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RATESETTER SUBMISSION

Senior Adviser
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By email and electronic submission

Dear Treasury

FINANCIAL SYSTEM INQUIRY - RATESETTER SUBMISSION TO THE TREASURY

1. INTRODUCTION

RateSetter Australia Pty Limited (**RateSetter Australia**) is pleased to provide this submission to the Treasury to support its consideration of Financial System Inquiry (**FSI**) recommendations. RateSetter Australia operates a peer-to-peer (**P2P**) lending business, matching lenders with creditworthy borrowers to facilitate personal loans that are attractive to both lender and borrower.[1] RateSetter Australia's business model and offerings to consumers are highly relevant to the scope of the FSI which sought to provide recommendations that would "foster an efficient, competitive and flexible financial system, consistent with financial stability, prudence, public confidence and capacity to meet the needs of users".

RateSetter Australia is an independent company majority owned by its local management team and other Australian investors, although benefits from also being a member of the RateSetter group, which launched in the United Kingdom in 2010 and is now the largest P2P lender in Europe.[2]

RateSetter Australia, through its subsidiary RateSetter Australia RE Limited, is the first and only company in Australia to have been granted an Australian financial services licence (**AFSL**) by the Australian Securities and Investments Commission (**ASIC**) that is specific to P2P lending.[3] Further, RateSetter Australia is the first and only P2P lending company in Australia licensed by ASIC to accept investment from retail investors, and so isn't restricted to only accepting investment from special classes of wealthy investors who qualify as 'wholesale' or 'sophisticated' investors.

The RateSetter group is a P2P lending pioneer, having been the first globally to introduce the concept of a provision fund to help protect investors from borrower late payments or default, helping to make P2P lending simpler and safer. The group has facilitated in excess of A$1 billion in

[1] Services are available online at www.ratesetter.com.au.

[2] Retail Money Market Limited, United Kingdom company number 7075792, operates under the trademarked name "RateSetter". It is the largest P2P lender in the United Kingdom and Europe by the value of loans facilitated in the last year and in the last month.

[3] RateSetter Australia RE Limited is regulated by ASIC, holding Australian financial service licence number 449176 and Australian credit licence number 449176.

loans, whilst having maintained a low level of borrower defaults and having ensured that every lender has received every amount of principal and interest due to them. The group has also set a benchmark for P2P lending practices.

In this letter we submit our perspectives on three matters of relevance to the Treasury's consideration of FSI recommendations:

i) The benefits that P2P lending can bring to the Australian financial system;

ii) Regulation of P2P lending in Australia; and

iii) Measures Government should take to support P2P lending in Australia.

Additionally we provide our perspectives on five of the major recommendations made in the FSI final report (**FSI Report**) that relate to P2P lending.

RateSetter Australia has provided a separate submission to Treasury in relation to comprehensive credit reporting (**CCR**) recommendations in the FSI Report.

RateSetter Australia would welcome the opportunity to provide additional perspectives to the Treasury on the matters outlined in this letter, as well as any other areas that would be of interest to the Treasury relating to P2P lending and modern finance more generally.

The views expressed in this letter are those of RateSetter Australia only.

2. BENEFITS OF PEER-TO-PEER LENDING

2.1 P2P lending concept

P2P lending can be effected in a number of ways, although it is generally defined as a loan effected between previously unrelated individuals (or "peers") without the intermediation of a traditional financial institution, such as a bank. P2P lending requires a direct economic relationship between a lender and one or more specified borrowers, and hence excludes any pooled investment structures such as pooled investment funds or securitisations.

P2P lending takes place via online platforms and is ordinarily facilitated by, *inter alia*, sophisticated applicant identification, applicant credit-checking, investor and borrower matching, and loan management. Loans matched between borrowers and lenders on a platform are administered by the P2P lending operator, including the credit assessment process, the establishment of loan contracts, the facilitation of payments between borrower and lender, any enforcement/collection processes and related customer services.

The global P2P lending industry is currently small relative to the size of global debt markets, with only circa A$10 billion in loans facilitated by P2P lending operators in 2014.[4] However, the industry is growing rapidly, including in the United Kingdom and the United States, where it is achieving growth

[4] The value of loans facilitated globally is estimated including the five largest operators in Europe and the United States only. This includes companies that may also be defined as 'marketplace' lenders due to a high proportion of wholesale or sophisticated investors funding loans, but excludes any company which funds loans exclusively via wholesale or sophisticated investors.

in excess of 100% annually. This growth has been stimulated in part by the support of various governments and regulators, given a general recognition of the benefits P2P lending can bring to any financial system.

2.2 Benefits of P2P lending

A growing body of international experience and research establishes the benefits that borrowers, lenders and the broader financial system gain from the structural efficiency and decentralised nature of P2P lending.

Benefits for borrowers

P2P lending can deliver attractive outcomes to borrowers by, *inter alia*:

i) Introducing efficient loan application, underwriting, funding and maintenance processes, which reduce costs and allow borrowers to benefit through the provision of better rates;

ii) Introducing risk-adjusted credit pricing such that borrowers pay interest rates reflective of their individual credit history and financial situation;

iii) Enhancing customer experiences, for example, through streamlined online loan applications, rapid loan underwriting and approvals, user friendly reporting and superior customer service; and

iv) Allowing borrowers to avoid having to fund the substantial profits generated by banks and other traditional financial institutions.

Since its launch to Australian consumers in November 2014, RateSetter Australia considers that the above benefits have been effectively delivered to its borrowers. Most notably, unsecured loans have been facilitated at comparison rates as low as 8% per annum, and substantially below rates that may otherwise be achievable to an equivalent cohort of borrowers through traditional lending institutions.

RateSetter Australia has also been at the forefront of the introduction of risk-adjusted pricing to the Australian personal loan market, thereby allowing premium credit borrowers to achieve substantially better rates through avoiding the need to subsidise borrowers who are more likely to default on their contractual obligations. As a consequence of the competitive pressures we are bringing to the personal loan market, we anticipate that traditional lending institutions will eventually have no choice but to introduce similar loan pricing sophistication, which should provide more widespread benefits to consumers in the medium term.

RateSetter Australia has also evidenced an ability to provide borrowers with more rapid and convenient services and access to credit. Further, exceptionally high levels of borrower customer satisfaction have been achieved, with all borrowers who have reviewed our loans on www.productreview.com.au awarding 5 out of 5 stars.[5]

[5] See www.productreview.com.au. This high level of customer satisfaction mirrors that achieved by RateSetter in the United Kingdom, where over 98% of customers would recommend RateSetter, the highest recommendation rating of any financial service provider in the United Kingdom (see www.trustpilot.com).

Benefits for investors

P2P lending can deliver attractive outcomes to investors by, *inter alia*:

i) Providing investors with access to an asset/credit class which has historically only been available to a limited number of large financial institutions;
ii) Allowing investors, especially retail investors, to increase the diversity of their investment portfolio; and
iii) Allowing investors to enhance their risk-weighted returns throughout the economic cycle.

The P2P lending industry has ensured that it delivers attractive outcomes to investors by facilitating lending only to creditworthy borrowers – not borrowers who can't access credit elsewhere, but borrowers who in the past would have secured credit from a traditional financial institution.[6] This focus on creditworthy borrowers has allowed the industry to deliver attractive risk-adjusted returns not just in good economic times, but throughout the economic cycle. There is significant empirical evidence supporting the attractiveness of P2P lending on this basis.[7]

The ability of the industry to deliver attractive risk-adjusted returns throughout the economic cycle partly relates to operator cost advantages. Through the introduction of technology, more efficient operating practices and through avoiding the need to maintain expansive property portfolios and branch overheads, P2P lenders are able to reduce costs and pass these benefits on to both borrowers and investors. McKinsey, the management consultancy, has estimated this operating cost advantage to be ~425 basis points relative to traditional lending institutions (this excludes funding cost advantages which commonly exist).[8]

The industry's track record of providing investors with attractive risk-adjusted returns has been achieved through an intense focus on effective loan underwriting and risk pricing. P2P lenders have proven their capabilities in these areas. P2P lenders are commonly setting new standards in underwriting, partly through the use of modern technology and their development of more accurate risk-adjusted credit pricing models.

In some geographies the attractive risk-adjusted returns delivered by P2P lending (and the supporting empirical data of returns from equivalent cohorts of borrowers in years prior to the advent of P2P lending) has provided a meaningful basis for government and regulatory support for P2P lending, including where governments are seeking to ensure that aging populations generate sufficient returns on their savings to be able to fund their retirement. This is evident in the United Kingdom, where HM Treasury has initiated a consultation on the inclusion of P2P loans within tax efficient retirement savings accounts.

[6] There is at times a misconception that P2P lenders commonly lend to those who are unable to access credit elsewhere, or start-up businesses. It is common for equity crowdfunding platforms to provide equity finance to start-up businesses, but very uncommon for P2P lending operators to provide debt financing to such businesses.

[7] For example, see analysis performed by Liberum Capital: http://blog.lendit.co/wp-content/uploads/2014/11/Cormac-Leech-Liberum-Marketplace-Lending-Opportunity.pdf

[8] See page 14: http://blog.lendit.co/wp-content/uploads/2014/11/Cormac-Leech-Liberum-Marketplace-Lending-Opportunity.pdf

The RateSetter group has a particularly strong track record in providing investors with attractive outcomes. We are proud of our unique track record, in both the United Kingdom and Australia, of having ensured every lender has received every amount of principal and interest due to them. This track record has been achieved firstly as a consequence of our stringent underwriting criteria[9], meaning borrower defaults are maintained at comparatively low levels[10], and also the role that our Provision Fund has served in helping to protect lenders from borrower late payment and default.

Benefits for the Australian financial system

P2P lending can provide meaningful benefits to our financial system through reducing the systematic risks which are inherent in the banking sector. For example:

i) Liquidity risks which are inherent in traditional financial institutions are not relevant to P2P lending. This is because P2P lending, by definition, involves a direct match between lender and borrower such that the amount of funds invested equals the amount borrowed. Traditional financial institutions, in contrast, commonly lend a multiple of their deposits, allow depositors to withdraw their funds at any time[11] and have mis-matched durations for assets and liabilities;

ii) P2P lending reduces the dependence of the financial system on wholesale funding, the availability of which, as experienced in the Global Financial Crisis, can be volatile, and when reduced, can have devastating systematic consequences; and

iii) P2P lending diversifies financial resources away from a concentrated core of 'too big to fail' institutions, where the far reaching risks of failure are predominantly underwritten by tax payers. P2P lending effectively shifts risks borne by the government and tax payers to those investors who wish to take control of their finances and earn a better return.

P2P lending can provide further benefits to the financial system by, *inter alia*:

i) Providing both borrowers and lenders with better value services and more attractive outcomes, as set out above;

ii) Helping to reframe the role of financial services in the economy from being a costly friction, to providing the cost-effective lubricant required for Australia's economic growth; and

iii) Providing finance to creditworthy niches where traditional lending institutions are not inclined or willing to lend, helping to enhance the lives of creditworthy citizens and encouraging economic growth; and

iv) Helping to ensure that Australia's economy does not suffer comparatively as other economies foster innovation and use it as a vehicle to encourage economic growth and export earnings, especially in financial services.

In the context of P2P lending and other FinTech businesses providing a lubricant to the economy, it is noteworthy that financial services now represent 8.4% of Australian economic activity, up from 6.7% only 20 years ago, and the four largest banks now generate combined pre-tax profits in excess

[9] In Australia we currently approve and fund less than 10% of the loan queries received, given our focus on lending only to applicants that we consider to have the propensity and capacity to repay their loan. This is also reflective of our focus on disciplined and controlled growth.

[10] In the United Kingdom below 1% of loans facilitated by RateSetter have defaulted. In Australia no borrower has yet defaulted and currently no borrower payments are in arrears.

[11] Subject to any restrictions through, for example, a term deposit.

of 2.6% of gross domestic product, up from only 1.5% in 2004.[12] Through utilising technology P2P lenders and other FinTech companies are able to reduce the costs associated with financial services, and help ensure that transaction costs are not a barrier to economic activity.

In terms of providing finance to creditworthy niches, P2P lenders have evidenced an ability to provide finance where traditional lending institutions have not been willing to lend, either because of an inability to cost effectively offer small amount loans, or an inability to move outside centrally determined lending criteria. An example in an Australian context is automotive finance, where traditional lending institutions may have limited appetite for financing automobiles worth less than $15,000 due to the costs they incur underwriting such a loan. In contrast, RateSetter Australia sees this as an attractive niche given its streamlined loan underwriting processes, which allow for cost effective loan underwriting, and the good credit quality of this class of loan applicants, especially where a loan applicant is using such an automobile to commute to their place of employment each day. Increasing access to cost-effective credit in such niches can provide significant benefits to consumers and to society as a whole.

More generally, we are very pleased the FSI Report recognised that innovation is "is an essential ingredient to building a dynamic, competitive and forward-looking and growth oriented financial system", especially as we see P2P lending as being at the forefront of financial innovation.

3. REGULATION OF P2P LENDING IN AUSTRALIA

3.1 P2P lending in Australia

The P2P lending industry is in its infancy in Australia. Whilst there are a number of businesses that lend wholesale or sophisticated investor funds to borrowers, RateSetter Australia is the only lending business that has been issued a licence by ASIC which is specific to P2P lending and which allows it to accept investment from retail investors.

A number of characteristics of the Australian financial system would indicate that P2P lending should be successful in Australia, including a deficit of competition in a number of loan markets and a substantial spread between saver and borrower interest rates (outside the residential mortgage market). RateSetter Australia therefore anticipates that over time a number of P2P lending businesses will launch providing services across personal lending, SME lending and property lending, and that P2P lenders will complement the services of incumbent financial institutions and contribute positively to the diversity of and value delivered by Australian loan markets.

We would, however, highlight our concern that businesses that are not actually offering P2P lending services seek to describe their operations as 'peer-to-peer' in order to extract potential marketing and perception benefits. It will be important for the industry, Government and regulators alike to understand which businesses truly offer 'peer-to-peer' lending services, have gained the relevant P2P lending specific licence authorisations from ASIC and which comply with the relevant on-going P2P lending regulations as set out below.

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[12] ABS National Accounts, KPMG *Major Australian Banks: Full Year Results 2014* at http://www.kpmg.com/AU/en/IssuesAndInsights/ArticlesPublications/Financial-Institutions-Peformance-Survey/Major-Banks/Documents/major-australian-banks-full-year-results-2014.pdf. Note that bank pre-tax profits include earnings from geographies from outside Australia.

3.2 P2P lending regulation

In a regulatory context, the operation of a P2P lending platform in Australia constitutes the operation of a managed investment scheme (**MIS**) under Chapter 5C of the Corporations Act 2001 (Cth). In operating such a MIS, P2P lenders are required to hold both an AFSL and Australian credit licence (**ACL**).[13] There is also a significant distinction between the regulation of P2P lending platforms that are open only to wholesale and sophisticated investors, and those which are able to accept funds from retail investors; platforms open to retail investors are subject to materially higher regulatory thresholds, governance and reporting obligations.

The current regulatory approach, defined by the 'twin pillars' of the AFSL/ACL licensing and obligations of Chapter 5C, ensures that adequate thresholds are maintained for platform operators, including specific requirements in relation to:

i) Senior management experience and competency;
ii) Minimum operating capital requirements;
iii) Segregation of participants' funds and auditing of the segregated bank account;
iv) Appropriate credit and affordability assessment;
v) Clear rules governing use of the platform;
vi) Marketing and customer communications that are clear, fair and not misleading;
vii) Secure and reliable IT systems; and
viii) Fair complaints handling.

Where a P2P lender wishes to accept retail investors, they must qualify to operate a 'registered' MIS, as opposed to an 'unregistered' MIS. Additional protections for investors in a registered MIS include requirements to:

i) Lodge a scheme constitution with ASIC. The constitution must include specific measures in relation to:
   - How scheme property is held and dealt with by the P2P lender;
   - How investors funds will be invested in loans or other assets;
   - Clear rules regarding the charging of fees or expenses to investors;
   - Investor's rights to withdraw from loans before term; and
   - Loan valuation and accounting processes;
ii) Produce and lodge with ASIC a compliance plan, detailing the processes, systems and structures by which the P2P lender will meet its compliance obligations;
iii) Appoint a compliance committee to oversee compliance with the scheme compliance plan, as well as the AFSL and ACL obligations and licence conditions;
iv) Commission annual audits of the financial records of the MIS responsible entity and the MIS itself, and an audit of adherence to the AFSL and compliance plan obligations;
v) Meet increased minimum operating capital requirements or a requirement to utilise a custodian;

[13] We would, however, note that some P2P lending operators or aspiring operators have chosen to become an authorised representative of another AFSL holder rather than gain their own AFSL.

vi) Produce a Product Disclosure Statement (**PDS**) that clearly describes, amongst other things, the key features, benefits, risks and fees of the P2P lender's offering; and

vii) Meet continuous disclosure obligations to lenders.

3.3 RateSetter Australia's perspectives on P2P regulation

RateSetter Australia considers that the current regulatory approach to P2P lending is appropriate, and strikes the right balance between:

i) Ensuring that operators are able to evidence their competence in providing P2P lending services;

ii) Providing the longer term protection of investors (especially retail investors); and

iii) Ensuring that barriers are not so high as to prevent the Australian economy from being capable of benefiting from a vibrant P2P lending market.

The appropriateness of P2P lending regulation in Australia is possibly best represented by contrasting such regulations to those which have been developed specifically for P2P lending overseas, or recommendations that have been made by overseas regulators that have performed comprehensive evaluations of the industry. In this regard we would highlight:

i) Regulations in Australia are very similar to those that have been imposed in the two geographies, the United Kingdom and New Zealand, where P2P lending specific regulations have been introduced by their respective regulators;[14] and

ii) Regulations in Australia are largely consistent with those recommendations made by the European Banking Authority following its comprehensive evaluation of the industry in March this year.[15]

Of great importance to the success of P2P lending in Australia is consistency of regulation. We believe that it is important that the AFSL, ACL and Chapter 5C obligations that apply to P2P lending should remain constant, and that no specific P2P lending regulation is required given the flexibility of current licencing requirements and related legislation. Any ambiguity in the future of P2P lending would only serve to create uncertainty and delay Australia's progress in developing a vibrant P2P lending industry.

In the context of P2P lender licensing, we would also express that it is RateSetter Australia's experience that the relevant P2P licencing processes are fair, reasonable and wholly appropriate to ensuring the protection of investors. In this regard we would note that ASIC actively engaged with RateSetter Australia to understand P2P lending and demonstrated flexibility where appropriate and not inconsistent with its mandate of consumer protection. We continue to appreciate ASIC's open and constructive approach towards innovate financial services businesses.

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[14] We would highlight that we consider regulatory thresholds that apply to unregistered schemes in Australia are lower than those that apply under the recently introduced regulatory regimes in the United Kingdom and New Zealand. This supports a view that regulation of P2P lending in Australia should not be reduced or further graduated.

[15] See the European Banking Authority report on lending-based crowdfunding dated March 2015: https://www.eba.europa.eu/documents/10180/983359/EBA-Op-2015-03+%28EBA+Opinion+on+lending+based+Crowdfunding%29.pdf

3.4 FSI report commentary on crowdfunding and P2P lending regulation

The FSI Report raised the prospect of introducing 'graduated' regulation for crowdfunding.[16] We consider that it was unclear in the report whether this prospect was raised in relation to P2P lending. RateSetter Australia would question the need for the introduction of any 'graduated' regulation of P2P lending the following reasons:

i) Australia's existing regulation of P2P lending is already sufficiently graduated. As set out above, regulator thresholds for P2P lenders that provide services for only 'wholesale' or 'sophisticated' investors through unregistered schemes are below those for P2P lenders, such as RateSetter, which also provide services for retail investors through registered schemes;

ii) A further graduated regime is necessarily one that has levels of regulation and oversight that are less strict than current settings. RateSetter Australia would question which aspects of the current regulatory regime could be relaxed, whilst still providing robust consumer protection. We consider that dealing with customer money is a serious responsibility and there should be no shortcuts;

iii) Any further graduation of regulation could in fact harm aspiring industry entrants over the medium term, as by the nature of a P2P lender's operations, it is difficult, costly and time consuming to amend operating structures once services are underway to customers, especially retail customers; and

iv) Any further graduation of regulation may facilitate entry of operators without the requisite sophistication, credit expertise and resources and thereby significantly increase the risk of operator failure. We consider that the long-term success of innovative new financing methods, such as P2P lending, requires building significant trust with both consumers and regulators. Reducing compliance standards that increase the risk of operator failure may therefore undermine trust and potentially jeopardise the longer term development of the industry.

In addition, we would urge that the regulation of P2P lending remains entirely distinct from that for equity crowdfunding, as it is in other jurisdictions. The two industries, while sharing some conceptual similarities, are very different in risk, technology and legal structure and should be regulated as distinct types of financial service, as equity and debt currently are in other regulatory contexts.

[16] Recommendation 18 on page 177 of the FSI Report: "Graduate fundraising regulation to facilitate crowdfunding for both debt and equity and, over time, other forms of financing." Also see additional statements on page 188 of the FSI Report: "For peer-to-peer lending, the current MIS regime may be able to accommodate different types of platforms — including pooled investment mechanisms and 'bulletin board' models — where investors choose to lend to specific ventures. Consideration should be given to graduating the MIS regime, but also to facilitating other mechanisms for direct lending, with policy settings consistent with securities-based crowdfunding."

4. KEY RECOMMENDED GOVERNMENT INITIATIVES TO SUPPORT P2P LENDING

4.1 Promote the development of the P2P lending industry

The P2P lending industry would benefit significantly from Government endorsement and promotion. Given the benefits that P2P lending can bring to borrowers, investors and the financial system as a whole, we see strong rationale for the Government to provide such support.

In this regard, we would highlight the government initiatives that have been taken or that are underway in the United Kingdom to support the P2P lending industry[17]:

i) The British Business Bank has committed £200 million of sovereign funding to FinTech companies and to the development of new and innovative forms of finance. This includes lending funds via the major P2P lending platforms, including the RateSetter platform in the United Kingdom;

ii) Legislation is being introduced to allow FinTech companies to access credit data on small businesses, access payments systems, and compete more effectively in business lending. Through its Small Business Bill, the government is also legislating to require major banks to pass on information on small businesses they reject for loans, so that FinTech companies and alternative lenders can step in and offer finance instead;

iii) Consultation is underway for the introduction of P2P lending as a new category for retirement saving through ISAs, to sit alongside the current bank deposit and equity investment ISA options; and

iv) Through initiatives such as Innovate Finance, the government's support for FinTech and P2P lending is being made apparent to sophisticated and retail investors alike;[18] and

v) Generally fostering financial innovation in order to help the United Kingdom, and particularly London, to maintain its pre-eminent position in the services.

It is very early in the evolution of P2P lending in Australia to be making such an assessment, however, it is our view that Australia is unlikely to develop a vibrant P2P lending industry without similar levels of Government support, especially given the comparatively small size of its economy.

4.2 Retain and do not weaken existing P2P lending regulation

As set out above, RateSetter Australia believes it is important that regulations for P2P lending are not weakened in any way, and that consistency of regulation is critical for the P2P lending industry to prosper. Whilst we are supportive of any discussions around how the development of P2P lending can be fostered, we think it is equally important that this is achieved without diluting the protections that are currently in place for investors, and without creating regulatory uncertainty for existing and aspiring operators.

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[17] Refer to the text of the speech made by United Kingdom Chancellor, George Osborne, on 6 August 2014: https://www.gov.uk/government/speeches/chancellor-on-developing-fintech.

[18] Innovate Finance is a "cross-sector, member-driven organisation that aims to accelerate the United Kingdom's leading position in global financial services by directly supporting the next era of technology-led financial services innovators, large and small, who are bringing new financial products and services to consumers - thereby enhancing the diversity, resilience and inclusiveness of the sector".

5. COMMENTS ON SPECIFIC FSI REPORT RECOMMENDATIONS

The below tables provides commentary from RateSetter Australia in relation to a number of the specific recommendations included in the FSI Report.

#	FSI Recommendation	RateSetter comments
14	**Collaboration to enable innovation**: Establish a permanent public–private sector collaborative committee, the 'Innovation Collaboration', to facilitate financial system innovation and enable timely and coordinated policy and regulatory responses	We are very supportive of the proposed public-private collaborative committee, and we see many areas where such a committee could assist P2P lending businesses and Government. We believe that the Government has an important role to play in helping to ensure that Australian FinTech companies are provided with an environment in which they can thrive, and such a committee will help ensure that Government is informed as to where and how its participation could be most beneficial. We would, however, emphasise that it would be important to ensure that such a committee does not provide a forum for private sector operators to seek and dilute the protections that current regulations afford retail investors in relation to P2P lending.
15	**Digital identity**: Develop a national strategy for a federated-style model of trusted digital identities	We are very supportive of the development of a national digital identity, allowing the identity of an individual to be more easily verified and authenticated. In the context of P2P lending, such an identity would reduce the probability of fraud and reduce the costs associated with identity verification and authentication, allowing corresponding savings to be passed on to consumers. We express no preference for a federated or syndicated model of digital identity provision, but do support the establishment of a public-private taskforce to develop a digital identity framework. We agree with the FSI's observation that there are already numerous government initiatives that could provide the foundation for a digital identity framework.[19] Given the impact that improved access to digital identity services may have on mitigating fraud costs and increasing innovation in the financial system, we would urge the government to set the terms of reference of any digital identity taskforce with a focus on measures that will produce rapid, tangible outcomes based on this existing infrastructure (such as DVS) and are not dependent on implementation or endorsement from major financial institutions.

[19] See table 7 of the FSI Report.

#	FSI Recommendation	RateSetter comments
18	**Crowdfunding**: Graduate fundraising regulation to facilitate crowdfunding for both debt and equity and, over time, other forms of financing	As set out in Section 4 of this letter: - Graduated regulation already exists for P2P lending; - Any further graduation of regulation would be inappropriate, as investor protections would be unnecessarily reduced; - Any further graduation could in fact harm aspiring industry entrants over the medium term; and - The longer term prospects of the P2P lending industry would likely be compromised if investor protections are reduced.
19	**Data access and use**: Review the costs and benefits of increasing access to and improving the use of data, taking into account community concerns about appropriate privacy protections	We are very supportive of mechanisms being introduced to increase access to both publically and privately held data. In the context of lending, effective risk-adjusted credit pricing requires meaningful data to be available to effectively distinguish between the propensity and ability of different applicants to repay their loan. The removal of information asymmetry is essential for consumers to benefit from fair and competitive markets. We agree with the FSI's commentary regarding private sector companies often having strong incentives to restrict access to data they hold in order to sustain a competitive advantage. We believe that current policy settings are bias towards incumbents rather than overall market efficiency.
20	**Comprehensive credit reporting**: Support industry efforts to expand credit data sharing under the new voluntary comprehensive credit reporting regime. If, over time, participation is inadequate, Government should consider legislating mandatory participation	As we express in our separate submission we consider that: - Current CCR regulation should be strengthened over time to substantially enhance the positive data that able to be shared, better aligning Australia data with that data which is available in markets and which is considered best practice; and - Government should act quickly if meaningful progress towards CCR participation is not made by large financial institutions by the middle of 2016, two years after its introduction.

6. CLOSING STATEMENTS

RateSetter would like to thank the Treasury for providing the opportunity to express views on the FSI recommendations, especially in relation to P2P lending.

RateSetter would welcome the opportunity to speak directly with the Treasury and other Government representatives in relation to each of the subjects included in this letter.

Yours truly,

Daniel Foggo

Daniel Foggo
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RateSetter Australia