions, the manifold difficulties associated with which stifle competition.

“I am told that one of the chief obstacles to switching is the absence of the necessary electronic linkages between institutions involved in the deposit-taking and/or credit creation business.

“NECR could be employed as a centralised hub that any institution could use to transfer customer data to another once they are instructed to do so by a customer.”

“A NECR would also ‘revolutionise’ the RBA and APRA’s approach to risk-management.”

Joye said in an environment in which the relationship between the state and the various institutions it regulates is more intertwined, “NECR seems like a reasonable aspiration”.

“It would also make an important contribution to helping insulate Australia’s financial system from the next crisis, which could originate much closer to home.” **ABF**

LOOKING TO THE FUTURE



With LIXI consolidating its presence within the banking industry, its chief executive, Erik Fenna, discussed where LIXI and the industry are headed.

ONE OF THE aims of LIXI in the future is to incorporate professionals outside of the lending chain.

High on that list is financial planners.

“The reality is financial planners deal with the exact same data that we deal with in lending,” Erik Fenna told the annual LIXI Forum.

“If they deal with that data surely they should be able to send and receive that data, and they should do that via the standards of various varieties.”

LIXI are also looking at the concept around iterated lodgment from pre-approval through to product negotiation through to formal approval, and then modifiable prior to settlement – “where you don’t just wait and wait and wait and then send the home loan application into a lender.

“You have a process by which a lender will allow a iterative lodgment – you send in a little bit of data and you get an indication back, you send in more data and you get more data back. Ultimately you can get things like serviceability metrics back, you can get product recommendations back, and ultimately it goes through to the loan approval process, and if there’s planned rework required – rather than rework as a result of error – then that rework can be done through the same iterative lodgment process.”

Cross-selling opportunities at lodgment is also in the sights of LIXI.



Erik Fenna

NEELSH KALE

“We’re looking at how cross-selling can be tied into either one single standard or, as it moves through the stream of processing, it can be split into different components, pulling out different parts of that data, all again with a common understanding of what that data is.”

The control of business rules and the data standards that they relate to is another area of focus for LIXI.

“The feedback to us has been lenders want to have more control over the quality of broker lodgment, and so we’re looking at a way to allow lenders to have direct control of that.” **ABF**

ELECTRONIC REPORTING

SPEAKING THE SAME LANGUAGE

The Australian Government-backed Standard Business Reporting (SBR) went live from 1 July this year, offering Australian businesses, accountants, bookkeepers, tax agents and payroll professionals a quicker and simpler way to complete and lodge reports with a dozen State and Federal government departments using a single secure sign-on credential known as AUSkey.

So far the SBR project has seen its single reporting language adopted by 12 government agencies, covering two levels of government – the Commonwealth (e.g. ATO and ASIC) and eight state and territory revenue offices.

The Federal Government is backing the project to the tune of \$200 million, with massive compliance cost savings for the business community in the offing.

“We have not mandated the use of SBR for record-keeping or reporting,” Paul Madden, the SBR’s program director, explained at the LIXI Forum.

“What we have said is there’s a value proposition here – if 60 per cent of businesses use SBR to do their recording, record-keeping and reporting to government by the end of year four, that will save the business community \$800 million,” he said.

Erik Fenna, LIXI chief executive, observed that there is a parallel between the SBR initiative, the XBRL financial statement reporting projects and the work LIXI is doing in its particular sector.

“In order to become more relevant, particularly in regard to financial reporting, industry divisions need to collaborate and agree on what their extensions are. (Broadly defined, this involves expanding and customising what basic terms and descriptions mean in their unique situations.)

“That is a critical role that LIXI has always played in industry, particularly in the banking and finance industry – that is, to work on standardising the way parties in the lending industry communicate with each other and we’re very happy to collaborate with our members on how they can work together with Treasury on extending the XBRL and SBR initiative,” Fenna said. **ABF**