

## Table of Contents

1	Recommendations: .....	2
2	Introduction .....	3
3	Baycorp Advantage.....	5
4	Baycorp and consumer education.....	8
4.1	Baycorp’s current consumer education initiatives.....	8
4.2	Overseas experience .....	10
4.3	Baycorp’s future credit education initiatives.....	11
5	A National Strategy.....	12
6	Consumer Behaviour Model and targeting.....	14
6.1	Consumer Behaviour Model .....	14
6.2	Credit issues in the National Strategy.....	18
7	Information or education .....	22
8	Coordinating Body .....	23
9	Positive Reporting .....	25
10	Conclusion.....	27
11	Appendix 1 – GeoRisk Maps.....	28
12	Appendix 2 – Landscape .....	29

# **1 Recommendations:**

- 1. The national strategy should make very clear that it will be founded on a strong commitment to an outcomes focus, with clear definition of the problems improved financial and credit literacy is intended to address, the behavioural responses sought, and a commitment to rigorous evaluation (page 13)**
- 2. Operationalising the Customer Behaviour Model should seek to provide a tool that is robust, precise and yet remains conceptually simple enough to be useful to industry and consumer organisations (page 16)**
- 3. Industry should be approached to assist with the development of the Customer Behaviour Model by the contribution of relevant expertise and data (page 17)**
- 4. The National Strategy should give appropriate weight to credit literacy for consumers, including understanding and management of credit risk (page 21)**
- 5. The National Strategy should make clear a priority for education and social marketing, and that the terms information, education and social marketing be defined and distinguished; and that the role and contribution of industry, government, and consumer organisations be described in relation to these (page 22)**
- 6. The National Strategy should articulate as a foundation principle for the co-ordinating body a commitment to work from a rigorous evidence base (page 23)**
- 7. The co-ordinating body should receive its core funding from government in order to preserve its independence (page 24)**

## 2 Introduction

Baycorp Advantage Limited is Australia and New Zealand's leading supplier of business intelligence and data based credit risk management solutions.

Baycorp Advantage occupies a crucial position in Australia and New Zealand's credit markets. Baycorp's services are critical to the efficient operation of credit markets, and its services are highly valued by the credit providers and businesses that are its customers.

Less well known is the crucial role Baycorp plays in protecting consumer well being, in addition to the contribution it makes to the public good of efficiently operating credit markets. Baycorp

- supports appropriate access to credit by verifying accurate application details;
- protects consumers against identity fraud;
- protects consumers against credit fraud.

As a significant contributor to industry's credit management processes, Baycorp wishes to make a contribution to consumer credit education, where it has the expertise and capacity to do so,

Baycorp is committed to developing stronger relationships with consumers through an expanded range of consumer services where there is a business case, and with consumer education initiatives, in its own right and in partnership with others.

Baycorp therefore welcomes the establishment of the Consumer and Financial Literacy Taskforce, and the Government's intention of adopting a National Strategy for Consumer and Financial Literacy.

The Taskforce's Discussion Paper contains some important propositions. Implicit in its proposed Consumer Behaviour Model is the proposition that skill levels alone do not determine consumer behaviour: demographic, socio-economic and life cycle factors are also important. Of course, as the ANZ Financial Literacy Survey and other research shows<sup>1</sup>, the inverse is also true, demographic and socio-economic

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<sup>1</sup> See for example the study of consumer behaviour in making credit decisions in *Taking Credit* Justin Maldon, September 1999 for the Ministerial Council on Consumer Affairs.

factors are important predictors of skill levels. Baycorp has specialist expertise in predictive analysis of consumer behaviour, especially in relation to credit.

Another Taskforce proposition is the importance of better targeting and co-ordination to achieve a more effective national consumer and financial literacy response. Baycorp Advantage's competency in market analysis and segmentation is relevant in this regard.

Baycorp therefore welcomes the work of the Taskforce, and the opportunity to respond to the Discussion Paper. It believes there are three areas in which it may be able to assist the Taskforce and the Government in their development of a National Strategy for Consumer and Financial Literacy:

1. By considered consumer education initiatives, either in its own right or in partnership with others (industry, government and consumer organisations);
2. By contribution of its unique specialist expertise in the operation of the consumer credit market; and
3. By contribution of expertise in approaches to targeting consumer education initiatives, for example by segmentation.

Baycorp Advantage takes seriously its obligation to contribute to the issues raised by the Taskforce, and welcomes the opportunity to participate in the deliberations of the Taskforce.

In this submission, we briefly outline Baycorp's business activities, before turning to Baycorp's current and future consumer education initiatives. Then the submission deals with major consultation issues in turn: the proposed National Strategy, the Consumer Behaviour Model and its further development, the role of information and education in a National Strategy; and the proposed co-ordinating body. Finally, the submission offers brief comment on current proposals for positive reporting.

### 3 Baycorp Advantage

Baycorp Advantage is Australia and New Zealand's leading supplier of data-based business intelligence, marketing and credit risk management solutions. It is the market leader in Australia and New Zealand, and has significant operations in Singapore and Malaysia, and is expanding elsewhere in Asia.

Baycorp employs around 1000 staff, with 60 per cent of these located in Australia.

Baycorp has three core businesses, which together give it a unique capacity to assist businesses across the customer life cycle. Equally, they place Baycorp as uniquely able to contribute to the Taskforce's understanding of consumer behaviour (and its consequences), especially in relation to credit.

Baycorp Advantage's three core businesses are:

- Business Information Services, providing credit reporting and verification services, contributing 55 per cent of Baycorp's revenue
- Marketing and Decision Solutions, providing data driven solutions and analytics for strategic and tactical marketing, and credit decision solutions, contributing around 9 per cent of Baycorp's revenue
- Receivables Management, a full service debt recovery business, contributing 35 per cent of Baycorp's revenue.

Baycorp's core competency across the customer life cycle comes from the synergy of these three businesses. However it is important also to make clear that the law prohibits sharing of personal information between these businesses, except in carefully regulated circumstances. Baycorp therefore has in place strict separation between the businesses, and detailed protocols for the handling of personal and credit information to ensure that individuals' privacy is protected at all times.

#### *Credit reporting and verification services*

Business Information Services is Baycorp's largest business, with a database including records on approximately 13 million individuals, or an estimated 90 per cent of Australia's credit active population, of whom a very small number, around 8 per cent, have a default listing (that is an amount outstanding for 90 days or more).

Using this database, Baycorp provides credit reporting and identity and anti-fraud verification services to over 5000 subscribers, including over 500 banks and mortgage lenders; 200 credit unions; more than 1000 finance companies; 500 retailers and telecommunications companies. It is this business that gives Baycorp a unique and specialised insight into the operations of credit in Australia, including consumer behaviour and patterns of default.

#### *Marketing and Decision Solutions*

Baycorp is also a leading supplier of data driven solutions for strategic and tactical marketing activity. It supports businesses with data driven support for marketing based on:

- Credit risk (GeoRisk: population clusters based on credit risk )
- Landscape (population clusters based on life stage and wealth characteristics)
- All finance (population clusters based on use of investment and credit products).

These resources all combine depersonalised data to help support businesses target their marketing activity to customers effectively and with great precision. For example, GeoRisk provides a standard geographic profile with ten levels of credit risk at the level of census collection district (200-250 households) and street segment (10-25 households). Landscape, drawing on address movement, depersonalised credit, lifestyle research, and property valuation data, as well as the Australian Census, provides maps of 11 major life stage and wealth groups, and 43 segments at the level census collection district and street segment. Landscape supports careful targeting of marketing strategies by mapping key drivers of customer behaviours to geography. (Examples of Georisk maps for Melbourne and Sydney are given at Appendix 1, and of Landscape Segments at Appendix 2.)

Extremely valuable to businesses in the management of customer relationships, Baycorp's competency in market segmentation and behaviour analysis may also be useful in the targeted public interest social marketing on consumer and financial literacy issues that is the subject of the Taskforce's Discussion Paper.

Baycorp Advantage also supports credit providers' decisions with credit scoring solutions, contributing its unique insight into some of the demographic, socio-economic and behavioural patterns for consumer behaviour in credit markets.

### *Receivables Management*

Baycorp Advantage's third major business is Receivables Management, in which it provides businesses with full service collection services, purchase of debt legers and loan portfolio administration and ledger management solutions.

### *Baycorp Advantage and the Taskforce*

Baycorp Advantage is uniquely positioned within Australia to assist the Taskforce and Government as it develops a National Strategy for Consumer and Financial Literacy. Two of the central propositions of the Taskforce's Discussion Paper are that:

- Demographic, socio-economic and life cycle events have predictive value in consumer decisions;
- Successful information and education interventions can be improved by effective targeting.

Baycorp's data-based business model is based on the truth of both these propositions. It has particular expertise in consumer credit markets, but its competency in understanding, predicting and targeting customer behaviour extends beyond the consumer credit market. To the extent that it is practically and commercially feasible, Baycorp is keen to contribute its experience and knowledge in these areas to the Taskforce and its successor.

## 4 Baycorp and consumer education

### 4.1 Baycorp's current consumer education initiatives

As a critical data-based and business intelligence service provider to business, Baycorp has traditionally had stronger relationships with its business subscribers and customers than with individual consumers. However, Baycorp's services are still very important for consumers:

- assisting consumers by reducing the overall cost of credit in the economy;
- supporting their appropriate access to credit; and
- helping to protect consumers against identity and credit fraud.

Baycorp's consumer education initiatives have, in the past, been focussed on:

- supporting disadvantaged credit consumers by a long-standing \$20,000 annual grant to support Creditline financial counselling services through the Australian Finance Conference;
- specific initiatives designed to increase consumer understanding of, and engagement with, their credit report; and
- in that context, education initiatives designed to increase consumer understanding of the risks of identity and credit fraud.

Baycorp also provides consumer education on a range of credit related issues on its website including the following:

- About credit files
- Understanding credit files, credit ratings and credit scores
- Overdue Accounts
- Credit and Identity Fraud
- Credit Providers

Baycorp holds records on approximately 13 million credit active individuals in Australia. While the *Privacy Act (1988)* gives consumers a right of access to their credit file, only 200,000 consumers seek to do so each year, usually in circumstances where a credit application has been refused.

Access to a credit file is gained for free, by writing or facsimile to Baycorp, in which case the report is returned within ten working days; or, by applying online ([www.mycreditfile.com.au](http://www.mycreditfile.com.au)) and paying a \$23.00 fee, in which case the report will be returned within one working day.

In addition, Baycorp Advantage allows consumers to subscribe to a monitoring service for their credit files called MyCredit Alert which alerts them to any changes made to their credit file over a twelve month period.

Baycorp, consumers and industry share a common interest in significantly increasing the number of consumers who regularly access their credit files. From Baycorp's perspective, regular action by consumers to check their credit file can assist to ensure that any inaccuracies not resolved by Baycorp's comprehensive data quality programs are identified as quickly as possible. From the consumer perspective, regular attention to their credit report can help them understand some issues that will be considered by credit providers when considering their application for credit, as well as help protect them against identity and credit fraud. Taken together, these may themselves encourage consumers to better manage their credit profile and provide an incentive for budgeting and saving. From industry's perspective, consumer engagement with their credit profile has similar advantages, reduces the unexpected disappointment consumers sometimes experience when an application for credit is declined, and reduces the wastage, loss of efficiency and cost to industry of declined credit applications.

As a consequence, Baycorp has sought over a number of years to increase the numbers of consumers accessing their credit file. It has usually combined such initiatives with messages about identity and/or credit fraud.

The most recent campaign, between September 2002 and March 2003, involved:

- banner advertising on websites (including NineMSN, and Sydney Morning Herald);
- writing to remind subscribers of their obligation to alert consumers to their rights in relation to credit files when a credit application is declined on the basis of a credit file;
- publication of consumer education pamphlets on credit files;
- an insert mailed to several hundred thousand Citibank customers;
- related public relations activity, securing extensive media coverage;
- supporting advertising campaign.

Baycorp also publishes its own consumer education leaflets on credit files and the credit application process.

## 4.2 Overseas experience

Credit bureaux provide a good means of targeting credit education materials as most consumers access their credit file in a context where a credit application has been refused.

Just as in Australia, overseas credit bureaux provide a significant range of consumer credit education material and experiences online. While it is true that the market and regulatory environment differs in Australia (Australian law prohibits the collection of 'positive reporting' information), these differences should not be such as to significantly alter the potential value or demand for such educational materials and experience.

- In the United Kingdom, Experian provides an online *Credit Report Help Centre* that provides information on credit reports, credit scores, identity fraud, credit fraud, and consumer issues education material on specific life events (moving home, bereavement or serious illness, credit refusal, divorce or separation, identity fraud, leaving home, redundancy or income reduction).
- Experian UK also provides a CreditExpert Service, which offers a similar service to Baycorp's MyCredit Alert. It provides consumers with unlimited online access to their complete credit history, and allows them to receive weekly alerts of significant changes via SMS or e-mail.
- In the United States, the three largest credit bureaux (Experian, TransUnion, Equifax) all provide education services targeted towards consumers. For example the *Equifax Learning Center* provides information and education on credit reports (including improving your credit score), identity theft, and specific consumer decisions such as buying a car or buying and refinancing a home. The TransUnion Credit Learning Center provides detailed material on credit access, credit reporting, and on specific consumer experiences such as recovering from bankruptcy, your first credit card, preparing for a loan, and credit warning signs.

While the core of these education resources is, as in Australia, the credit report and its place in the credit application process, international experience is that once sought, a credit report provides a very valuable opportunity to provide additional credit related education to consumers. This is particularly the case as credit reports are most often sought when credit has been declined, meaning consumers may be open to education that allows them to improve their personal circumstances.

### **4.3 Baycorp's future credit education initiatives**

In Australia, Baycorp Advantage is committed to strengthening its relationship with consumers. Where there is a business case to do so, Baycorp will develop additional products or services to assist consumers in their participation in credit markets. In addition Baycorp intends over the next 18 months to amplify its consumer education initiatives, in its own right, and in partnership with others.

Late in 2004, Baycorp Advantage intends to conduct a further and more extensive campaign to encourage consumers to access their credit file regularly. The campaign, conducted with the collaboration and support of industry, government, media and consumer partners, will provide consumers with the opportunity to access their credit file on-line for free for a month. The campaign would seek to:

- Educate consumers about the dangers of identity and credit fraud;
- Explain the dangers of inaccurate credit files and identity fraud;
- Encourage consumers to check their credit file for accuracy now;
- Encourage a repeat check of their credit file at least annually.

In conjunction with that campaign, Baycorp is exploring the scope for expanding its range of online tools and education materials that support consumers, learning from international experience. For example, Baycorp is considering providing a simple 'dummy' credit scoring model that allows consumers to gain some insight into how their credit application may appear to a credit provider.

Baycorp may also consider the scope to supplement its online consumer education resources with additional online resources targeted to particular life events, though decisions on these matters will in part be guided by directions set under the proposed National Strategy being developed by the Taskforce.

Finally, Baycorp is also seeking to increase its commitment to education and social marketing initiatives. In New Zealand, Baycorp is seeking to establish a school based credit education program involving the use of high-profile community figures to frontline education messages. Baycorp is keen to explore similar opportunities here in Australia and has already commenced discussions with a high profile public figure to that end.

As a medium sized institution, Baycorp is keen to leverage its efforts to best effect, concentrating on areas where it has expertise to offer, and on issues that have a widely agreed priority. The Taskforce's proposals in this regard are very welcome. Similarly, Baycorp is open to participating in further credit education partnerships

with industry, government and consumer partners as one means of leveraging its contribution. Its own experience of the challenges involved in establishing successful partnerships incline Baycorp to support proposals that would facilitate the process of establishing partnerships, including the Taskforce's proposal for a national co-ordinating body.

## 5 A National Strategy

The development of a National Strategy for Consumer and Financial Literacy is at the centre of the Taskforce's Terms of Reference. The impetus for such a national strategy has been building for a number of years.

Consumers' financial literacy is said to be facing increasing challenges due to:

- the development of more and more complex financial products;
- increasing consumer participation in investment markets;
- the shift of responsibility for choice about financial towards consumers;
- shifts in household savings patterns.<sup>2</sup>

The Taskforce Chairman's Preface to the Discussion Paper suggests that improvements in consumer and financial literacy should lead to "consumers creating more wealth, lower bankruptcies, less bad debts for financial institutions, a greater take-up of superannuation and quality investment products – less rip offs".<sup>3</sup> Further, it is argued that 'we have not developed the capability of all consumers to take advantage of these changes, nor to avoid the risks that come with greater access to money'.<sup>4</sup>

In considering the current range of public, private and community initiatives contributing to consumer and financial literacy, the Taskforce's Discussion Paper points to a range of problems in information and education provision, including fragmentation, the need for more effective targeting of initiatives, gaps in provision, and problems with effective co-ordination.

A national strategy seems an intuitively attractive response, and the Discussion Paper suggests that under such a strategy, "consumer and financial literacy needs to be embedded in the Australian culture in the same way that Australians know how to 'Slip, Slap, Slop' when going in the sun or wear a seatbelt while driving."<sup>5</sup>

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<sup>2</sup> See for example p 11 ASIC's *Financial Literacy in Schools* Discussion Paper. See also Senator Coonan's press release accompanying the release of the Discussion Paper: "The marketplace has become increasingly complex with the introduction of an array of financial products to meet the needs of everyday Australians," 11 June 2004.

<sup>3</sup> CFLT *Discussion Paper*, p ix

<sup>4</sup> CFLT *Discussion Paper* p 2

<sup>5</sup> CFLT DP p xv

These are useful comparisons, but there are some important differences which are worthy of consideration. First, both of these public health social marketing campaigns responded to a clearly defined problem. Second, both sought a very specific and simple behavioural response. Together these gave these social marketing campaigns a strong outcomes focus.

By contrast, with consumer and financial literacy, the complexion of literacy itself is a complex picture, as the ANZ's benchmark research has shown. As well, the problems that improved literacy might respond to are apparently much more diverse than the public health issues cited above, and appropriate behavioural responses equally so. While there is now a much greater understanding of weaknesses in financial literacy, thanks significantly to the contribution of the ANZ Bank's research, an understanding of how and in what circumstances improved literacy might lead to better outcomes needs further exploration.

One of the great strengths of the Taskforce's Discussion Paper is that it recognises that knowledge (or skill) is a necessary but insufficient condition for 'the ability to make informed judgements and to take effective decisions regarding the use and management of money'.<sup>6</sup> While we therefore strongly support the proposal for a national strategy, Baycorp shares the Taskforce's caution about the complexity of the task. If a national strategy is to have focus and be effective, it must have a strong outcomes focus. That will mean real care devoted to the definition of the problems that improved consumer and financial literacy are intended (and able) to address, as well as to the changed behavioural responses sought.

The Discussion Paper recognises the complexity of this challenge by its proposal for a Consumer Behaviour Model, proposing a mechanism by which government, industry, and consumers can come together to make exactly these sorts of judgements about problem and response within a common framework.

Even so, we believe that the national strategy should make very clear that it will be founded on a strong commitment to an outcomes focus, with clear definition of the problems improved financial and credit literacy is intended to address, and the behavioural responses sought, and to rigorous evaluation.

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<sup>6</sup> The definition of financial literacy taken from the UK National Foundation for Education Research and subsequently used by ASIC in its *Financial Literacy in Schools Discussion Paper* and the ANZ in its Survey of Financial Literacy.

## **6 Consumer Behaviour Model and targeting**

The Taskforce's Discussion Paper highlights the importance of co-ordinating and targeting initiatives under a national strategy to achieve significant improvements in consumer and financial literacy. The proposal for a Consumer Behaviour Model (CBM), which identifies the range of different considerations that influence consumer decision making, is an important means by which better co-ordination and targeting might be achieved. It provides a firm basis for an outcomes focus for a national strategy, by helping clearly to define the problems initiatives seek to address, the change in behaviour sought, and a basis for effective evaluation.

For the CBM to become an effective tool in this way, the Taskforce suggests that much further work needs to be done. While Baycorp has not sought to make detailed comment on any particular element of the model, as noted above, the core propositions that underlie it (that socio-economic, demographic, life events, needs and aspirations and personal characteristics have predictive value in understanding consumer decisions; and that careful targeting can improve the effectiveness of information initiatives) are both central to Baycorp's own business model. We therefore note that we, together with other parts of industry, have a potentially important contribution to make in assisting a future co-ordinating body to operationalise the model.

Secondly, we believe that even while the Taskforce and its successors develop the CBM as the preferred approach to targeting (both problems and particular consumer segments), there is good reason to continue to assert the importance of credit related issues to consumers, particularly low income and disadvantaged consumers. Our own perspective from close involvement in credit markets, together with a consideration of the evidence, suggests that credit related issues will continue to be of critical importance for many years, and we believe this should be reflected in the National Strategy, in accordance with Taskforce Terms of Reference 5.2:

*The availability of financial information in the broader community, especially the capacity of Australians to understand and manage credit risk.*

### **6.1 Consumer Behaviour Model**

The Taskforce's Consumer Behaviour Model identifies the key elements which can influence consumer decisions. An important advantage of the CBM approach is that it takes the perspective of the consumer, rather than of an industry or product, thus

providing a common basis for collaboration in an integrated strategy over time and across industry sectors.

On the other hand, the different elements of the model (the external environment; demographic, socio-economic and personal factors; life events; skills; and information sources) are in complex, multi-variant relationship to each other, and the model does not clearly articulate causal or influential relationships between factors. While comprehensive, therefore, operationalising the model faces some challenges in seeking to provide a tool that is robust, precise and yet remains conceptually simple enough to be useful to industry and consumer organisations.

The Taskforce asks for consultation comment on whether and how important each element of the CBM is, and how it might be used to assist information providers. Baycorp's data-based business intelligence services use a range of data in different ways: the more precise the information available on an individual, clearly the higher its predictive value. Even so, it is important to remember that such analysis suggests only probabilities, not certainties.

#### *Different elements of the CBM*

Socio-economic and demographic factors are important indicators for likely patterns of behaviour, and they become more so when combined with behaviour that indicates personal characteristics and preferences. Some examples drawn from Baycorp's credit decision (scoring) business shows how important these factors can be in helping understand the likelihood of a particular consumer behaviour. The behaviour analysed here is the likelihood of becoming a bad credit risk (having a 90 day or more default in payment or a debt written off within the first 12-24 months following application).

In the telecommunications sector:

- A person in employment for more than five years is 2 times less likely than average to demonstrate the default behaviour
- Home owners are 3.5 times less likely than the average to demonstrate the default behaviour;
- Those professionally employed are 2.5 times less likely than the average to demonstrate the default behaviour;
- Unskilled and unemployed people are 2 times more likely than the average to demonstrate the behaviour.

In the motor finance sector:

- Renters and boarders are 1.5 times more likely than the average to demonstrate the default behaviour;
- Home owners and buyers are 3 times less likely than the average to demonstrate the default behaviour ;
- Those employed for less than 18 months in the same job are 1.5 times more likely than the average to demonstrate the default behaviour;
- An individual with one or more unpaid defaults in the last five years are four times more likely than the average to demonstrate the default behaviour.

These indicators, a mix of characteristics and behaviours are themselves indicators for other underlying socio-economic, demographic and life event characteristics. Baycorp's lengthy experience in credit markets allows it confidently to give weight to each. In the context of further development of the model, interrogation of this experience and data may assist more detailed consideration of the relative weight that should be accorded different elements, and their causal relationships, in the CBM.

*How information providers might find the CBM useful*

In relation to the second question, how information providers might use the different elements of the CBM, the Discussion Paper suggests a number of different uses for the CBM including:

- Helping to target specific skills, attitudes and behaviours;
- Encouraging effectiveness, efficiency and consistency across sectors in the provision of information;
- Providing for a match between information programs and consumer problems;
- Providing a basis for assessment of effectiveness.

Operationally, this will probably mean that the tool could be used for three distinct purposes:

- To map potential problems with particular segments of consumers and current responses on a consistent basis;
- To help shape appropriate responses well targeted to specific circumstances; and
- To provide a basis for consistent evaluation of the responses.

The Discussion Paper suggests that operationalising the CBM "would include incorporating relevant data streams..., complaint data..., attitudinal research...and

relevant socio-economic data”<sup>7</sup>. Baycorp Advantage believes it may be able to assist with relevant expertise and data.

For the first purpose suggested above, mapping potential problems, Baycorp may be able to provide valuable data in relation to the credit market, based on records representing 90% of the credit active population.

Baycorp may also be able to assist with operationalising the CBM in relation to the second purpose identified above – helping shape appropriate responses well targeted to specific circumstances. Attitudinal research, such as the ANZ Financial Literacy Survey, will have an important role to play here. But so also might data that helps to either predict or understand consumer behaviour, or to help target information responses. For example, Baycorp has two relevant dynamic data tools that might assist in understanding consumer behaviour and in targeting information and education initiatives, especially by geographic segmentation. These tools combine some of the key elements identified in the CBM in such a way as to support effective marketing. (A table summarising the lifestyle groups and segments in Baycorp’s Landscape tool is at Attachment 2.)

In summary, operationalising the CBM will require attention to ensure that it can support robust precision, while remaining conceptually simple enough to support widespread use.

Industry can contribute to the development of the CBM by the contribution of relevant data. Baycorp Advantage may potentially be able to assist with data and expertise in relation to some elements of the model (socio-economic and demographic, personal characteristics and life events), and to develop understanding of the weight and causal relationships that should be given to different elements of the model.

Data and expertise may also be available for the purpose of shaping and targeting appropriate information and education responses. Baycorp will have less to offer on other elements of the CBM, including the external environment, information sources and preferences, and skills.

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<sup>7</sup> CFLT DP, page 10

## **6.2 Credit issues in the National Strategy**

The Taskforce's proposed approach to the identification and targeting of literacy issues has real strengths. Having said that, and without wishing to pre-empt the further consideration of the Taskforce, Baycorp also believes there are strong reasons why the importance of credit products and issues associated with them should be explicitly recognised within the National Strategy.

The Taskforce's Terms of Reference requires it to consider

*The availability of financial information in the broader community, especially the capacity of Australians to understand and manage credit risk<sup>8</sup>*

The ANZ Financial Literacy Survey found that literacy levels with banking and credit products were comparatively strong.

- Knowledge of fees for credit cards (88%) and mortgages (84%) was relatively high compared to other products such as managed funds (60%) and superannuation (44%)
- Understanding of statements for credit cards and bank accounts was higher (85%) than for superannuation (21% who received and read, but didn't understand their statements)<sup>9</sup>

These results are perhaps unsurprising given the penetration of banking and credit products in the market place over many years. In the context of the Taskforce's work, they are an encouraging sign of the potential success of education efforts, and a testament to the extensive efforts of banks, credit providers, consumer organisations and governments over many years.

The Discussion Paper says that "there appears to be more information available to consumers on credit and loan products and how to manage borrowing...and less on insurance and superannuation"<sup>10</sup>, while noting that further research on priority issues within the framework of the Consumer Behaviour Model needs to be undertaken to determine whether this balance is appropriate.

While it does not wish to pre-empt this further research and consideration, Baycorp believes that there are good reasons why credit and management of credit risk

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<sup>8</sup> CFLT DP page 97

<sup>9</sup> ANZ Survey of Financial Literacy in Australia – Final Report pp 3-10, 32

<sup>10</sup> CFLT DP p 50

deserve some priority, and that therefore credit and management of credit risk should receive explicit acknowledgement in the context of the National Strategy.

There are a number of reasons for this view. First, while superannuation and other investment products are growing in coverage, credit products remain among the most widely distributed in the population. Second, credit products are heavily relied upon by low income and other disadvantaged consumers and increasingly by young consumers. Third, the consequence of a negative credit experience such as over-commitment can be immediate, severe and long lasting for these low income households.

Analysis of the *Household Income and Labour Dynamics Survey 2002* undertaken by the Melbourne Institute of Applied Economic and Social Research<sup>11</sup> provides a valuable insight into the place that credit has in the lives of Australians, especially compared to other financial and non-financial assets and liabilities.

- A housing mortgage is the single most important financial product for most households, with almost two thirds of households owning or buying their own home. Housing related debt represents 75% of household debt;
- Most households are relatively illiquid, with large amounts of financial debt and non-financial assets in the form of property;
- The bottom 50% of households have 56% of credit card debt, 42% of other debt, only 10% of superannuation assets, 5% of equity, and overall, only 9% of household net worth.

These data show the importance of credit products to the majority of households, especially when compared to financial products like superannuation and equity. While the value of superannuation assets is growing, nonetheless credit products retain a very important place on the balance sheet of the majority of Australian households.

The place of credit in the financial arrangements of low income and disadvantaged households is also striking. The ABS study *Household income, living standards and financial stress*<sup>12</sup> provides a detailed insight into the financial stress affecting a significant number of Australian households. Using analysis of 1998/99 Household Expenditure Survey data, it shows that a startling 22% of households in the lowest income quintile, and a further 20% in the second quintile spent more than they received in the previous twelve months. 900,000 households or 13% of Australian

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<sup>11</sup> *The Structure and Distribution of Household Wealth in Australia* Headey, Marks and Wooden, Melbourne Institute Working Paper No 12/04 July 2004

<sup>12</sup> *Household income, living standards and financial stress* McColl, Pietsch and Gatenby ABS 1301-0-2002

households indicated high financial stress (five or more indicators such as spending more than receiving, pawning or selling an item, not being able to pay a gas or utility bill on time), including a quarter of the lowest income quintile and a fifth of the second quintile. While low income households do not in absolute terms carry more debt than other households, their low level of assets make the significance of the amount of debt they do carry greater. Thus the lowest 10% of households in the HILDA survey carry a mean of \$12,000 debt, with \$3,000 in superannuation, \$4,000 in a car, and \$1,000 in bank accounts. It is also worth noting that, compared to Reserve Bank of Australia data, the HILDA data appear to understate the level of household debt holdings.

For these low-income households, access to personal credit (often 'bad credit' for household consumption, in the terms of the Discussion Paper and the ANZ Financial Literacy Survey) was a crucial issue. These are exactly the sorts of individuals that the ANZ Survey results and other similar studies found have difficulties with credit products.

- While 79% of the ANZ's survey sample understood the difference between 'good' and 'bad' debt, the difference was not well understood by those with a low level of education, semi-skilled/ unskilled/ farm workers and those with a low income<sup>13</sup>;
- 44% of the ANZ's survey sample were not accurate on the reasons for a bad credit rating;<sup>14</sup>
- In another study of consumer credit behaviour, low income consumers were found to be much more likely to focus solely on finding a provider who would grant credit, rather than seeking competitive terms and conditions. In many cases, this led to their reliance on 'linked credit' products provided at the point of sale for household and other goods, where 32% accept the credit on the same day as they first consider it, and 39% are most influenced to buy by advertising (compared to only 14% for mortgages, and 11% for personal loans).<sup>15</sup>

The consequences of a negative credit experience, including restricted further access to credit, recovery action and even bankruptcy, can be quite rapid and significant for these households, as Baycorp's own knowledge of its credit reporting data shows.

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<sup>13</sup> ANZ Survey Final Report p 55

<sup>14</sup> ANZ Survey Final Report p 26

<sup>15</sup> *Taking Credit a survey of Consumer Credit Behaviour* for the Ministerial Council on Consumer Affairs, Justin Malbon 1999.

For these reasons, Baycorp believes that it is important to continue to assert the relevance of credit issues, particularly to lower income consumers. The data cited here is well understood by industry, consumer organisations and policy makers. Baycorp notes that there are a number of sound reasons why other priorities for literacy initiatives may compete with credit in a national strategy. These include the continuing growth in the place superannuation savings have in household savings; the recent policy change to provide consumer choice in superannuation; and the fact that regulation of consumer credit is a State and Territory, not Commonwealth responsibility. We acknowledge the importance of these issues, but believe for the reasons cited above, that the National Strategy should give appropriate weight to credit literacy for consumers, including understanding and management of credit risk. And, as noted previously, Baycorp is open to contributing its own unique, specialist expertise in understanding credit issues to the work of the Taskforce and its successor.

## 7 Information or education

Throughout the Discussion Paper, the terms information and education are used somewhat interchangeably to describe the range of initiatives provided by industry, consumer organisations and Government.

It seems desirable for the National Strategy to distinguish between the different types of information, education and advice that can or are provided not only to facilitate better co-ordination, but also to help distinguish appropriate roles for different parties.

As noted earlier, some of the language of the Discussion Paper has a social marketing flavour, for example the comparisons to the ‘Slip, Slap, Slop’ public health campaign. It might be useful for the Taskforce to provide some guidance about where such social marketing sits alongside other initiatives including:

- Other education initiatives that explicitly seek behaviour change;
- Individual advice;
- Information that is provided with a more neutral alignment to behaviour;

Industry also has a range of information initiatives targeting its customers, ranging from product information, to advice, to marketing.

Distinguishing between these different forms of information provided for consumers may be helpful in distinguishing roles under the National Strategy. The Discussion Paper appears to give priority to education and social marketing initiatives that are targeted and explicitly seek behaviour change. For example, the discussion of the Consumer Behaviour Model and international experience suggests that successful programs “need to target specific skills, attitudes and behaviours”<sup>16</sup>.

If education and social marketing are the priority of the Taskforce, we suggest that this be made clear in the National Strategy; that the terms information, education and social marketing be defined and distinguished; and that the role and contribution of industry, government, and consumer organisations be described in relation to these.

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<sup>16</sup> CFLT DP p 8

## 8 Coordinating Body

The second important initiative canvassed by the Taskforce in its Discussion Paper is for a national co-ordinating body to promote a coordinated and targeted approach by:

- developing the Consumer Behaviour Model
- conducting research
- providing a clearinghouse to assist consumers and providers;
- accrediting information for use in schools
- conducting awareness campaigns on priority issues
- building capacity with grants
- fostering participation and partnership in consumer and financial literacy.

In principle, Baycorp Advantage supports the establishment of a national co-ordinating body. Its own experience over a number of years has demonstrated the challenge of integrating highly specialised education initiatives (for example campaigns to update MyCredit File) into the wider landscape of consumer and financial literacy initiatives. Efforts to work collaboratively with industry partners, consumer organisations, and government are challenging and require significant commitment of time and resources. Different parties have a range of different interests in participating in collaborative initiatives, and negotiating through these is not always easy. However, Baycorp's experience in developing collaborative education initiatives, in New Zealand and here in Australia, demonstrate the value of partnerships to amplify effort and to achieve better integration. If a co-ordinating body can be effective in facilitating such partnerships, it will be a welcome development indeed.

The Discussion Paper suggests that a key to success for the proposed body is an ability to “wield influence without actually managing the activities of individual organisations”<sup>17</sup>. A number of factors will contribute to the capacity of the body to wield influence.

The first and most important is that the co-ordinating body should follow the lead established by the Taskforce and proceed from a sound evidence base in all of its work. With a reputation for a sound evidence base, even a body with few staff and few resources can be expected to wield significant influence. This principle is so important to the credibility of the body that we believe it should be explicitly stated as a principle in the National Strategy. Industry has already contributed significantly to building an appropriate evidence base, for example through the

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<sup>17</sup> CFLT DP p 68

ANZ's benchmark Financial Literacy Survey. Industry often has considerable expertise and data that it can contribute. As identified elsewhere in this submission, Baycorp Advantage has particular expertise it could contribute in relation to credit issues; and in relation to the development of elements of the CBM to understand consumer behaviour better, and to help shape and target education initiatives. It is open to discussion with the Taskforce and Government on how it may contribute this expertise in a manner that is useful to Government and reasonably practical for it with respect to its normal commercial activities.

A second important factor in the co-ordinating body's influence would be its perceived independence from any particular sectional interest. This independence would be demonstrated by the rigour of its evidence based approach as much as structural factors such as the composition of its governing body.

The co-ordinating body should be established with the widest possible support. In this regard we note the importance of State and Territory jurisdictions, especially in relation to consumer credit matters. If the co-ordinating body is to achieve a better integrated national response, consideration will need to be given to the effective engagement of State and Territory governments and agencies.

One of the major challenges for the co-ordinating body is to develop the Consumer Behaviour Model as a simple, practical tool that can be widely used by industry, consumer organisations and government. This is no small task, given the range of theoretical disciplines the model draws on, the range of data required to give it an evidence base, and the range of consumer circumstances for its application. Holding to its conceptual simplicity will be important if it is to be successfully developed and operationalised.

Finally, and without wishing to pre-empt the Taskforces recommendations, Baycorp Advantage notes that for it, contributions to the work of the co-ordinating body are most likely to be in the form of expertise and data, and possibly financial participation for specific education partnership initiatives sponsored or facilitated by the co-ordinating body. Baycorp believes that the core funding for the co-ordinating body is a responsibility for government. Adequate government funding should also contribute to the perceived independence of the body.

## 9 Positive Reporting

Baycorp Advantage is aware that various proposals for the reform of regulation of credit reporting to allow positive reporting are currently being made. As the overwhelming market leader in credit reporting in Australia and New Zealand, Baycorp Advantage believes it has a responsibility to make its position on positive reporting clear for the benefit of the Taskforce.

Currently, the Privacy Act (1988) Part IIIA s 18E restricts the matters that can be held on a credit information file, largely to permitted identifying personal information, previous credit applications, defined incidents of default, and court and bankruptcy orders. The Act prohibits the holding of 'positive' information, including details of payments and accounts not in arrears. Most other jurisdictions, including the United States and the United Kingdom, permit different levels of positive information to be held by credit bureaux.

Briefly, Baycorp's position is that there are a number of arguments in favour of positive reporting, including more equitable access to credit for lower income consumers and more efficient operation of credit markets<sup>18</sup>. Equally, Baycorp Advantage is conscious that significant concerns about positive reporting have been raised over many years in this country, including by consumer and privacy organisations. Accordingly, Baycorp does support a rigorous public policy debate about the merits of positive reporting in the Australian context, and would support a Taskforce recommendation to that effect.

However, a more immediate and more important priority for Baycorp Advantage is to continue to work to make the current (negative) credit reporting regime more effective for both business subscribers and for consumers. In particular Baycorp has a high priority on data quality programs which provide for continuous improvement in the quality, consistency and accuracy of data provided by its subscribers and in its own data accuracy standards. Baycorp also believes that it is a very high priority to encourage a significantly greater number of consumers to access their credit file regularly, and to take active measures to ensure accuracy of individuals' credit files. Currently only around 200,000 consumers do so each year, of approximately 13 million consumers for whom a file exists.

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<sup>18</sup> Recent research has provided further detail for these propositions, including "The Value of Comprehensive Credit Reports: Lessons from the US Experience" Professor Michael Staten (Georgetown University) and Professor John Barron (Purdue University) unpublished paper 2003, provided by the Australian Finance Conference.

Baycorp's understanding of its own subscribers' views (including all the major credit providers) is that an important and pressing priority for them is for enhanced verification and anti-fraud services. The increasing incidence of identity theft and credit fraud is a major issue for consumers as well as for credit providers. These issues are therefore a significant priority for Baycorp Advantage. It is participating in the policy development process on Anti-Money Laundering Reforms being led by the Attorney General's Department, and is continuing to seek to enhance its verification services by seeking a means to undertake matching of Proof of Identity document data with government issuers.

The current (negative) credit reporting system is already an essential and very effective contributor to the efficiency of Australian credit markets. It can be made more so, even without regulatory reform to introduce positive reporting.

## 10 Conclusion

Baycorp Advantage welcomes the opportunity presented by the Taskforce to make a contribution to consumer and financial literacy that matches the significant contribution it makes to the efficient and fair operation of Australia's credit markets.

The two propositions that are at the heart of the Discussion Paper are also at the heart of Baycorp Advantage's own business model. These are that:

- Demographic, socio-economic and life cycle events have predictive value in consumer decisions;
- Successful information and education interventions can be improved by effective targeting.

Baycorp Advantage already has commitments intended to strengthen its relationships with consumers, by expanding product and service options where commercially appropriate, and by contributing to consumer education alone or in partnership with others.

Baycorp is also willing to contribute to the further work of the Taskforce, and of the future co-ordinating body by contribution of its unique expertise. This may be especially relevant in the context of the further development of the Consumer Behaviour Model. The exact form and scope of such assistance would be a matter for further discussion, and would be subject to practical limits consistent with Baycorp's commercial activities. However, we are confident we can make an important contribution and are keen to do so.

Baycorp supports the key proposals of the Taskforce, including a National Strategy, and Consumer Behaviour Model and a national co-ordinating body. As an organisation that has detailed knowledge of some of the consequences of low literacy and poor decisions for consumers, Baycorp is committed to support initiatives that can contribute to better outcomes.

We thank the Taskforce for the opportunity to make a submission.

## **11 Appendix 1 – GeoRisk Maps**

## **12 Appendix 2 – Landscape**