



 **VERIFIER**
Submission

Senate Select Committee
FinTech and RegTech

December 2019

TABLE OF CONTENTS

1. Introduction	3
2. RegTech – A Needed Sector	5
3. Answering Your Questions: Verifier Specifically	9
4. On Sector Specific Settings.....	11
4. Responsible Lending RG209 – a RegTech reflection	13
5. Conclusion: RegTech success is critical and requires tailored policy	18

1. INTRODUCTION

Thank you for the opportunity to contribute to the Senate Select Committee on Financial and Regulatory Technology.

Firstly, we also want to thank the Chair for the Issues Paper. It is very true that small companies like Verifier, with 10 staff, do not have a regulatory affairs team experienced in these matters. We are at the coal face, building globally leading product, so we appreciate the help on what you are looking for. I trust we are not alone in that.

Our response is in three sections – firstly, our observations about RegTech in general, then our direct experiences (as per the Committee’s questions), then lastly our observations about sectoral reforms we are engaged with.

First, A Bit About Verifier – Who Are We Exactly?

We are a consumer driven data sharing platform. We give people their data back, to get better life outcomes. We use cloud computing, AI, but also, we innovate in our commercial model, our approach to API development, and our management of consumer consents to data sharing. For more on what we do see: www.verifier.me

Verifier’s core product is our Proof of Income data service. We built and run an emergent data sharing platform that uses people’s Right of Access under Privacy Principle 12 of the Privacy Act to enable them to prove their income to companies they wish to do business with, in a frictionless privacy-by-design manner with **no compromise** of banking passwords.

Our innovation covers technology, data, process, compliance and commercials. As a result, we have become very involved in the evolution of the Consumer Data Right (CDR) regime – right through from the Productivity Commission Inquiry, to our CEO Lisa Schutz in a personal capacity, being on the Data Standards Advisory Committee for both Open Banking and now Open Energy. Verifier is a pioneer of emergent data sharing driven by the consumer, a global leader and 100% compliant with the EU General Data Protection Regulation (GDPR). Our natural growth corridor is the GDPR resonant markets globally.

This year, in accordance with our mission to give people access to their data to get better outcomes, we have applied design thinking and heavy data analytics to the challenge of expense verification - through the Verifier Expense Verification Framework Initiative. Frankly, while we believe in meeting the ‘public health goal’ of avoiding foreseeable substantial hardship, we disagree with financially ‘strip searching’ every Australian who borrows money to achieve that goal.

Our published whitepapers explain why, and our work with the Initiative has yielded a significant contribution to the thinking in the industry around the challenges of responsible lending. Our next step in the Initiative is to kick off 3 pilots in early 2020 (with several lenders participating across the pilots). Two of the pilots deliver radically simpler loan application processes using the evidence base resulting from our work in the of Initiative: one pilot for ‘sophisticated borrowers’ and the other pilot for straightforward refinance situations. The third pilot, the Safe Loan Program, focuses on measuring consumer financial wellbeing and increasing financial literacy.

By providing this detail we hope you can appreciate why we see ourselves as a classic RegTech company (incidentally, we are a founding member of The RegTech Association). We sit at the intersection of three areas of policy which inform this submission:

- RegTech
- Responsible Lending
- Consumer Data Right (and the Privacy Act)

As a result of the work we do, it has been necessary for us to dedicate significant time and resources to our policy engagement and contributions over the past few years. All of our submissions are available on our website:

<https://www.verifier.me/submissions>.

2. REGTECH – A NEEDED SECTOR

Verifier Is Proud to Be a RegTech

In our view, RegTech seeks to create a win for community and commerce by automating the outcomes the community has indicated that it wants, through laws and regulations, and also supports the monitoring of achieving and adhering to those outcomes. RegTech supports incumbents and challengers alike and does so across more than just financial services. RegTech has significant export potential as a result of Australia’s reputation as a country with a sophisticated approach to the regulation and supervision of its financial services sector. This reputation continues unabated despite negative press locally.

Where RegTech Fits in The X Tech Cluster

In contrast to the term “x” Tech – which was used in the Issues Paper to refer to the application of technology to traditional sectors, e.g. AgTech, FinTech and MedTech, RegTech is a bit different in that rather than applying to a sector it applies to a function, that being regulatory compliance. Two important conclusions flow from this distinction:

- RegTech is not just a financial technology opportunity
- Nor should its potential be evaluated solely in regard to the opportunity to support good compliance and encourage competition in the domestic economy

Local FinTech submissions will no doubt argue that FinTech is just as much an export opportunity as RegTech. However, we point to the RegTech Association submission which, in our view, states the case pretty well in favour of RegTech, leveraging ‘Brand Australia’, being a high growth export opportunity.

RegTech Value – Why It Matters

Australia needs a thriving RegTech sector for two reasons, as a key enabler of X Tech and secondly, because, RegTech is probably Australia’s biggest tech global opportunity (in addition to the global opportunity for AgTech).

Domestic Opportunity: Economic Productivity and Community Outcomes

- To ensure that all sectors are handling their community driven compliance obligations effectively
- To get the cost of production down via automation in the economy
- To lower the barriers to entry of compliance – by lowering the costs

Global Opportunity: An export sector – Australia’s share of what we estimate is a \$1 trillion market (we note that in many jurisdictions, the cost of salaries alone in respect of 10-15% of compliance roles gets you to that \$1 trillion amount).

We note that RegTech historically gets less hype and produces fewer unicorns than FinTechs. This is because it is a 'slow burn' sector, with complexity arising from the following:

- Compliance is a naturally risk-averse function, without much technical/innovation experience
- Compliance is deeply embedded in the business – changes are slow and often require technical integration (not cool websites)
- RegTech sells most to large incumbents – which means slow procurement and IT change cycles
- Regulators (who publish guidelines and therefore become the 'arbiters of taste') are also naturally risk-averse, and in the case of financial services, they have siloed KPIs. RegTechs tend to change the way processes work and the rules are written for established ways of working. RegTechs constantly challenge the ways in which regulation is implemented – so they need to closely collaborate with regulators.
- RegTech does not benefit from ideas like 'sandboxes' because RegTech is compliant by design. In other words, the only question is whether the design is compliant.
- Only the regulators can answer the question but, unfortunately for the RegTech sector, they won't, with one notable exception. The exception is the Australian Transaction Reports and Analysis Centre (AUSTRAC), who takes a sensible and helpful approach - which is, "if you approach us, we will tell you when the design is wrong". We call that negative assurance.
- The more normal mode for regulators is to engage only in regard to a specific regulated entity. Historically, this was fine in the sense that compliance was handled by large factories of people. If the regulator says, "change the process", you re-write the policies, re-train the teams and off you go. In contrast, if RegTech is deployed in an organisation, sudden changes in approach by regulators might result in the fundamental design of the RegTech becoming non-compliant, in which case the RegTech organisation would have to re-invest millions to retool, and investors will run for the hills! This creates a climate of uncertainty for RegTech buyers, their investors, not to mention the first movers in the regulated entities.
- Our experience tells us that regulators do not have innovation and RegTech metrics. They talk about innovation and RegTech, but where are the adoption metrics and KPIs (and from the Government where are the budgets to support them getting involved more fully)? We believe the lack of regulator innovation and RegTech metrics contributes to the climate of uncertainty.
- A challenge with RegTech is that it shines a light on compliance (and non-compliance). How are regulators going to help firms transition and help themselves deal with issues such as:
 - Multiple regulators working on the same value chain with competing priorities – how is RegTech tuned to optimise their competing goals if they don't talk to each other?
 - Regulated entities who are spending \$billions on remediation are too busy to automate and adopt RegTech. They are kicking the can down the road, and they argue the regulators are the ones pushing them that way (and possibly some professional services firms may be encouraging that short term sugar hit of billable years).
 - Governments who want problems fixed but don't empower regulators to incentivise transformation over remediation.

Perilous Times for RegTech

As a result of the issues described above, RegTech is the X Tech sector with most promise, but also at the most risk of becoming one of Australia's high-tech fossils - great talent and great intellectual property wasted, and no export value realised. Not good for our future Australians, since the inevitable brain drain will be compounded by outsourcing of old work compliance processes to lower cost jurisdictions overseas.

Regulatory uncertainty is the biggest thorn in RegTech's side. A start up won't fund a \$1million product build without at least design certainty. Venture capital (VC) certainly won't touch a business with that level of product risk baked in.

This can be turned around.

There is a way to reduce design uncertainty and encourage investment in RegTech. That can be achieved by empowering regulators to give a 'not no' (negative assurance) to the design of innovative approaches to managing regulatory compliance. In other words, while not actively endorsing any particular RegTech product as 'compliant', the regulator could consider the design of a RegTech product and express a view about whether the design of the RegTech product is such that it is capable of achieving compliance – if implemented and used in the right way of course.

Government as Market Orchestrator - RegTech Is Different and a Policy Rethink Is Required

We hope that this submission leaves you with one key take-away. The fate of RegTech as a sector is inextricably linked to the regulator/compliance settings that the Government establishes, for whatever sector in the economy we are talking about.

Government understands its role in establishing the playing field for markets. The learning of RegTech is that Government's role of orchestrator of a market extends to orchestrating (or inhibiting) the use of technology to support compliance.

Government as Buyer – Not So Exciting – Except in Sense Of 'Learning by Doing'

While its commendable that regulators are using RegTech, and that Government is too, we think that supports the RegTech sector only in so much as that helps the Government appreciate the challenges of implementing RegTech – nothing like taking it for a spin! The truth is, industry budgets dwarf regulator budgets, so the bigger opportunity for RegTech is the private sector.

How Do You Know If Government/Regulators Are Supporting RegTech Adoption? – Time to Track

We think tracking and measuring RegTech adoption is a must. This could be done by encouraging public companies at least to include information about RegTech solutions they have implemented in their annual reports. This would assist Government to develop a RegTech adoption index. We would also like to see Government develop a RegTech export index. This type of monitoring would make a world of difference.

Now to A Thorny and Controversial Issue – Remediation Is Killing RegTech Transformation

There is a risk that remediation efforts in the financial services sector, to address sins of the past, is killing investment in RegTech transformation which is capable of yielding better compliance outcomes in the future.

This is not theory – we have lived the reality of being told by a financial services organisation a pilot of our RegTech product is on hold because "we are too busy remediating to put time into a pilot".

Remediation is urgent, emotional and largely PAPER based. That's reality – it's consuming the limited number of compliance professionals in the country. We implore the Government to think about how to get the best compliance outcomes for the community. Remediation is necessary. However, if regulated entities are encouraged to undertake compliance transformation at the same time as addressing remediation for past compliance misses, the regulated entities themselves, the regulators, the RegTech sector and the community will all reap the benefits. This might be achieved by offering incentives for regulated entities to progress transformation to better RegTech enabled compliance functions, while continuing their remediation efforts.

Supporting the Buyers and Sellers of RegTech: Role as Market Orchestrator

Supporting the Buyers:

Thought must be given to reducing the risks that will likely arise for buyers of RegTech. For example:

- **RegTech safe harbour:** An organisation that implements a RegTech solution runs the risk that the new solution may uncover a past compliance deficiency. To encourage RegTech take-up, organisations need to be confident that any compliance deficiency uncovered as a result of implementing the new RegTech solution will not result in regulator-imposed sanctions. A 'safe harbour' or 'amnesty' approach to these issues would significantly boost buyer confidence, by mitigating the risk of adverse regulator action.

Having said that, we acknowledge that any past compliance deficiency that has caused loss to consumers is a different matter. Consumers should be compensated for any such loss.

- **Pilot a RegTech:** – A safety net for organisations that want to run 'live' pilots of RegTech solutions should be put in place. This would require regulators to be involved (to some degree) in understanding the underlying 'compliant by design' approach and ethos of RegTech solutions. Ideally, regulators could (on a case by case basis) give, at minimum, a 'negative assurance' to the design and the proposed implementation of the RegTech pilot.

Supporting the Sellers:

- Of as much benefit to the sell-side as the buy-side, Government needs to support and empower regulators to give a 'negative assurance' to pilots of RegTech –Such negative assurances should also be recorded in a public register administered by the regulators.
- In the pre-pilot stage, much needed support for sellers could be in the form of a 'Design Box' for RegTechs. There is a precedent here in the regulatory 'Sandbox' that allows eligible FinTech companies to test certain products or services for up to 12 months without an Australian financial services licence or credit licence. RegTech differs from FinTech in that RegTech needs more support at the design stage, to encourage 'compliant by design' RegTech solutions.

3. ANSWERING YOUR QUESTIONS: VERIFIER SPECIFICALLY

Q. In general terms, how would you describe the operating environment for FinTech and RegTech start-ups in Australia?

As a RegTech, our views will largely be limited to our sector. We believe that despite lots of goodwill for RegTech, the role of Government and regulators is poorly understood, the regulated entities are reluctant to experiment and, overall, the market is relatively sluggish and frustrating. The RegTech Association has shared their recent research with you – but suffice to say we are not alone in assessing the climate in this way. This is a sector that is not thriving, yet.

Q. What are the biggest opportunities and challenges for your business in the short-to medium term? In particular, you may wish to comment on any of the following issues:

➤ *Capital and financing arrangements (including access to venture capital and other forms of finance).*

VCs are not interested in RegTech. It is a slow burn sector, not prone to ‘unicorns’ because RegTech solutions need to be tweaked to each market. As a result, the key funding sources for RegTechs need to be:

- Regulated entities buying the product – that is the ideal answer
- Government support in the very early stages – even just de-risking the Research & Development grant for RegTechs would be sensible, given RegTechs are extremely R&D focused, but not in a laboratory setting – which seems to be the focus of the R&D grant)

➤ *Staffing, recruitment and talent retention.*

We have all the same people issues as any other innovative, growth business. Frankly, it is hard to get staff who are accountable, creative and can tolerate the uncertainty. That’s OK though. The answer is, facilitate access to capital and demand from buyers, the RegTechs can take care of the people challenges.

➤ *Collaboration and partnerships with other nascent firms and traditional financial services firms.*

We are extremely good at forging partnerships and The RegTech Association is a natural hub. That Association is 100% funded by the industry. The founding members are small, start-ups (of which Verifier is one) who could least afford it but did it anyway because they see the value. Likewise, early stage take-up of membership in the Association was by small start-up RegTechs. The Association now has lots of corporate support from regulated entities and their service partners. It’s a classic example of a successful industry initiative. As a founding member, we note that the Association’s remit does not include development of policy, or policy advocacy. In our view, Government needs a RegTech policy partner to assist in the development of appropriate policy settings to encourage the RegTech market. We suggest that Government supports The Association (both with people and funding) to provide that policy focus in addition to its current remit.

➤ *Opportunities to expand into overseas markets.*

Verifier has many global opportunities. However, the question for Australia is, do you want Verifier based in a European Union country or in Melbourne? We have tried very hard to focus locally, but the market is incredibly frustrating. And unreasonably so given the importance of the issues RegTechs tackle. Verifier leads on the Consumer Data Right (we are one of the first 9 data recipients), we have led the campaign to ban screen-

scraping, and we actively dedicate time to support the Consumer Data Right regime as it develops. As a matter of fact, our CEO is on the Open Banking Data Standards Advisory Committee, and now the Open Energy Data Standards Advisory Committee too (as well as being on the Board of The RegTech Association and a member of the Strategic Industry Advisory Group of the Australian Prudential Regulatory Authority).

So, Verifier's concern is not the size of overseas opportunity, rather, it is how to make sure Australians and the Australian economy benefit from our work. Even a small RegTech such as Verifier is making a significant contribution to the quality of the domestic debate around data sharing for the benefit of Australian consumers. Surely Australia needs more not less of this and would therefore want RegTech HQs to stay in Australia, so as to capture the potential export revenue and wages growth.

- *Issues affecting your business that may be specific to your product niche or area of specialisation (rather than affecting the FinTech and RegTech sectors as a whole).*

Our responses are set out in Section 3 – with a focus on the Consumer Data Right and Responsible Lending - where we spend most of our time and resources.

- *Do you have any suggestions on how the Australian Government can best facilitate the continuing growth of the FinTech and RegTech industries in Australia?*

Yes. Tackle head on the fact that the ultimate end-user who will benefit from RegTech is the Australian community. With this top of mind, we recommend Government reviews how:

- it empowers, instructs and incentivises its regulators to enable growth and uptake of RegTech, and
- to work through the thorny issues holding back RegTech growth, to make it safer for Regulated Entities to buy, and RegTechs to build the products the community wants and deserves.

In this context, we reiterate the need for things like a 'Design Box' and a negative assurance mechanism.

Beyond Banking and Finance: Some Thoughts

RegTech is currently being applied to the superannuation, legal and professional services sectors. If the focus of Government and regulators shifts towards encouraging the adoption of RegTech, then the adoption of RegTech in other sectors is likely to happen naturally. Currently, RegTech is a market that is not clearing due to the risk issues and information asymmetry. There are plenty of potential buyers and lots of exciting products from mature and emerging RegTech businesses.

4. ON SECTOR SPECIFIC SETTINGS

CDR - Open Banking

Q: Are there any impediments to ensuring that the benefits Open Banking offers for consumers and FinTech firms are maximised?

Yes. RegTech solutions automate compliance of consent and other requirements of the CDR regime. – These RegTech solutions are crucial to support the CDR’s privacy settings.

More broadly, over time there needs to be some important policy thinking around consent and how it works. We actually think plain language, clear bundled consents are often the right way to go. An unbundled consent is not necessarily a ‘fair’ consent from the consumer’s perspective. If nothing else – unbundled consents add friction and make less safe options (like screen-scraping) appealing.

In addition, in our view the intersection between identity verification and data sharing needs a major rethink. The more consumers drive sharing of their data, the more demand there will be on identity verification, and the more problematic identity theft will become. This is already a multi-billion-dollar problem, which has been highlighted as the CDR moves from banking to the energy sector.

Q: following the implementation of the CDR in the banking sector, how quickly should government seek to implement CDR reforms in related financial sectors such as superannuation?

It depends on whether other sectors adopt other, emergent ways of data sharing.

We firmly believe that enabling consumers to gain insights about their overall financial journey is critical to increasing the level financial wellbeing in this country. This is just as critical as competition objectives. Both are crucial to delivering better outcomes to Australian consumers.

In line with our CDR related submissions to date, we strongly believe that CDR policy should embrace emergent data sharing platforms and processes. In other words, if a sector uses the Privacy Act to enable consumers to share their data (using the right of access to personal information under Australia Privacy Principle 12) then that’s one less sector that needs a top down approach! If the policy goals are met, then using the existing getting access means avoiding one extra layer of complexity and overhead (by extending the CDR to that sector).

Verifier has proven that is possible – we are live in production making a difference every day to real Australians.

Our view is that superannuation funds should be encouraged to adopt the emergent consumer driven data sharing enabled by RegTech. However, if the pace of adoption doesn’t accelerate, then clearly the CDR needs to be extended to the superannuation sector.

Q: What specific considerations need to be given to the implementation of CDR in the superannuation sector? A:

Encourage a voluntary scheme before resorting to CDR.

Superannuation is just one priority sector, so we suggest that the rollout of the CDR to other sectors should occur only when a sector is resistant to other, emergent ways of sharing. In our view:

- CDR is the data access and sharing right that should be implemented when a sector won't opt into other ways of data sharing. CDR is not the only option.
- For those sectors that are CDR designated - those sectors need to be able to opt-in to set their own data standards – to be approved by the ACCC (rather than the top down model).
- For those sectors that voluntarily want to share data - the Australian Privacy Principle 12 data access and sharing right can be used.
- Screen-scraping – impose a sunset date after which screen-scraping is no longer permitted. Without an end to screen-scraping, you won't see the focus on acceleration of the 'safe rail' options. - Many FinTechs and data companies are content to sit back - comfortable with the screen-scraping status quo.
- CDR is largely about data availability – data use at the moment is the poor cousin in terms of policy and regulatory attention.
 - The **USE** of data as opposed to the **SUPPLY** of data (whether it is data obtained under the CDR regime or otherwise obtained) needs the same level of policy attention.
 - Right now, the policy thinking on consent is very coarse. However, consent is a nuanced policy issue that requires more thought. – This should be tackled in the same way that other nuanced policy issues are - such as road and other safety standards.... or public health issues more generally.
 - So, if we were to get nuanced, what kind of consents are there?
 - ❖ Consents that are automatic in the context of a service provision – these can be negotiated at the industry level and between regulators, industry participants, and consumer advocates
 - ❖ Verifier has very strong view that responsible lending is not a good starting use case for CDR data. It really does fail the 'BBQ test', because, sometimes, sharing CDR data will lead to the loan application being declined. Unhappy BBQ conversations may lead to consumers choosing not to allow access to their CDR data.
 - ❖ Some consents are just not OK. A consumer should not be asked to consent to something (such as sharing their password) when it puts the whole system at risk – just like the law does not allow people to give consent to sell their kidneys or babies.
 - ❖ Some consents are individual choice matters. This is true only if there is a balance of power in the relationship between the person asking for the consent and the person who is giving the consent that is not overly disproportionate.

4. RESPONSIBLE LENDING RG209 – A REGTECH REFLECTION

Why Verifier Focuses on Responsible Lending –It’s an Inhibitor of Digital Transformation

We now turn to a sectoral issue that was not in the issues paper – Responsible Lending. Presumably this is because this is established law and established (albeit evolving) regulator guidance. It does not need legislative reform, but it needs settings that support RegTech. One of the greatest points of friction in a loan application process is the lender’s affordability assessment. Ironically, that is the area experiencing the least innovation. This stymies digital transformation for FinTechs, as well as incumbent financial services providers.

Meanwhile, the rise (and rise) of Buy Now Pay Later products shows that digital transformation is like a river – block it in one way and it finds a new path. The point is, we want to support digital transformation of financial services for the community’s benefit, not to its detriment. So how does a crucial area like responsible lending support digital transformation?

We have consistently argued that if responsible lending compliance requirements were to become highly prescriptive, it would all but kill innovation in the space. We are heartened that revised responsibly lending guidance recently released by the regulator in its revised RG209¹ have not gone down the path of prescription. despite lots of pressure this year in that regard. However, we do think that innovation still needs more help, and the responsible lending ‘system’ (comprising each of the relevant regulators, the Australian Financial Complaints Authority (AFCA), service providers, lenders, and consumers) needs to step up to the plate by recognising and embracing the reality of affordability assessment – a reality that the Financial Conduct Authority (FCA) of the United Kingdom describes better than anyone:

“Both affordability and credit risk assessment have material probabilistic components, given the potential impact of unforeseeable events and of individual behaviour. While there are metrics that can be used to inform firms’ assessment of credit risk (the probability of default), there are no established metrics that can provide certainty of affordability at loan origination. Creditworthiness assessment is not an exact science....”²

Making Responsible Lending Innovation Friendly – Firstly, Take A System View

How do we make responsible lending a safe place for lenders to innovate? The answer is, we need to find ways to provide them with a safety net when they are directionally getting it right and not throw the book at them when, inevitably, cases of substantial hardship occur which may have been theoretically but not operationally foreseeable at the time the loan application was made.

¹ Australian Securities & Investment Commission, *Regulatory Guide 209: Credit licensing: Responsible lending conduct*, December 2019

² This comment is extracted from the FCA’s *Policy Statement, July 2018, Assessing creditworthiness in consumer credit – Feedback on CP17/27 and final rules and guidance (PS18/19)*, Chapter 1 at paragraph 1.20

What makes supporting innovation harder is that it's rare to get all the stakeholders in the system together – and it's particularly difficult in the context of regulator/enforcement risk. We have been playing a convening and facilitating role this year via the Verifier Expense Verification Framework Initiative. It has been not only a privilege, but also extremely gratifying. We truly have managed to get what we consider to be the system together on at least two occasions.

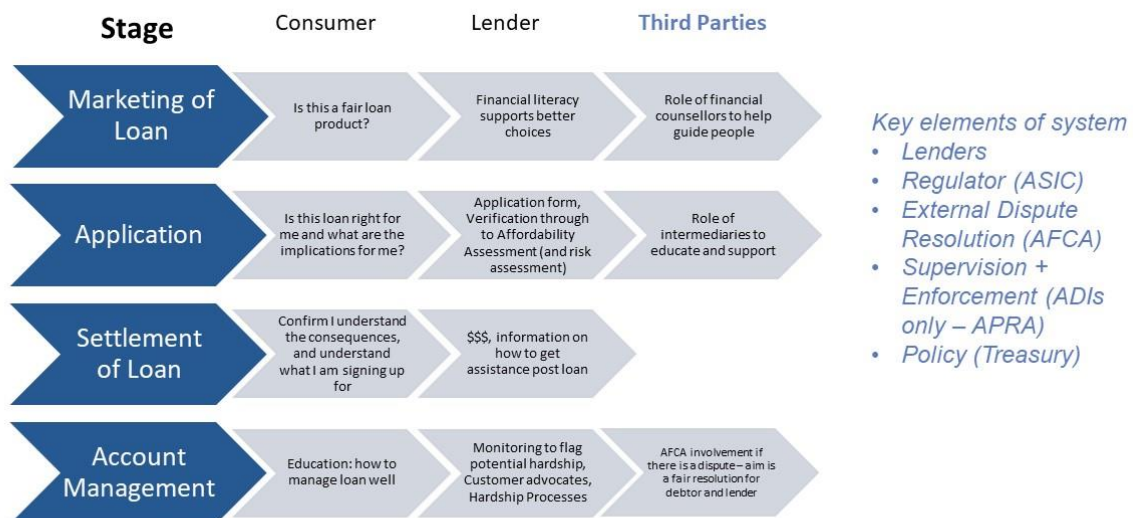
The tools we have been applying in our Initiative are:

- Systems thinking
- Design thinking
- Evidence based approaches to policy – using real application and bank transactional data

Our work in the Initiative is ongoing. We take a system view of necessity, because the outcomes for the community depend on the actions of all the system participants, who effectively create the **operational reality** that lenders operate in.

The Initiative Deliberately Takes a System View

A Consumer-Centric Approach to Responsible Lending



Despite a year of review, months of consultation and lots of best efforts, sadly, the revised RG209 does not advance the cause of a conversation between lenders and regulators on operational realities (which is in contrast to the FCA's appreciation of the probabilistic nature of affordability).

Without exploring why this is, from our point of view it all gets a bit unclear for a variety of reasons, none of which are RegTech friendly:

- The role of regulatory guidance is somewhat unclear
- The overall public policy goals of responsible lending law (that is, avoiding harm to borrowers) tend to get missed in all the focus on compliance with what the law of responsible lending law requires (which itself remains unclear).
- Given this lack of clarity, there tends to be a mob cry for 'certainty', which only stymies innovation.

- The revised RG209 talks about what kinds of data might be available to lenders for use in affordability assessments, and treats the actual data about a consumer’s income and spending habits at one point in time as a ‘truth’ about their income and spending habits in the future. This bias relegates benchmarks to a ‘poor cousin’ status. In the case of expense verification, that is not just poor policy, it is factually incorrect. If a lender looks at three months of my bank statements and uses that data to decide if I can afford a loan, **the lender is building a model of my future expenditure based on my recent history (most likely incomplete due to the fact that I am probably only going to let the lender look at one of my multiple bank accounts)**. In contrast, benchmarks are built on samples of more comprehensive data, data that is comprehensive data than a lender is likely to collect in a loan application process (assuming that the lender is not doing a forensic examination of each borrower – because this would kill the modern credit system). Benchmarks are also a model of a person’s future expenditure, but they are built on the principle of ‘people like that spend like this’. Both are valid diagnostic tools to reality check the affordability of the loan – **noting that it is IMPOSSIBLE to verify the future.**
- We are NOT suggesting that regulators, policy makers or legislators wade into the reality of the data or the data collection options available online, or the modelling issues inherent in diagnostic tools (such as bank statements or benchmarks). However, we do urge the regulator to focus more on developing guidance about how to set up an operational responsible lending program than to wade into what might be in that program:
 - This would be similar to the way in which the Australian Prudential Regulatory Authority supervises risk policies.
 - The problem we see with the current guidance on responsible lending is that all the discussion is about what a lender **could** do - totally ignoring the probabilistic nature of affordability assessment. The discussion is based on a flawed premise - that a responsible lender will never lend to a person who later ends up in foreseeable substantial hardship if that lender looks at the borrower’s recent data. The implication is that error necessarily means the lender acted irresponsibly. This is clearly incorrect and the FCA says as much. We need the regulator (the Australian Securities & Investment Commission) and AFCA to recognise that, and to respond differently depending on whether there is substantial hardship that was **operationally foreseeable** according to a reasonable Responsible Lending program in place at the time of writing the loan or just **theoretically foreseeable**. Obviously, if the Responsible Lending Program is not well governed, that’s another matter.
 - **What is missing is a lack of recognition and acceptance of the inevitability of errors occurring: nothing in RG209 talks about the fact that errors occur.** There will be errors of inclusion (letting foreseeable substantial hardship cases through) and errors of exclusion (declining loans to people who could have repaid them), and equitable access to credit is just as much of a major policy issue as avoiding borrowers suffering preventable harm. If the system could accept that errors will occur, then lenders could also have robust programs to mitigate harm. Promoting financial literacy while mitigating harm is exactly what Verifier is doing, in our Safe Loan Program which launches in 2020 for lenders and their customers.

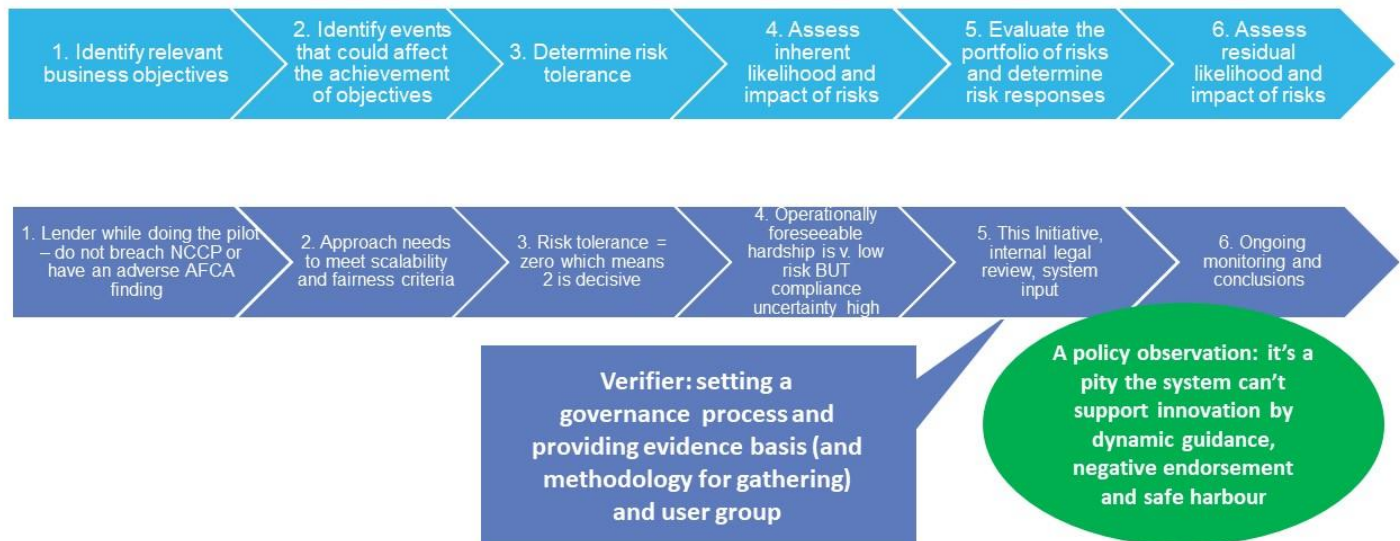
Making Responsible Lending Innovation Friendly Will Take New Approaches from Regulators and Legislators

In the current regulatory climate, the zeitgeist is one of zero tolerance to risk (for the entire system - not just lenders). Unfortunately, that attitude is not going to support the digital transformation that really must happen.

So, what next? This is clearly something we urge the Committee to consider. Two exhibits from the recent 'Roundtable' (which we convened and facilitated as part of our ongoing work in the Verifier Expense Verification Framework Initiative) will give you a sense of where we are headed and what we think is possible. The first exhibit describes how we see the six steps a lender might take to ensure good governance of the risks in its responsible lending program. The second exhibit describes what we believe needs to happen, and who needs to be involved, to minimise the risks that lenders face in piloting innovative RegTech solutions for responsible lending.

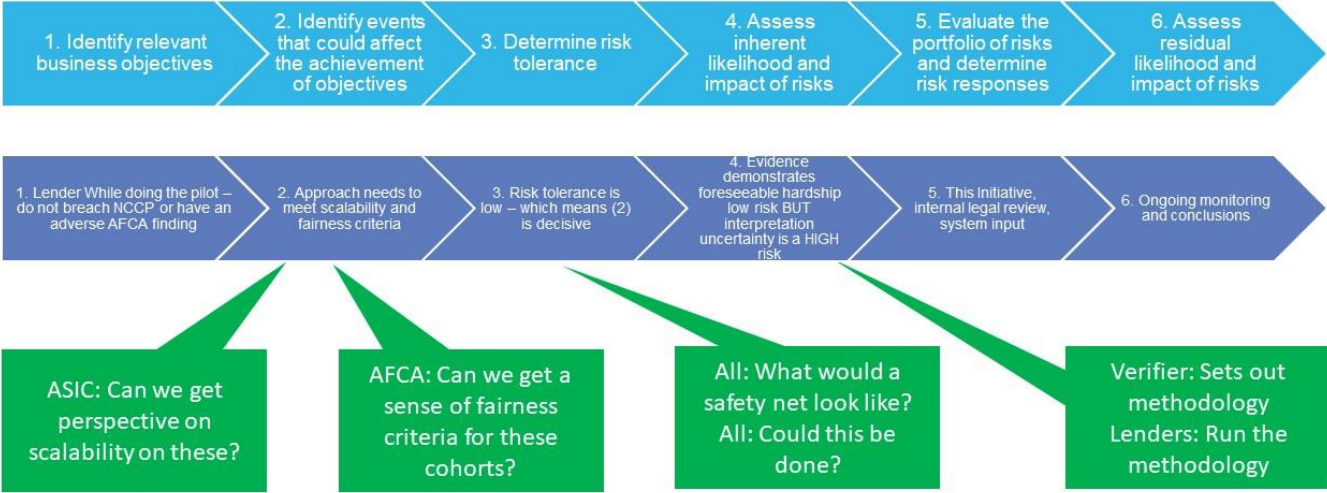
Ultimately, the path that is taken on responsible lending, and setting the desired policy goals and outcomes is up to the community - not us. This is a classic case of an established set of legislation and regulation that affects the digital transformation of financial services just as much (if not more) as new financial system reforms. There is no point just renovating the front room! Everything else starts to look shabby.

Pilot Governance (Risk Management Analogy)



Basic Steps For Pilot Risk Management

Understanding Risk Appetite = Zero!



5. CONCLUSION: REGTECH SUCCESS IS CRITICAL AND REQUIRES TAILORED POLICY

In conclusion, our thoughts can be summarised in the following points:

- Financial Services is on the verge of significant digital disruption. Without RegTech, Australia faces the prospect of a choice between digitally savvy products that skirt around our regulation or manually intensive products (and irritating digital products) that follow the rules. What we really want are frictionless, effortless, highly competitive products that are inherently compliant and, beyond that, deliver better community outcomes. What we want is a win between community and commerce.
- The RegTech sector offers significant potential benefits to both the domestic economy and to Australia as an export sector.
- RegTech policy needs to appreciate that RegTech is driven by compliance requirements, which in turn are driven by legislators and regulators. As such, regulatory uncertainty and/or non RegTech-friendly compliance requirements and supervision dampen demand and limit supply (and in turn the supply of investment funds for RegTechs).
- Every financial system reform has compliance requirements attendant to it – so RegTech readiness extends to areas like the Consumer Data Right and the New Payments Platform.
- Pre-existing legislation, such as the National Consumer Credit Protection Act 2009 (which imposes responsible lending obligations) and how it is interpreted, can massively affect RegTech focus (or lack of) on a compliance area. As a community, we need to make sure that our laws are encouraging RegTech focus and adoption where it is most needed. Anti-money laundering law is getting more RegTech focus, at least in part because its requirements are more RegTech friendly (we acknowledge that it's also more global).

Verifier is proud to be a RegTech, proud to be based in Australia and appreciate that the Committee has reached out to the industry for input.

Thank you.

Lisa Schutz

CEO

Verifier