Credit Management in Australia 2014

Veda National Credit Managers Survey 2014

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Contents

Foreword
from Moses Samaha

Welcome to this report on a survey of Australian credit managers that the Veda credit risk management team has conducted over the last few years.

Veda provides services to a large proportion of Australia's credit professionals, and working closely with them gives us a detailed understanding of local credit management issues within a national and global context.

Since the GFC, the surveys have provided valuable insights into credit risk management practices. In this year's survey, three key themes emerged:

1. Economic conditions are continuing to have a negative impact on businesses, and credit policies are still being tightened. Sentiment regarding future economic conditions is becoming more positive however, and the tightening in credit policies is expected to relax with improving economic conditions.
2. Changes to the Privacy Act earlier this year have had minimal impact on how new credit risk is assessed. However, the majority of credit managers believe that membership to an external dispute resolution (EDR) scheme should not be mandatory. In addition, and of some concern, almost a third report that they will stop accessing consumer credit information on individuals.
3. Although there was some initial resistance to the Personal Property Securities Register (PPSR) when it was introduced, response to the PPSR has become more positive. Many credit managers have already, or are intending to, implement PPSR searches and registrations into their standard credit management processes.

The improving business sentiment seen in this year's survey mirrors what we have seen in Veda's Business Credit Demand Index, where the growth of business credit enquiries has remained positive over the first half of 2014. The PPSR continues to represent a significant change to our industry. We continue to help our customers manage risk by making the process of search and registration as easy and streamlined as possible, and we hope to improve the number of credit managers reporting positive impacts from the PPSR. Driving awareness amongst SMEs is also a critical aspect of the PPSR that needs further work.

The Privacy Act and credit reporting reforms that came into effect earlier this year are a welcome change for our industry. International experience has shown that Comprehensive Credit Reporting (CCR) can offer a significant advantage in the market for credit professionals in general. Whilst the advantages will be seen predominately for financial institutions rather than for providers of trade credit, there should be some benefits around improved matching and more predictive negative scores.

I hope you enjoy the insights that the findings of this survey offer, and a big thank you to everyone who participated.

Moses Samaha
General Manager – Commercial Risk

Understanding the specific factors impacting credit professionals is a crucial but challenging task for all credit professionals.

Veda's survey is a valuable resource for all credit professionals to understand how they are positioned, how to plan for the future and how they have performed against the industry.

The survey is defiantly a powerful tool. I encourage all credit professionals to absorb the content and continue to participate in future surveys as it is the knowledge and experience that we all hold that gives this survey its strength.

Nick Pilavidis
Chief Executive Officer
– Australian Institute of Credit Management

Key findings

Economic conditions have affected business sentiment, with a **majority of credit managers reporting a negative impact from general economic conditions** to their business

There has been a **substantial improvement in expectations of future economic conditions**, with 27% of participants expecting a positive impact compared with only 16% in last year's survey

Despite poor business conditions, **the number of credit applications has risen for 45% of credit managers and has fallen for only 18%** of credit managers over the past year. This compares to 40% and 27% in last year's survey, for rises and falls in credit applications respectively

That left a **net balance of 27% of participants reporting an increase in the number of credit applications over the past 6 months**, a strong rise in demand compared with a net balance of only 13% in 2013

Credit managers have tightened credit policies in response to economic conditions, although this is expected to relax in the next six months

Payment terms have become shorter compared with last year's survey, with average payment terms estimated at 30.61 days in 2014, compared with 33.65 days in 2013

86% of credit managers consider default information to be either very important or critical when making a decision to extend credit, up from 73% in 2013. At the same time, the proportion of participants willing to provide credit when an adverse is present has fallen to 34%, the lowest level seen in three years

There has been an **overall improvement in Days Sales Outstanding (DSO) performance** with the average DSO at 43.89, compared with 44.91 in 2013

60% of participants feel the introduction of the **Personal Property Securities Register (PPSR) has benefited their business** and a higher percentage of credit managers are now using the PPSR

The introduction of **changes to the Privacy Act have had minimal impact** on how new credit risk is assessed

82% of participants feel that **membership of an external dispute resolution (EDR) scheme should not be mandatory**, while 75% express some level of interest in joining an EDR scheme that has a primary focus on privacy issues only

Introduction

Context

Veda conducted an online survey, concluding in June 2014, to assess the changing status of credit management in Australian organisations. The survey presented questions in a range of formats to key personnel responsible for credit and cash flow management. The questions were designed to provide valuable insights into current credit conditions, practices and find out how business sentiment over the past six to 12 months has affected credit practices.

Purpose of the survey

This report intends to provide insights into the impact which business sentiment has had on credit management conditions in Australia over the last six to 12 months. The data accumulated from our participants will help to paint an accurate picture of how the current economic conditions are affecting Australian business and raise awareness of any notable shifts in credit management from those presented in Veda's 2013 report.

Who we surveyed

The participants of our survey are credit managers within a variety of Australian organisations across different industry sectors. Although our participants represent a range of industries, the majority of participants were in the manufacturing, finance and insurance, construction, and wholesale trade industries that operate on a national scale with over 500 customers. The total number of survey participants in this year's survey was about 200.

Credit management experience

On average, our participants have 20 years of experience in the credit management industry. Only four survey participants had less than four years of experience, suggesting the overwhelming majority has a deep knowledge of credit management, history, annual trends and processes.

Range: 1 to 45 years

Average: 20.15 years

Company size

Our participants represented organisations ranging from less than 500 customers to over 10,000 customers across a variety of industries. The majority of our participants were in the manufacturing, finance and insurance, construction and wholesale trade industries and had over 500 customers.

What we asked

The survey posed questions relating to the impact of economic conditions and business sentiment on the challenges, changes and practices of credit management in Australia.

This survey aimed to provide insight on:

- changes in economic conditions and the impact on business;
- changes in the process of new credit applications and approvals;
- changes in the credit management of existing customers;
- changes in the management of collections and recoveries; and
- changes in regulations affecting credit supply and demand.

Assessment of economic conditions

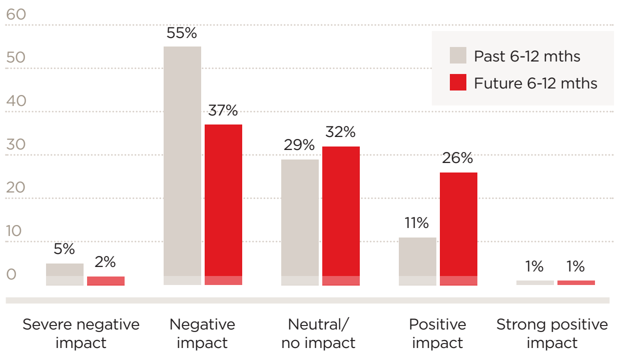
Impressions of current and future conditions and its effect on business

Economic conditions have affected business sentiment and credit policy is being tightened

In Veda's Credit Management in Australia 2013 report, more than half of respondents reported that general economic conditions had a negative impact on business over the previous six to 12 months. Sentiment among respondents was slightly more optimistic for the following six to 12 months, although 57% still expected a negative impact on business from general economic conditions.

In 2014, sentiment has remained poor among credit managers. Approximately 60% of respondents indicated that general economic conditions continued to have a negative impact on business over the past six to 12 months. Respondents are more optimistic about the coming six to 12 months, with 27% expecting general economic conditions to have a positive impact on their business, while 39% expect a negative impact.

Chart 4.1: Impressions of current and future conditions



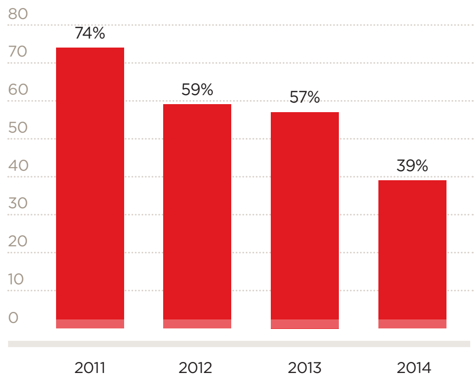
The outlook

Signs of an improving outlook are also seen in the diminishing number of participants expecting a severe negative impact from economic conditions over the next six to 12 months. Indeed, the outlook among credit managers is more positive in this year's survey than it was in each of the previous three year's surveys.

Last year's survey painted a particularly dour picture about the economic outlook. This year, the outlook has seen a significant improvement, although on balance participants still remain pessimistic about the impact of the economy on future business:

- 27% of businesses expected to be positively affected by general economic conditions in this year's survey, compared with 16% of participants in last year's survey, and 10% of participants in 2012; and
- 39% of businesses expected to be negatively affected by general economic conditions in this year's survey, compared with 57% of participants in last year's survey.

Chart 4.2: Businesses expecting a negative impact from general economic conditions in the next 6-12 months



The improved, but still weak sentiment among credit managers reflects the mixed bag of indicators in the Australian economy:

- Australia's unemployment rate has drifted up from 5.8% when last year's survey was undertaken, to 6.0% at the start of the year and now sits above 6%;
- the Reserve Bank of Australia forecasts growth to be below trend over 2014-15, but gaining pace further into 2015-16;
- the Reserve Bank's record low cash rate of 2.5% is expected to remain low over the remainder of 2014, further stimulating the economy; and
- the $A remains lower than the level it held in early 2013, but still remains elevated despite low interest rates and falling commodity prices.

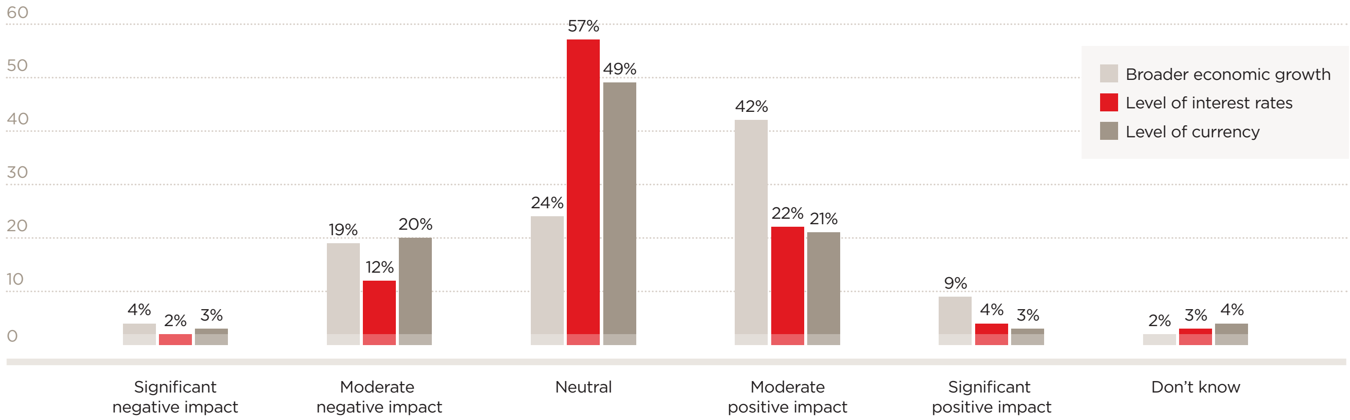
Among some of the key economic drivers, half of participants took the view that broader economic growth would have a positive impact on their business.

Interest rates continue to maintain their record low levels, although this is only expected to have a neutral impact by more than half of participants. On the other hand, the $A has remained relatively high over the year, and participants' views about the impact of the currency were mixed.

Participants expressed concerns about a range of specific factors, including the broader impacts of the downturn in Australia's mining industry, the level of consumer sentiment and unemployment, and weakness in housing construction.

The Federal Budget was also cited as a factor that would affect business by a number of participants. With the delivery of a tough Federal Budget on 13 May, and the subsequent stalling of a number of announced measures as they are negotiated through the Senate, uncertainty still remains a feature of the political backdrop, which will not be helping the current level of sentiment.

Chart 4.3: Expected impact of key economic drivers over next six months



Credit policy changes in response to the economic conditions

The difficult economic conditions facing businesses in Australia naturally have implications for credit policy. With survey participants generally perceiving recent economic conditions to be having a negative impact on business, many participants reported that credit policies had been tightened in the last six months.

Specifically, the survey asked participants to note any credit management policy changes they had adopted or were planning to adopt. These policy shifts included:

- adopting stricter/tighter or reduced/easier lending/credit criteria;
- increasing/tightening or reducing/loosening collections activity;
- reducing or increasing credit limits provided;
- registering or not registering security interests; and
- providing shorter or longer payment terms.

With survey participants generally perceiving recent economic conditions to be having a negative impact on business, many participants reported that **credit policies had been tightened in the last six months.**

Of those that reported credit policy changes in the last six months, they reported the following (compared with last year's survey):

70% increased or tightened collections activity (78% in 2013);

58% have stricter lending and credit criteria (71% in 2013);

41% have registered security interests (35% in 2013); and

23% have reduced credit limits (35% in 2013).

These findings follow the previous two year's surveys, which also revealed that credit policies had been tightened in response to economic conditions. This suggests that credit policies have been progressively tightened over the past three years of challenging economic conditions, although the rate has slowed compared with last year's survey. The proportion of participants reporting registering security interests was up this year, likely being pushed by the PPSR.

Looking ahead to the next six months, of the participants who reported planning to change credit policy in response to economic conditions (compared with last year's survey):

61% plan to increase or tighten collections activity (73% in 2013);

50% plan to have stricter lending and credit criteria (62% in 2013);

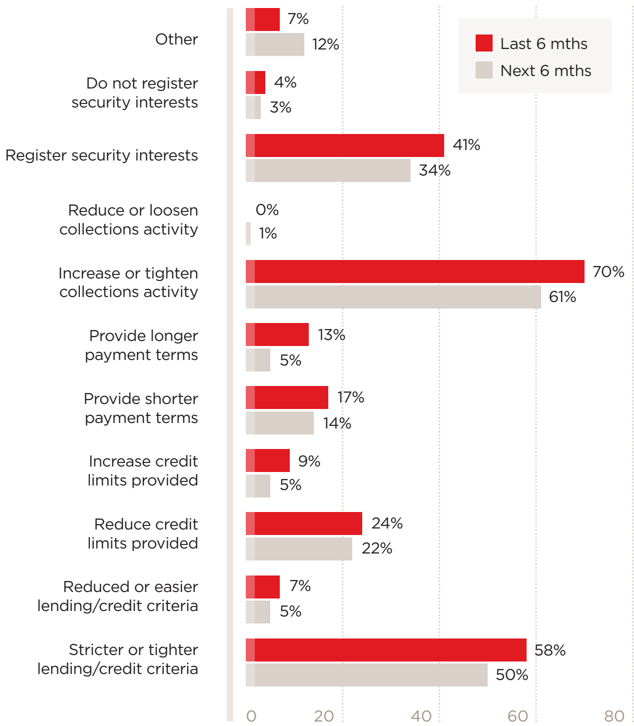
34% plan to register security interests (30% in 2013); and

22% plan to reduce credit limits (25% in 2013).

Overwhelmingly, further tightening of credit policies is expected by survey participants over the next six months, although at a lesser rate than the previous six months and that reported in last year's survey. This reflects the improving, but still tough, economic environment.

These findings have broader implications for the Australian economy. While the Reserve Bank of Australia continues to keep interest rates low to stimulate the economy, credit growth may be restrained as the availability of credit continues to be tightened. That may reduce the effectiveness of lower interest rates in stimulating economic activity, although the positive momentum seen in housing construction of late may outweigh this effect.

Chart 4.4: Changes to credit policies in response to economic conditions



Of those participants reporting a negative impact from the economy over the past six to 12 months, 62% have changed to stricter credit criteria, while 51% plan to do so over the next six months. Of those participants who are forecasting a negative future outlook, 48% plan to change to stricter credit criteria in the next six months, 43% plan to tighten their collections activity and 36% plan to register security interests.

Participants reporting a positive impact from the economy or a positive economic outlook were just as likely to report changing or planning to change to stricter credit criteria.

Table 4.2: Changes to credit policies for those feeling a negative, stable or positive impact from the economy over the past six to 12 months

Of those that felt the following impact over the past 6-12 months from the economy:	Negative	Stable	Positive
They have changed...			
To a stricter or tighter lending/credit criteria	62%	43%	61%
By increasing or tightening collections activity	68%	68%	74%
By reducing credit limits provided	28%	11%	26%
By registering security interests	43%	32%	48%
By providing shorter payment terms	16%	16%	26%
Over the next six months they plan to change...			
To a stricter or tighter lending/credit criteria	51%	36%	70%
By increasing or tightening collections activity	55%	63%	74%
By reducing credit limits provided	28%	11%	17%
By registering security interests	34%	25%	43%
By providing shorter payment terms	16%	2%	35%

Table 4.3: Changes to credit policies for those that reported a negative, stable or positive economic outlook

Of those that reported that the outlook for the future looks:	Negative	Stable	Positive
They have changed...			
To a stricter or tighter lending/credit criteria	63%	48%	59%
By increasing or tightening collections activity	61%	67%	88%
By reducing credit limits provided	29%	14%	25%
By registering security interests	45%	35%	43%
By providing shorter payment terms	21%	11%	18%
Over the next six months they plan to change...			
To a stricter or tighter lending/credit criteria	50%	43%	55%
By increasing or tightening collections activity	43%	63%	78%
By reducing credit limits provided	24%	21%	22%
By registering security interests	36%	30%	33%
By providing shorter payment terms	18%	6%	18%

Managing credit

Economic conditions are affecting the demand for credit and are having an impact on credit management processes.

In 2013, the generally negative economic backdrop of the previous 12 months appeared to be slowing the growth in credit applications, but different economic conditions across industries and regions had differing influences on the demand for credit.

The economic backdrop has improved over the 12 months preceding the 2014 survey, although economic conditions continue to present challenges to many businesses. This means that the management of credit outstanding is of critical importance. Participants reported that the frequency of account reviews has remained broadly unchanged from last year. On balance, Day Sales Outstanding (DSO) has improved for many participants over the past year, almost to the levels reported in 2012, with most participants reporting little change. This is in contrast to 2013 where, on balance, DSO deteriorated.

Demand for credit

Survey participants reported varied conditions when it came to the demand for credit. The survey results revealed that:

- the demand for credit was rising for 45% of respondents, up from 40% in 2013;
- the demand for credit was falling for 18% of respondents, down from 27% in 2013; and
- 37% reported a neutral change in the demand for credit, up from 33% in 2013.

That left a net balance of 27% of participants reporting an increase in the number of credit applications over the past six months, a strong rise in demand compared with 2013.

As such, the survey results suggest that economic conditions are now having a more uniform impact for firms and households across the economy – compared with last year's survey, fewer participants saw a decline in credit demand, while more participants are now seeing a rise in credit demand.

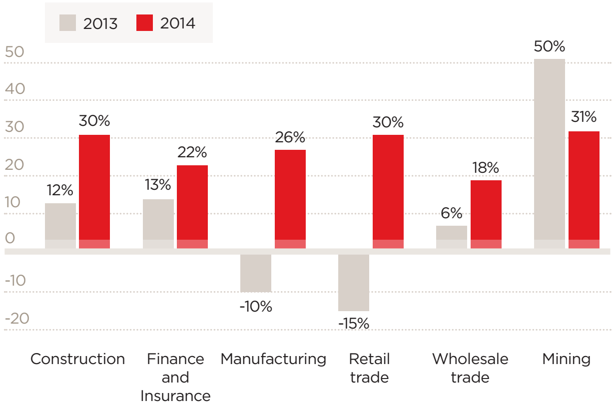
However, varied conditions are still evident within industries with some businesses seeing an increase, and some a decrease. On balance, businesses in the construction, finance and insurance, wholesale trade, retail trade, and manufacturing industries reported seeing an increase in the number of credit applications over the past six months, while some industries with a small number of respondents reported seeing a decrease, including agriculture, utilities, government, and property and business services industries.

The economic backdrop has improved over the 12 months preceding the 2014 survey, although economic conditions continue to present challenges to many businesses.

It is also informative to consider the change in the net results from 2013 to 2014. The net proportion of survey respondents reporting an increase in credit applications rose from 13% in 2013 to 27% in 2014. This suggests that the extent to which the demand for credit is rising has gained momentum since the last survey, when averaged across all survey respondents.

This improvement in credit demand was seen across most major industries, with the net balance of participants reporting an increase in credit applications in the construction, finance and insurance, manufacturing, mining, retail trade, and wholesale trade industries. The net balance reporting a positive change increased in all of these industries except for mining, compared with last year's survey.

Chart 5.1: Net balance of participants reporting an increase in credit applications



These results are broadly consistent with what Veda has seen on its bureau. Following a fall in trade credit enquires in late 2013, growth in the number of trade credit enquires picked up in early 2014, with growth in trade credit enquiries still remaining positive in mid-2014.

Chart 5.2: Change in the number of credit applications over the last six months

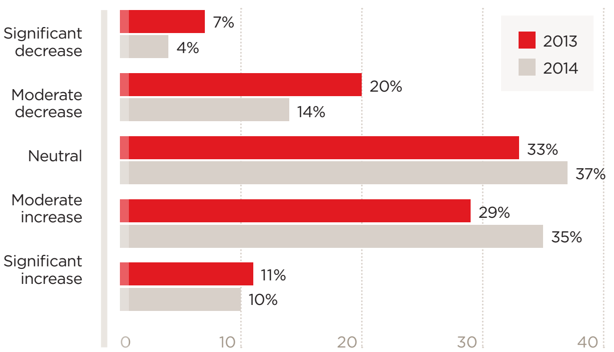
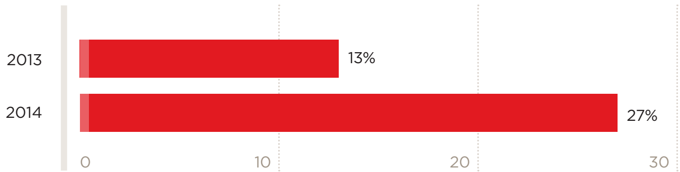


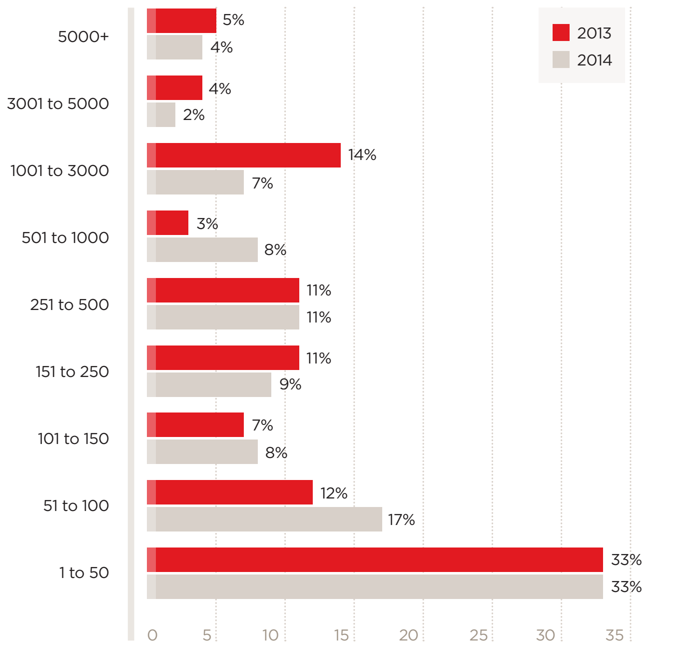
Chart 5.3: Net balance of those reporting an increase in the number of credit applications over the last six months (%)



Reflecting the broad nature of survey participants, around one third of participants have opened less than 50 accounts in the last six months, while a further 46% of participants opened between 50 and 500 accounts. The remaining 21% of participants opened more than 500 accounts in the last six months.

This is broadly similar to the 2013 survey, although there are now slightly more organisations opening between 50 and 500 accounts, and slightly fewer opening more than 500 accounts in the last six months.

Chart 5.4: Amount of new accounts opened in the last six months



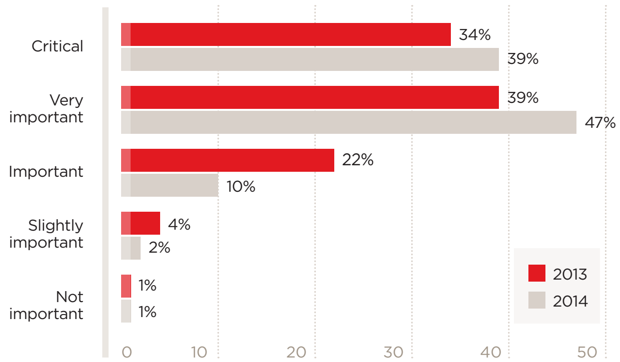
Importance of default information

Default information continues to be very important when making a decision to extend credit.

In the 2014 survey, 87% of participants reported that default information was either very important or of critical importance when making a decision to extend credit, with a further 10% reporting it as important.

There has been a substantial increase in those considering default information to be either very important or of critical importance. Compared with the 2013 survey, 73% of participants reported that default information met these criteria, with a further 22% reporting it as important. Some credit managers noted that default information is being used as a preventative measure to help manage additional risk. The increased importance of default information is consistent with elevated perceptions of risk amid the difficult economic conditions still prevailing.

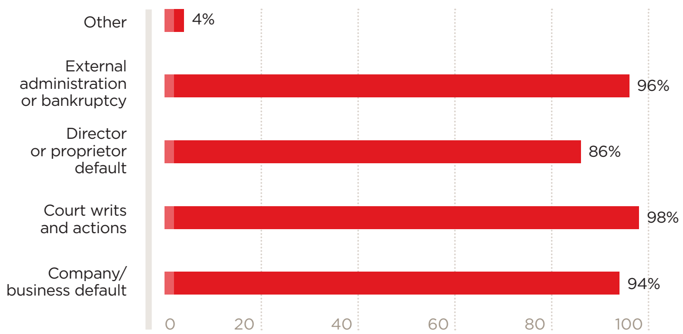
Chart 5.5: The importance of default information when making a decision to extend credit



In terms of the type of default or adverse information considered as important to the credit decision process, external administration or bankruptcy, director or proprietor default, court writs and actions, and company/business default, were all felt to be important by survey respondents.

Every year, survey participants have continually reported the importance of each type of default or adverse information, and responses have varied by only a small amount. Almost all participants indicate that every type of default or adverse information is important.

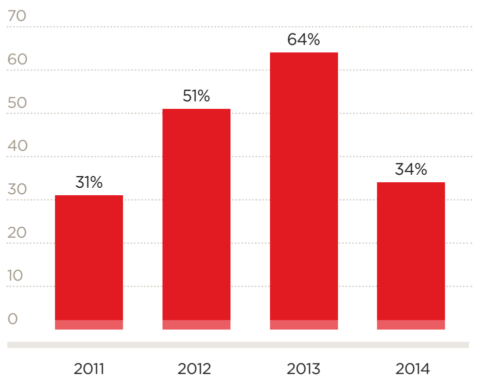
Chart 5.6: Type of default or adverse information considered as important when considering extending credit



The 2014 survey reveals that the proportion of participants who would provide credit if there was an adverse present was at 34%. Over the previous three years, the proportion of participants providing credit in the presence of adverse increased significantly from just above 30% in 2011 to 51% in 2012, and to 64% in

2013. The proportion of participants willing to provide credit when an adverse is present has therefore fallen to the lowest level seen in three years. This is a reflection that credit policies have continued to become tighter in 2014, and is consistent with higher perceptions of risk among credit managers as well as the increasing importance being placed on default information reported earlier.

Chart 5.7: Providing credit when an adverse is present



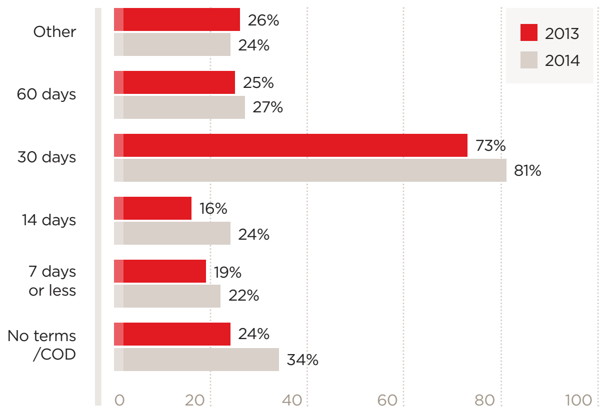
Payment terms

Most organisations request 30 days for payment.

81% of organisations represented in the survey provide 30 day payment terms, 27% request payment in 60 days, and 58% operate with COD or other payment terms. The average payment term, as weighted by the responses shown in Chart 5.8 and factoring in non-standard responses in the other category where possible, was estimated at 30.61 days in 2014 compared with 33.65 days in 2013. This suggests that there has been an increase in the number of credit managers requesting shorter payment terms, reflecting the tightening of credit policies over the past six to 12 months.

The survey results show that the standard payment terms for most credit managers remains 30 days.

Chart 5.8: Payment terms offered

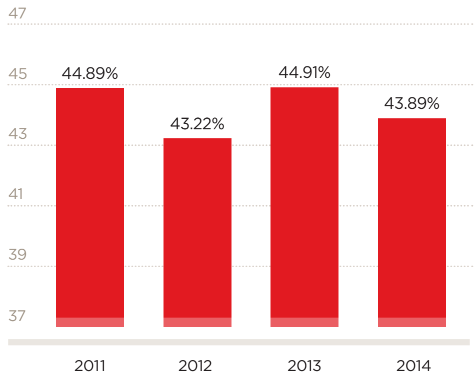


DSO activity

Average DSO amongst survey participants has improved over the past year, almost returning to the levels seen in 2012.

DSO showed an improvement in 2012, decreasing from 44.89 in 2011 to 43.22 in 2012. In 2013, the average number of DSO increased to 44.91. In 2014, the average number of DSO has subsequently reduced to 43.89. This improvement may be reflective of some improved economic conditions for some businesses recently. It may also be a reflection of the finding reported earlier that fewer applications are now being approved when an adverse is present.

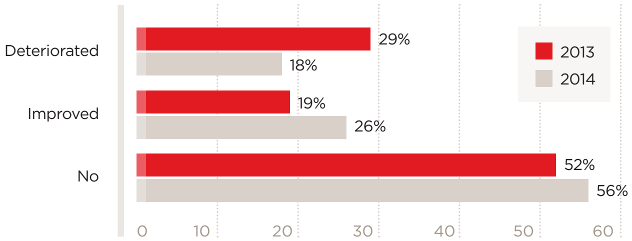
Chart 5.9: Average current DSO performance (days)



Indeed, the survey findings on the proportion of participants reporting a change in DSO are also consistent with an overall improvement in DSO performance in 2014.

The proportion of participants reporting deterioration in their DSO activity fell by 11 percentage points in 2014 while there was an increase of seven percentage points for those reporting an improvement, compared with 2013. The changes in the 2014 survey suggest that, on balance, DSO performance improved in 2014.

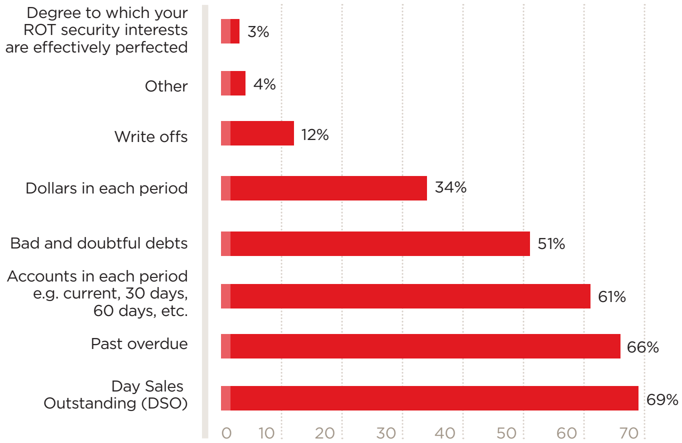
Chart 5.10: DSO change over the past six months (%)



Key indicators of payment performance

As in previous years, DSO is still the most commonplace KPI for account receivables performance. This is closely followed by past overdue, and accounts in each period. In 2013, bad and doubtful debts was the third most important KPI, although the importance of accounts in each period has increased substantially.

Chart 5.11: 2013 KPIs for account receivables/payment performance (%)



Types of information used to help make decisions about credit policies

The types of information most frequently used by survey participants in their credit decision-making process were as follows:

89% used ASIC information;

87% used company or business credit reports;

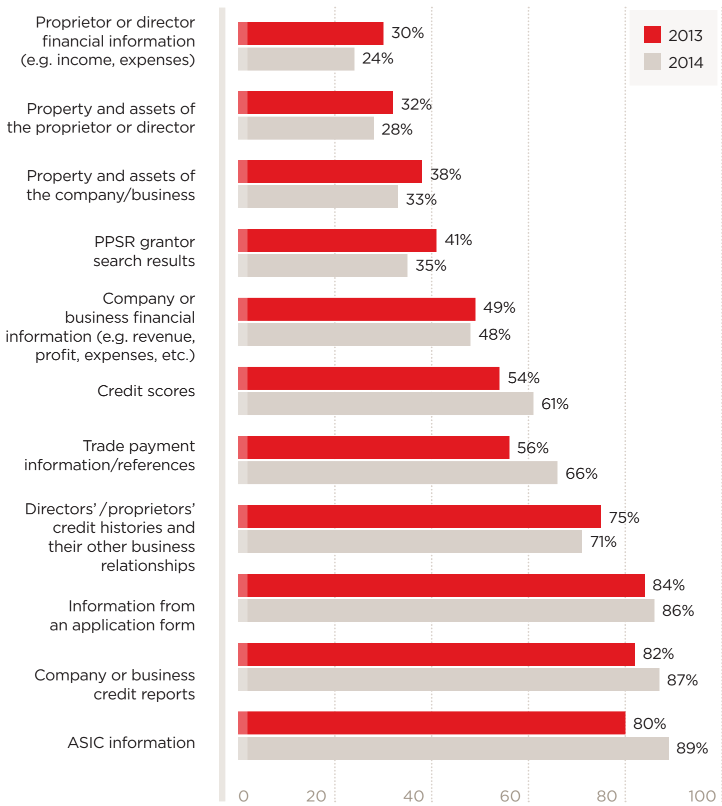
86% used information from an application form; and

71% used directors/proprietors histories and their other business relationships.

In addition to those key information types, the results showed that credit managers also used a broad range of other information types in their decision making.

These results have generally remained similar to prior years. However, ASIC information and credit scores have become increasingly important in the last two years, up 13 percentage points and 17 percentage points since 2012, respectively. Directors' or proprietors' credit histories and property and assets of companies have become less important, down 10 percentage points and eight percentage points since 2012, respectively. It is possible that the changes to the Privacy Act have caused the decline in the importance of director information. This change will need to be monitored closely over the coming year.

Chart 5.12: Information types used to make decisions about credit policies for new customers (%)

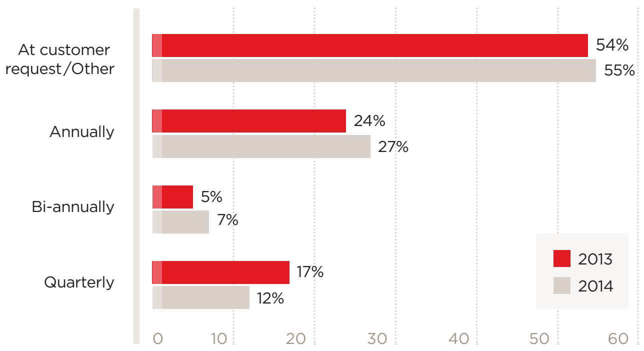


Account reviews

Account review frequency

Account review frequency has remained broadly unchanged from 2013. In 2014, 27% of respondents conducted annual reviews of accounts, 12% conducted quarterly reviews, and 7% conducted bi-annual reviews. 55% of credit managers conduct reviews at the request of the customer, or have some other review arrangement. These proportions were similar to those in 2012 and 2013.

Chart 5.13: When to complete account reviews (%)



Account review frequency has remained broadly unchanged from 2013.

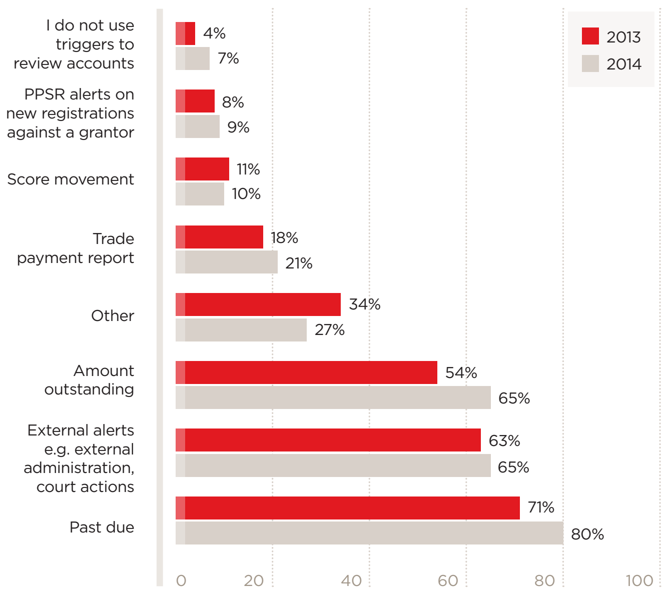
Triggers for reviews

Past due is the main trigger for conducting reviews.

80% of survey participants reported that a trigger used to review accounts is when they are past due, while 65% reported the use of external alerts such as external administration or court action, and 65% reported the use of amount outstanding.

While the top three triggers for conducting reviews remained the same from last year, some changes were recorded in how common it was for particular triggers to be used. Notably, more participants reported using amount outstanding (up from 54% to 65% of participants), while more participants reported using past due (up from 71% to 80%) as triggers.

Chart 5.14: Triggers used to review accounts



When customers don’t pay

As a reflection of the broadly negative economic backdrop, in recent years there has been a trend in the credit management industry towards increased vigilance of customers who don’t pay their outstanding debts. This appears to be continuing in 2014.

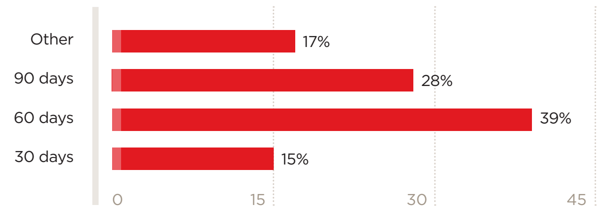
Actions taken

When to act

39% of credit managers take action when accounts reach 60 days.

This year’s survey showed that the most common time that credit managers cite to action delinquent accounts is when an account has gone 60 days unpaid. Additionally, 28% of credit managers wait until an account has reached 90 days, and 15% take action at 30 days. There has also been an increase in the amount of credit managers taking action at different periods, with some other common responses being 15 days, 45 days and 120 days.

Chart 6.1: Circumstances of account delinquency to take action (%)



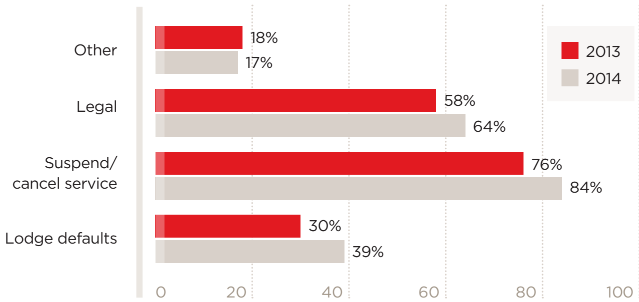
Actions taken

Suspending or cancelling the service is the most common course of action

The type of action most frequently taken by credit managers for account delinquency remains the suspension or cancellation of the service, unchanged from 2012. In 2013, 84% of credit managers suspend or cancel the service in this scenario.

In addition, 64% of credit managers take legal action when an account continues to deteriorate, and 39% lodge defaults. All of these measures are more common since 2013, suggesting that credit managers are trying to reduce their risk from outstanding debts.

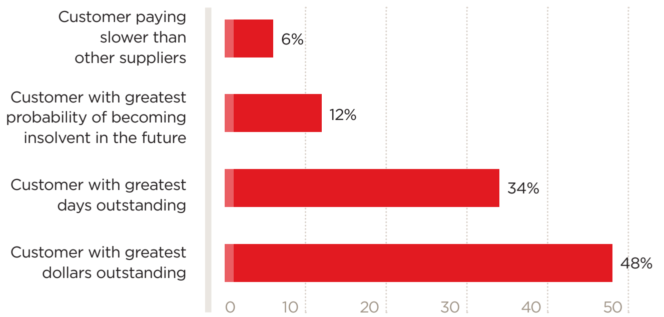
Chart 6.2: Type of action taken for account delinquency (%)



Survey participants report different prioritisation of their collection activity:

48%	prioritise customers with the largest amount of money outstanding;
34%	prioritise customers with money outstanding for the longest period of time;
12%	prioritise customers with the greatest probability of becoming insolvent in the future; and
6%	prioritise customers that pay slower than other suppliers.

Chart 6.3: Prioritisation of collection activity



The type of action most frequently taken by credit managers for account delinquency remains the **suspension or cancellation of the service**, unchanged from 2012.

The impact of PPSR legislation

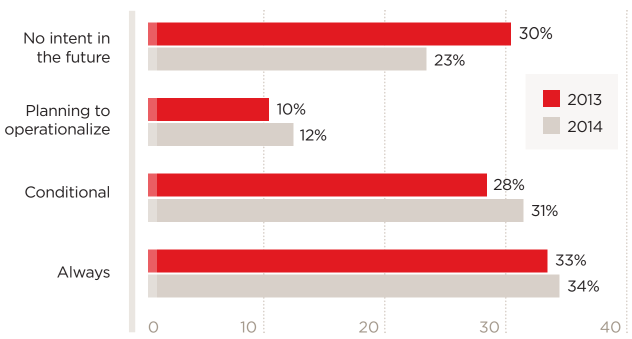
Overview

The Personal Property Securities Register (PPSR) was a major change in the way organisations register their securities interests. From early 2012, all national personal property registers (excluding land) were combined into one online register under the Personal Property Securities Act (PPSA).

Registering ROT security interests in PPSR

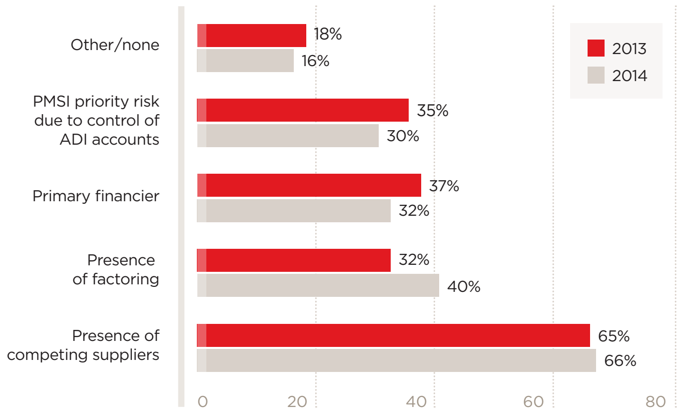
Now that PPSR has been in place for over two years, credit managers have reported little change in their use of the PPSR in registering for retention of title (ROT) for security interests. In 2014, 34% of participants always register, 31% register depending on circumstances, and 12% are planning to operationalise. These results are broadly similar to the 2013 survey. The most significant change is a reduction in the number of credit managers reporting no intention to use PPSR in registering for ROT for security interest, reduced from 30% in 2013 to 23% in 2014.

Chart 7.1: ROT Registering for new accounts (%)



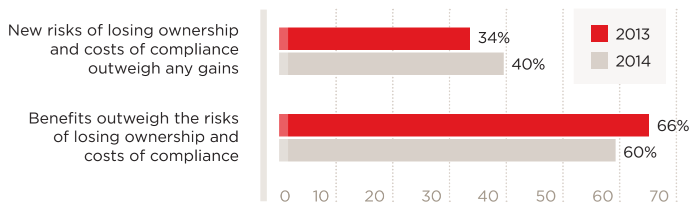
The most commonly gained insight into new customers from the PPSR is still the presence of competing suppliers. This was reported by 66% of participants in 2014, and 65% in 2013. Presence of factoring saw a small increase from 32% in 2013 to 40% in 2014, with other reported insights decreasing as a result. Overall, these results are broadly similar to last year's survey.

Chart 7.2: Insights from PPSR when searching new customers (%)



Last year's survey revealed that almost two thirds of participants believed that the overall business impact of the introduction of the PPSR has been positive, with the benefits outweighing the risks and costs. In 2014, only 60% of participants indicated that they thought the benefits outweighed costs, with 40% holding the opposite view that the new risks of losing ownership and costs of compliance outweigh any possible gains. As fewer organisations now indicate no intention to register ROT security interest in the PPSR in the future, any potential business impact from the introduction of PPSR should continue to be monitored closely.

Chart 7.3: Overall business impact of the introduction of PPSR



The impact of Privacy Act changes

Overview

In March 2014, proposed changes to the Privacy Act came into effect. Changes that affect credit managers and the industry were made to the way consumer credit reporting occurs in Australia. Changes to the regulation allow for more comprehensive credit reporting, meaning that some new types of personal information related to credit may be held in the credit reporting system. These changes are accompanied by further privacy protections relating to notification, data quality, access and correction, and complaints regarding credit related personal information[1].

In 2014, almost all participants were aware of the changes that have occurred, with only 7% not aware. This is compared to 16% of participants that were not aware of the upcoming changes, in last year's survey.

In 2013, the majority of respondents expected at least a moderate impact on how new credit risk is assessed, although this was closely followed by participants who expected a minimal impact. Now that the changes have occurred, the majority of participants report a minimal change on how new credit risk is assessed.

In 2014, **almost all participants were aware of the changes that have occurred**, with only 7% not aware. This is compared to 16% of participants that were not aware of the upcoming changes, in last year's survey.

Credit managers held differing opinions on the impact of the Privacy Act changes on how new credit risk is assessed:

8% stated a large or very large impact, compared with 21% in 2013;

31% stated a moderate impact, compared with 30% in 2013; and

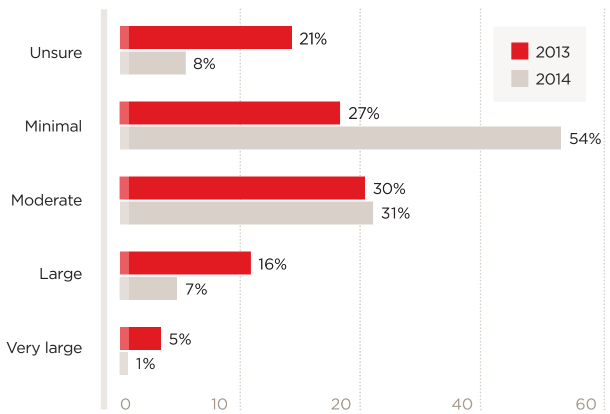
54% stated a minimal impact, compared with 27% in 2013.

[1] See http://www.oaic.gov.au/privacy/privacy-resources/privacy-business-resources/privacy-business-resource-3-credit-reporting-what-has-changed for further information.

In total, 39% of participants stated a moderate or greater impact due to Privacy Act changes in this year's survey, compared with 51% in 2013. In 2014, 93% of participants stated at least some impact, compared with 78% that expected at least some impact in 2013.

While last year's survey revealed that this upcoming regulatory change was a source of uncertainty for the credit management industry, much of the impact is now clear, with most participants experiencing little or a moderate impact.

Chart 8.1: Impact of Privacy Act changes on how new credit risk is assessed



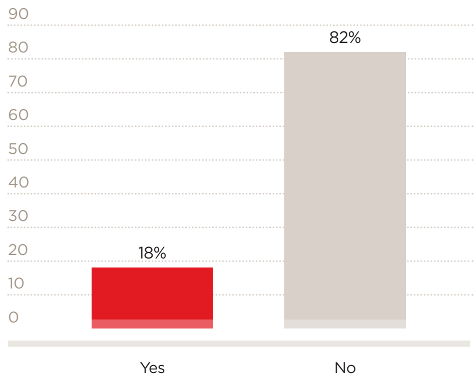
In total, **39%** of participants stated a **moderate or greater impact due to Privacy Act changes** in this year's survey, compared with 51% in 2013.

External dispute resolution (EDR) scheme

To monitor complaints with regard to personal credit related information, credit providers are now required to be a member of an EDR scheme. Membership is mandatory for credit providers to be able to access the credit reporting system. The purpose behind this scheme is to facilitate fast, low cost handling of consumer complaints. Commercial credit providers are exempt from the scheme until March 2015 under a transitional, 12 month exemption, which allows them to continue to disclose information to credit reporting bodies.

Overwhelmingly, 82% of participants do not believe that membership to an EDR scheme should become mandatory.

Chart 8.2: Should membership to an EDR scheme become mandatory

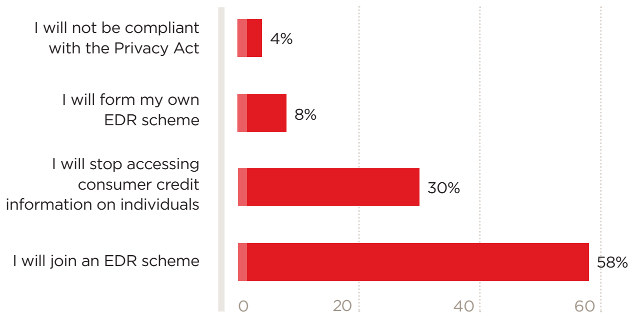


The perceived impact that an EDR scheme would have on business varies, with 58% of participants reporting that they will join an EDR scheme. Additionally, 30% of participants report that they will stop accessing consumer credit information on individuals. This could have adverse impacts on the decision to lend credit as:

- credit may be provided in situations where individuals do not have the capacity to repay credit; and
- further credit constraints may be put in place if the provider believes they do not have sufficient information to make a decision to lend credit.

The remaining 12% of participants indicate that they will either form their own EDR scheme or they will not be compliant with the Privacy Act.

Chart 8.3: Business impact of mandatory membership to an EDR scheme

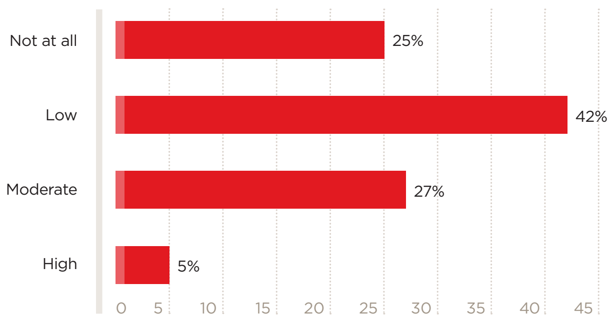


Credit managers had differing levels of interest in joining an EDR scheme with a primary focus on privacy issues only:

42%	reported a low level of interest;
32%	reported a moderate or high level of interest; and
25%	reported they had no interest at all.

While 82% of participants believe that membership to an EDR scheme should not be mandatory, 75% express some level of interest in joining an EDR scheme that has a primary focus on privacy issues only.

Chart 8.4: Level of interest in joining an EDR scheme with a primary focus on privacy issues



Conclusion

Economic conditions have had a negative impact on business over the past six to 12 months according to more than half of credit managers. Moreover, while optimism has improved over 2014, sentiment still remains broadly pessimistic about the next 12 months.

Low interest rates are still helping to provide some support to business sentiment, although there is evidence that the stimulus from low interest rates is beginning to wane. This, combined with Federal Government policy uncertainty and the Federal Budget, and unemployment rates that continue to drift higher are still taking their toll on sentiment in the credit management industry. However, sentiment has improved substantially compared with last year's survey.

Despite poor business conditions, the number of credit applications has risen for 45% of credit managers and has fallen for only 18% of credit managers over the past year. That left a net balance of 27% of participants reporting an increase in the number of credit applications over the past six months, a strong rise in demand compared with a net balance of 13% in 2013.

With difficult economic conditions still present over the past six to 12 months, credit managers have adopted stricter and tighter lending criteria. This trend towards tighter credit policies is expected to slow in the months ahead as more credit managers expect neutral or even positive impacts from economic conditions.

The caution in the area of credit handling which was exhibited by many credit managers in the 2012 and 2013 survey also appears to be continuing. The frequency of account reviews has remained broadly similar to last year. There appears to have been a slight improvement in Days Sales Outstanding across the industry as a whole. Perhaps most significant, there has been a significant reduction in the number of credit managers providing credit when an adverse is present.

Although there was some initial resistance to PPSR in 2011, more participants are now using the PPSR in registering for retention of title for security interests. However, there has been a slight reduction in credit managers that report benefits to their business that outweigh the costs and risk involved.

Last year's survey revealed that the changes to the Privacy Act, which commenced in March 2014, was a source of uncertainty for the credit management industry. Now much of the impact is clear, with most participants experiencing little business impact as a result.

There are still concerns surrounding the external dispute resolution scheme. The majority of credit managers do not believe mandatory membership should be necessary, and of some concern, almost a third report that they will stop accessing consumer credit information on individuals. The impact of this scheme should be monitored closely over the coming year.

After another year of difficult, but improving, economic conditions, Veda's Credit Management Survey 2014 aimed to reveal changes in how credit managers feel about the economy, and changes in the credit management industry in Australia. Our participants have indicated that times are still difficult, although credit applications are rising. Despite this, stricter lending criteria and continuing caution in the management of existing customers remain key themes in the industry.

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