

FILED ELECTRONICALLY February 15,2013**RE: Comments on Consultation Paper 198**

Veritec submits these comments on questions contained in Consultation Paper 198. Veritec currently operates in 14 US jurisdictions covering over 85 million consumers. Veritec provides technology to the regulatory agencies in these State jurisdictions to enforce respective short-term lending policies and consumer protections. This technology has provided effective enforcement of these policies to successfully eliminate the cycle of debt and “unsuitable lending practices” while allowing industry to provide much needed short-term credit to eligible consumers.

Note that Veritec previously commented on the Amendment and other publications; we now seek to provide input for the ASIC consultation concerning the effectiveness of an online database for small amount lenders.

Veritec is of the opinion that the short-term credit market operates in a unique fashion that provides challenges to traditional underwriting methods and regulatory controls. This is also noted by ASIC in its 2010 review that, even though many lenders put responsible lending policies in place, the product design and target market are often at odds with responsible lending guidelines. Traditional products (e.g mortgage loans, automobile loans, credit cards) are normally granted by lenders who recognize the purpose of the loan and then adequately underwrite their extension of credit. Short-term, high-cost loans (e.g., payday loans, consumer finance loans) are typically granted with very few, if any, questions asked and are designed for short-term consumption. A typical payday lender grants the loan based on the consumers current income stream with little regard for credit worthiness or impact to the consumer’s long-term financial well being. Limited restrictions on re-financing (i.e. roll-overs) may enable a lender to improve their profitability on the loan, to the detriment of the borrower, by simply extending the loan numerous times for a fee charge. Short-term loan products are typically not recorded on credit reports which further enables an environment allowing consumers to avail themselves of numerous, simultaneous short-term loans. Consequently, this situation can result in substantial hardship for the consumer and enormous pressure on their household finances. These circumstances are common in the short-term lending market and place the product at odds with what policy-makers recognize as responsible lending practices.

Government policy to regulate the marketplace for short-term, high cost, unsecured, small-dollar lending should ensure that the loans conducted under this regime stay short-term and small-dollar. Many jurisdictions are faced with this policy challenge to weigh cost/benefit of responsible restrictions on industry that allow for robust consumer protections and appropriate risk-based pricing for an unsecured short term loan. Effective Government policy will enable consumer access to short-term credit and enforcement of responsible lending practices in a manner that does not impede the ability of licensees or consumers to conduct business.

Question B1 – *Should it be mandatory for credit licensees:*

(a) *to register all small amount loans in a database; and*

(b) *to make an inquiry from the database to determine whether a consumer has two or more small amount loans in the preceding 90 days or whether a consumer has a current small amount loan that is in default before entering into a new small amount loan?*

B1Q1 - *Would such a requirement be an effective means of enabling small amount lenders to determine whether consumers trigger the presumption of unsuitability?*

Yes. The short-term credit market in Australia is similar to markets found in the United States, Canada, Great Britain and other European countries. Each of these jurisdictions recognizes common abuses associated with short-term credit products (e.g., roll-overs, multiple borrowing, additional fees, etc.). Several industry trade associations in these jurisdictions promote “best practices” to address these common abuses including prohibition against roll-overs and encouraging members to decline consumers who are in extended repayment plans.^{1,2}

Implementation of proven technology enables lenders to ensure compliance with industry best practices. Why would industry be opposed to implementation of a small loan database that enables compliance with industry-published best practices that are consistent with regulations noted in Consultation Paper 198?

Consultation Paper 198 noted that the Enhancements Act establishes presumptions about small amount credit contracts and their suitability. Accordingly, implementation of the database should have two primary objectives as follows:

Objective 1: Provide the lender with relevant compliance information concerning current obligations for a prospective borrower across 100% of the market. A market-wide small loan database that captures all transaction information in real-time will enable credit licensees to assess a prospective borrower’s indebtedness and determine if contracts offered by the credit licensee are consistent with regulations.

ASIC can determine how much information is shared between lenders to ensure the appropriate level of information privacy. For example, State of Illinois regulations require that a consumer is not to owe more than 30% of their current gross monthly income on the combined payments of multiple small dollar loans. The small loan database in Illinois indicates to the lender whether or not a prospective borrower meets that threshold OR whether the contract under consideration will place them over that threshold. The small loan database in Illinois provides this feedback to the credit licensee in real-time (i.e. before a credit contract is offered) and also ensures that the key terms of an authorized credit contract are in compliance with regulatory requirements for amount, term, fees and other regulations pursuant to policy.

The database can provide the lender with the information necessary to comply with regulations (e.g., total outstanding obligation for a prospective borrower) without disclosing proprietary information about a prospective borrower or their activity with a different credit licensee.

¹ Community Financial Services Association of America (“CFSA”), Best Practices for the Payday Advance Industry available at the following website link:

http://cfsaa.com/Portals/0/Members/CFSA_MembershipKit_BestPractices.pdf

² Canadian Payday Loan Association (“CPLA”), Code of Best Business Practices available at the following website link:

<http://www.cpla-acps.ca/english/reports/09-1215%20CPLA%20Code%20of%20BP%20Poster.pdf>

Information privacy requirements will ensure that the database may not be used as a marketing tool or to gather private information about prospective customers. Information about a borrower and their transaction data is not shared between credit licensees.

Objective 2: Enable ASIC to access database information for the purpose of supervising regulatory compliance and maintaining market integrity. The small loan database captures detail of key events at a transaction level across all credit licensees such as “determination of suitability”, consummation of a credit contract, payments applied to a contract, and completion of a contract. ASIC may determine which actions and information are captured by the small loan database as necessary to ensure effective regulatory oversight. ASIC may also determine whether the small loan database actively “rejects” a non-compliant prospective transaction (i.e. provides a “hard-stop”) or allows the credit licensee to determine suitability and make their own determination about whether or not to proceed with the credit contract. In either case, the database provides information to help the lender determine suitability of a prospective credit contract and ASIC will have 100% of this information captured for compliance review.

Analysis of information contained in the database will enable ASIC to efficiently and effectively target suspicious activity and assist credit licensees with maintaining compliance. For example, ASIC could promptly identify a situation in which loans were granted by a credit licensee to a consumer who already had 2 loans in the previous 90 days. This information could then be compared to the entire population of licensees and loans over the same period to determine if that licensee is within normal lending averages or warrants further detailed examination.

B1Q2 What would be the likely cost to credit licensees or to consumers of such a requirement? We are interested in the likely cost of entering data into the database as well as the cost of making a database inquiry.

The database can be implemented at no cost to Government as has been demonstrated in the US jurisdictions. A small transaction fee is charged to the credit licensee for each consummated loan contracts. This transaction fee typically represents less than 0.5% of the average fee charged to a consumer for the average loan. There is no compliance inquiry fee, software fee, call center fee, compliance reporting fee or any other costs for use of the regulatory compliance database.

Credit licensees can determine how they wish to interact with the database system using any of three interface channels that are available 24 x 7 x 365 as follows:

- Browser-based application system.
 - Provides a solution that is freely available to all lenders.
 - Access to the web-browser requires an Internet connection. The browser-based application enables the licensee to securely submit data and receive information from the database. A typical “suitability inquiry” requires only seconds to perform. Data input required to register a credit contract with the database requires less than 3 minutes for data entry and the response is immediate.
 - The public website for the South Carolina database is shown below as an example.

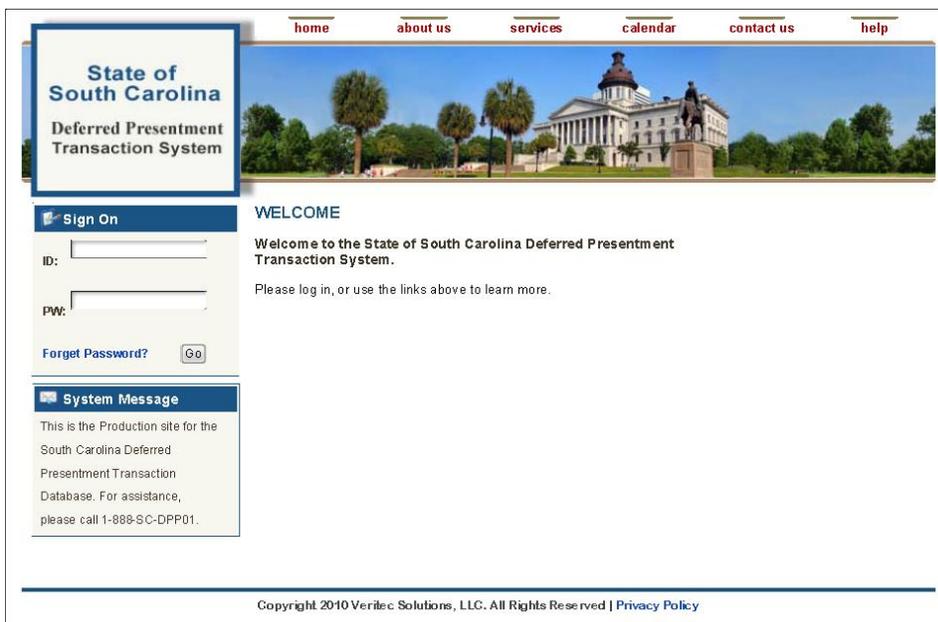


Figure 1 - South Carolina Database Home Page

- Non-browser based automated interface.
 - Standard XML interface enables integration with existing systems and processes.
 - Interfaced with most major POS (i.e. Point-of-Sale) software providers and payday advance company software systems.
 - Typical cost for a licensee to integrate their software system with the database is a one-time internal software development cost of approximately 40 hours or less. The licensee benefits include a lower cost of compliance and cost of supporting ASIC examinations because all transaction information is in the database and available to the regulator.
- Toll-free interactive voice response system (IVR) and / or customer service representative. A toll-free number is available for both credit licensees and consumers. The IVR system also enables credit licensees to conduct a “suitability inquiry”, register a new loan transaction and / or close a loan transaction via touch-tone phone should their internal systems or Internet connection become unavailable.

The industry may suggest that there is a huge cost for use of the database. However, this is not consistent with actual experience over a decade of compliance. The database transaction fee for a single loan represents less than ½ of 1 percent of the average fee a credit licensee is charging the consumer for the loan.

B1Q3 - Are there potential flow-on effects or consequences from making such a requirement? For example, would credit licensees be less likely to subscribe to credit reporting agencies because this is not mandatory and would incur an additional cost?

The answer to this is mixed. The primary function of the small loan database is to answer the question “Can I conduct this loan in compliance with regulations related to suitability of the loan

for this prospective borrower?” The primary function of a credit bureau is to answer the question “Should I conduct a loan with this prospective borrower; what is their likelihood of paying back the loan?” ASIC is aware from its existing reviews of the industry that many short-term credit licensees currently don’t utilize credit reports from credit agencies because they contain very little useful information about a prospective borrowers ability to re-pay a short-term loan. However, credit agencies are able to provide subscribers with information about their customer’s identity and overall financial situation. The small loan database does not replace this information.

The US small-dollar lending industry has been operating for over 20 years. The US market has 3 major credit reporting agencies and at least 4 subprime credit reporting agencies that have significant market penetration. The short-term lending market operates differently from traditional lending markets. The short-term consumer is generally a credit captive and, in many cases, has either no credit established or has only a sub-prime credit history. Many lenders advertise that there are no credit checks and that a short-term loan will not “harm” your credit record. Some of the attractiveness of this product to the consumer is its credit anonymity.

B1Q4 - Does the fact that the Australian responsible lending obligations involve a principles-based approach, plus specific rebuttable presumptions for short-term loans, mean that a database would be less useful than in overseas jurisdictions where the legal requirements are more definitive?

No. The real-time database has multiple purposes. First and foremost is what the consultation identified; to enforce prescriptive prohibitions in real-time to prevent common abuses with short-term loans. The database typically operates under two scenarios; 1) a “hard stop” on transactions that ASIC would determine as prohibited or 2) a “soft warning” which is recorded for ASIC to determine if the lender is following responsible lending guidelines. However, there is much more that both ASIC, the consumer, and the industry would benefit from a small loan database. A real-time database enables licensees to ensure that 100% of all licensed transactions are in compliance with regulatory requirements for the terms of a loan. For example, the Province of Ontario just announced that they would seek to cancel the license of their largest storefront lender due to violations associated with the fees and terms charged to customers in Ontario.³ A small loan database would have prevented this situation from occurring by ensuring that each loan recorded on the database is 100% in compliance with allowable fees contained in the Enhancements Bill. The database is also capable of enforcing additional prescriptive rules contained in the Bill. For example, borrowing limits placed on an individual who is currently receiving Centrelink payments. The database is capable of interfacing with the Centrelink system (under ASIC control) to confirm a consumer’s eligibility and verify income. ASIC can determine whether the database enforces a “hard stop” on a loan transaction if the amount is greater than allowed. Alternatively, ASIC may choose to have the database simply record that the lender conducted this transaction which appears to be greater than the allowed amount. There are a number of areas where the database can provide a “soft warning” to the lender related to the prospective borrower’s condition. The database contains information about past transaction history, past due loans, defaulted loans and other details that may assist the lender in determining suitability for a prospective loan.

³ Ontario wants to revoke licence of payday cash stores, Mike Crawley, CBC News, Feb 5, 2013 <http://www.cbc.ca/news/canada/toronto/story/2013/02/05/toronto-cash-payday.html>

The database captures information in real-time to provide ASIC with 100% of market-wide transaction information conducted by all licensees. The database provides ASIC with the ability to conduct sophisticated analytics to identify suspicious activity and determine if a follow-up examination is needed for a particular licensee. This approach is far superior and less costly than a manual examination which may or may not occur in a timely fashion. For example, a database query can identify patterns in the marketplace such as a significant discrepancy in verified income for borrowers between different licensees and licensees who may be lending more than a suitable amount to these borrowers. The database can also identify licensees who may have higher than average loan to income ratios for their customers indicating a potential issue with their due diligence about whether additional indebtedness is suitable for a borrower.

ASIC could determine if this was acceptable by reviewing the other information gathered by the lender, or if there was a deliberate disregard for responsible lending.

B1Q5 - Would such a requirement lead to avoidance, such as structuring loans that fall outside the definition of a small amount credit contract?

There has been no evidence cited by any study that a real-time database which enforces well-structured policy leads to avoidance. For example, Washington State (as cited by the consultation) provides evidence that the policy of an 8-loan annual limit may lead consumers to unlicensed short-term loans from offshore illegal lenders. The policy that may be causing this is the hard cap of 8 loans per year. The database is simply enforcing that policy. In fact, there are currently 2 bills introduced in the Washington State legislature for 2013 to increase the cap of 8 loans a year to 12 in order to reduce the consumer’s incentive to shop for an illegal loan. The Enhancements Bill very little in common with the Washington environment and, as noted by the consultation, the prescribed rules are much less restrictive than in most US jurisdictions.

Experience in Florida, and other US jurisdictions, illustrates that well-structured policy with real-time enforcement has enabled a growing market for responsible short-term credit. The chart below illustrates the volume growth in Florida over the past 10 years with an industry operating in a real-time database enforced environment.

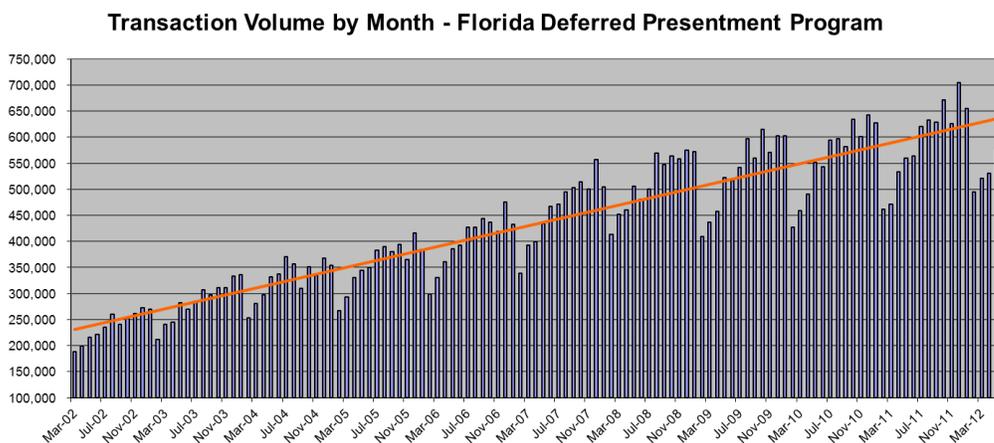


Figure 2 - Florida Transaction Volume

Fifteen US states have passed legislation containing a small-loan database requirement and 6 additional states have 2013 legislation to implement real-time small-loan databases for enforcement of small-dollar lending policy (New York, Pennsylvania, Rhode Island, Kansas, Missouri and Idaho).

B2 – If a database of small amount loans is in place in Australia, what information should be recorded in it and made available to a small amount lender on inquiry?

B2Q1 - Are there any practical difficulties in obtaining the relevant information to be included in the database?

No. Information captured by the small-loan database should be limited to only the information required to ensure compliance with regulatory requirements. For example, basic borrower demographic information and specific loan transaction information is typically all that is required to ensure compliance with regulations. This is typically far less information than captured by the licensee in a loan contract and recorded by the licensee in their internal systems. Currently, the database averages less than 20 fields of information in all of the US jurisdictions.

ASIC may specify additional information necessary to maintain licensee compliance with responsible lending guidelines. For example, ASIC may wish to capture information used by a licensee to determine that a consumer has an account with an authorized deposit-taking institution; this type of information can be submitted to the database for regulatory review.

B2Q2 - Does entering the actual completion date of a small amount loan raise practical difficulties?

Submitting the actual completion date of a small loan to the database has not created practical difficulties in any of the fourteen US jurisdictions with a database in place. Licensees are already recording receipt of payment(s) for transactions to adequately track the loan. Submitting this information to the database happens automatically for licensees that integrate their internal systems with the real-time database. The lender's own POS system is automatically sending information to the database upon entry. A licensee who uses a web-browser interface can submit information about completion of a loan to the database in less than one minute. Also, should a licensee enter incorrect information into the database, ASIC can establish parameters for licensee correction of data. Transaction update activity is logged in the event ASIC determines that further examination is warranted on questionable transactions.

B2Q3 - Would it be problematic for lenders to include information on the default of small amount loans in the database, noting that this would require a credit licensee to provide information to the database during the course of the loan (rather than only at the commencement and completion of the loan).

Actual experience has shown that submitting default information to the database is not problematic. This is a requirement in a limited number of states. Depending on how ASIC defined "default", additional information may not be necessary for submission to the database. For example, the database can internally recognize when a loan has an outstanding balance beyond the due date of a loan or if a borrower has not timely completed the agreed upon terms of a repayment plan. When a licensee is required to update their own records for a default, the same information can also be submitted to the database.

ASIC may wish to consult with the industry as to whether a consumer who is in default or in a structured repayment plan demonstrates unsuitability for additional concurrent loans. Many jurisdictions restrict additional borrowing while the borrower is in a repayment plan with the idea being that any additional indebtedness would cause excessive hardship. NOTE that payday lenders in Canada and the United States put prohibitions in their best practices when consumers are in extended payment plans.^{1,2}

B2Q4 - What information should be provided to the lender who makes an inquiry of the database? For example, should the database provide the inquiring lender with a response as to whether the consumer triggers the presumption of unsuitability and a brief reason, or should more details of the relevant small amount loans held in the database be released?

The database should respond in a manner that reveals the least amount of information necessary to communicate whether a prospective loan contract is in compliance with regulatory requirements. Current database jurisdictions provide this basic information for an inquiry. A sample “declined eligibility” message from the South Carolina database is shown below.

Dear Customer:

Pursuant to Chapter 39 of Title 34 of South Carolina Code of Laws, South Carolina Deferred Presentment Services Act, you are not eligible to enter into a deferred presentment transaction in the State of South Carolina because **you have an outstanding deferred presentment transaction**. Laws regulated by the State of South Carolina Board of Financial Institutions, Consumer Finance Division, state the following:

- A customer is ineligible if he/she has an outstanding deferred presentment transaction.
- A customer is ineligible if he/she has entered into an extended payment plan agreement with any lender which has not been paid in full or terminated.
- A customer is ineligible if he/she has repaid a previous deferred presentment transaction on the same business day.
- A customer is ineligible if he/she has repaid a previous deferred presentment transaction on the same business day or the previous business day if the transaction being requested would be the customer’s eighth or more transaction within a calendar year.

Please contact the company or companies from whom you have any outstanding deferred presentment transactions. They will assist you in closing these transactions.

You will be eligible to apply for a new deferred presentment transaction after meeting all State of South Carolina requirements.

If you do not recall the company or companies from whom you have outstanding deferred presentment transactions, or otherwise need assistance, you may call 1-888-SC-DPP01 (1-888-723-7701).

To assist us in expediting your request, please have your last deferred presentment transaction number available when you call. Written requests for information may be sent to:

Veritec Solutions, LLC
 ATTN: SCDPP Service Center
 The Baywood Center
 9428 Baymeadows Road, Suite 600
 Jacksonville, FL 32256

Figure 3 - Declined Eligibility Notice Example

ASIC may determine that additional information should be communicated to the licensee that will further enable compliance with responsible lending requirements (e.g., warning that borrower is currently in default, information about a prospective borrower's income from Centrelink, a warning that the prospective loan will be the 2nd within the past 90 days for this borrower, borrower monthly income). ASIC can determine what additional information must be captured by the database to ensure that the licensee can conduct appropriate due diligence prior to entering into a new loan contract with a prospective borrower.

B2Q5 - Should a consumer have access to the database and, if so, what information should a consumer be able to obtain?

The consumer should have access to information recorded on the database that impacts the determination of their suitability for a loan pursuant to regulatory requirements. This is typically provided via the database providers toll-free call center. ASIC may also determine that the consumer should have the ability to conduct an on-line inquiry via a web-browser. Should ASIC determine that the database would return a "hard stop", the consumer would be able to inquire as to what condition made the consumer ineligible for the loan and the relevant transaction history recorded on the database. ASIC may wish to adopt consumer inquiry standards that allow for consumers to obtain information contained in the database concerning their small loan status. Lenders may also access their **own** data via a database reporting function (i.e. the licensee may only access information that they have submitted to the database, they cannot access customer or transaction information submitted by other licensees). Privacy of licensee and borrower information on the small loan regulatory database is very different from traditional credit bureaus which enable subscribers to view all available information about a borrower. Information on the small loan database is only used to enable licensee compliance with regulatory requirements. This ensures that information contained in the database is not used for other non-regulatory purposes.

B2Q6 - How can the accuracy of the database be assured?

There are several methods to ensure the accuracy information captured by the database. The primary methods are as follows:

- Required data that is submitted by authorized credit licensees is captured by the database in real-time. For each and every data submission received, the database provides an immediate response, in real-time, to the licensee that acknowledges successful receipt AND includes details of all information captured.
- All data submitted to the database is validated in real-time before it is captured using a number of algorithms. An error message is returned immediately to the licensee, in real-time, indicating any information submitted that is invalid (with detailed error messaging) and rejected by the database.

The data entry function of the database does not allow for information in fields that does not meet validation requirements. Should authorized users "fat finger" information either in their own POS system or on the database website, a warning and / or error message is provided with details about any offending data. For example, a US postal code can only be numeric; the database will not allow for an alpha character entered into that field. An additional example is that date fields are validated using simple logic (e.g., the close date of a loan must be greater than or equal to the commencement date, the due date of

the loan must meet statutory requirements for minimum and / or maximum term). These are just a few examples of many data edits that are in place to ensure data validity.

- Information submitted by a licensee is captured by the database and is not altered, changed, or updated in any way. (There are administrative overrides that are built in for certain circumstances that would be approved by ASIC)
- The database enables credit licensees to reconcile their internal systems with the information they have submitted to the database via robust licensee reporting and reconciliation functionality.
- ASIC can determine the extent to which an authorized licensee can make corrections or changes to any data submitted. For example, incorrect data submitted by a licensee with no impact on a borrower's suitability determination can be changed by the licensee by simply submitting a data correction. The database tracks any data updates or changes for regulatory review including which user made the change and when.
- Active administration of the database includes regular data integrity evaluations to ensure accuracy of the data and that data is not being manipulated or changed.

The consumer information that is in the database is submitted by the credit licensee and should accurately reflect the loan information that they are recording in their own systems. Therefore, the key responsibility for the accuracy of a consumer's record lies with the credit licensee. Lenders who utilize the auto-interface are assured that the data that they have entered into their POS systems is identical to the data transmitted to the database.

Jurisdictions in the US require the database vendor to undergo annual 3rd party audits and reviews for adherence to best-practice controls and processes. Additionally, ASIC would be able to run reports daily, weekly, or monthly to determine if the vendor is operating per their contractual obligations.

B2Q7 - How should consumer concerns about the accuracy of the database be addressed? For example, should there be internal and external dispute resolution requirements?

Yes, there should be internal and external dispute resolution requirements and procedures for any consumer concerns about accuracy of information contained on the database. Consumers can readily report concerns about accuracy of information on the database by contacting the database vendor's toll-free customer service (via phone, email, live chat, etc.). The database vendor will work with the parties involved to resolve the dispute following dispute resolution procedures approved by ASIC.

For example, it is reported by a consumer that incorrect information submitted by a licensee impacts the suitability determination for a borrower (e.g., an inaccurate indication of default or failure to timely indicate when a transaction is completed). The information will be verified with the consumer and licensee to determine any corrective actions that must be taken. The licensee will be required to update any incorrect information and should they refuse, then ASIC will be contacted to assist in the resolution. There are very few instances in which a dispute cannot be immediately resolved between the licensee, consumer and database vendor.

Jurisdictions in the US require the database vendor to log all disputes as part of database functionality and support processes including tracking of any actions and resolutions with reporting provided for regulatory review. This type of reporting will allow ASIC to identify any

licensees that have an abnormal level of consumer disputes.

B2Q8 - Are there any concerns relating to the Privacy Act 1988 because of information held in the database and the details given to a lender in response to an inquiry?

Databases in US jurisdictions operate under requirements of both state and federal privacy statutes. These data privacy best practices include, but are not limited to, the following:

- Data in the database is not owned by the database vendor. Usage of the data is limited to purposes consistent with statutory requirements. For example, data can only be used for the purposes consistent with the Enhancements Bill (e.g. suitability determination, regulatory review).
- Data submitted by a licensee is not shared with other licensees. For example, a “suitability” inquiry submitted by a licensee will receive a response that simply indicates whether or not a prospective credit contract meets regulatory requirements (refer to the declined eligibility notice example provided in the response to question B2Q4 above). Consumer information is not shared between licensees. Only a warning or reason for unsuitability is provided.

In the US where there are a number of prescribed prohibitions, the database simply returns “Eligible” or “Not Eligible”. This is substantially different than how consumer credit bureaus operates as those databases share detailed loan information between licensees.

B3 – Are there regulatory requirements beyond those addressed in Question B1 that the database could be usefully and practically used to test proposed loan contracts against?

B3Q1 - What are those requirements (e.g. there are requirements in the Enhancements Act relating to a cap on fees and charges on small amount loans)?

The consultation correctly identifies several such requirements pursuant to the Enhancements Act that restrict fees, total amount, and terms of contracts. For example, the database can prohibit initiation of a loan contract that includes charges which exceed allowable charges under the Act. A licensee would receive an alert from the database in real-time that fees submitted by the licensee exceed limits allowed by the Act. The licensee would be required to modify the fees charged in a manner that is in compliance with the Act PRIOR to issuing the loan. Note that ASIC determined in past reviews that even licensees operating with sophisticated POS systems still managed to charge fees which are out of compliance with existing law. Just recently in Canada, the Ontario regulator charged the largest Canadian lender with violating their short term lending regulations as noted below.

Ontario wants to revoke license of payday cash stores

By Mike Crawley, [CBC News](#) Posted: Feb 5, 2013 10:32 PM ET

The Ministry of Consumer Services alleges the company is guilty of "several violations" the Act. It says Cash Store has charged customers fees higher than the maximum allowed - no more than \$21 for every \$100 borrowed - or charged prohibited fees. Anyone who tried to take out a payday loan at their locations in the province were required to take out the money, not in cash, but on a prepaid debit card. Cash Store allegedly charged additional fees - up to \$18 to activate the card, \$8 a month to keep it active and \$10 to load it again on top of the \$21 fee per \$100. The ministry is asking a provincial tribunal to revoke the company's license.

ASIC may determine at a future date, based on actual experience with the database, that capture of additional information from licensees further assist ASIC with determining if licensees are meeting responsible lending requirements.

B3Q2 - What additional information would need to be collected in order to test the consistency of loan contracts against those requirements?

Information required to test loan terms against allowable amounts allowed in the Enhancements Act can be captured by the database as specified by ASIC. Examples of this information could include the establishment fee for the contract, the interest that is being charged, the beginning date of the contract, the estimated end date, the total loan amount, the closed date, and any other financial information or loan terms that ASIC determines is necessary to test compliance pursuant to the Act. The database could also record the borrower's monthly income, any additional income, and other information that could assist the licensee with compliance to suitability requirements pursuant to the Enhancements Act.

B3Q3 - What are the cost, privacy and practical implications for lenders and consumers, if any, in collecting and using that information?

Additional information required to test consistency of loan contracts with regulatory requirements under the Enhancements Act is minimal and would not add substantial cost to the use or operation of the database. Simply adding a few additional fields does not add any significant cost to data entry or internal system modification costs. As noted previously, existing jurisdictions require approximately 15 to 20 data fields to accomplish all of the required compliance verification and regulatory review. Cost to the licensee for submission of data is minimal (e.g., actual data entry and submission activity, one time internal system modification cost) and the licensee benefits from a lower overall cost of compliance when the compliance of every loan transaction is confirmed BEFORE it is conducted. Additionally, ASIC will benefit by substantial improvements in effectiveness and efficiency of regulatory oversight for the industry through intelligent use of the database for regulatory review.

The overall cost of compliance for industry and ASIC is substantially improved with use of a real time regulatory compliance database. For example, the State of Florida implemented a real-time database in 2002 for the existing small loan industry with less than 1,000 storefronts and annual loan volume of approximately 3 million loans. Since then, the size of the market has grown to over 7.3MM transactions conducted by over 1,500 stores and over 200 individual companies. However, the State has only needed to hire a minimal number of additional resources to oversee this industry as a result of the efficiencies gained through use of the database for regulatory oversight. The State of Florida received over \$4 million in 2012 from transaction fees charged to licensees for use of the real time database. ASIC would experience significant efficiency gains in their examination and enforcement activities through use of the real-time database for regulatory oversight. ASIC will gain substantial efficiencies by conducting due diligence PRIOR to an on-site examination as they will have access to every transaction record (and transaction history), outcomes of suitability determinations, consumer dispute information and other information captured by the database. ASIC can monitor the entire licensee marketplace and focus their regulatory oversight activities on suspicious activity. ASIC can reduce the time required for an on-site examination by focusing on potential areas of concern and assisting licensees with correcting out of compliance situations.

Closing Remarks

It was interesting to note that when the House of Commons in the United Kingdom issued their recent recommendations, press reports from the industry were favorable on every recommendation **except** implementing a system that enables them to ensure compliance with the recommendations. Similarly in the United States and Canada the industry has published very detailed "best practices". However, when offered an efficient, extremely low cost solution to compliance and oversight, the industry is typically reticent.

Implementing a real-time database for this consumer finance sector is not new or controversial. As Veritec has illustrated, numerous jurisdictions operate with a real-time database in place which have proven reliable, efficient, and cost effective.

We appreciate the opportunity to submit these comments and hope that you find them beneficial to your efforts.

Sincerely,

Nathan Groff
Chief Government Relations Officer
N.Groff@Veritecs.com