

# LIXI Data Standard Updates to Address Changes in the Requirements for Collection of Living Expense Data

With reference to:

- The Royal Commission into Misconduct in the Banking, Superannuation, and Financial Services Industry
- Changes to the Household Expenditure Measure methodology
- And requests to better support data aggregation services in preparation for Open Banking in Australia.

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*LIXI Limited is a member-based, not-for-profit company that develops data message standards for the Australian lending industry. LIXI collaborates with participants across the industry to help them gain efficiencies through the further adoption of LIXI standards.*

## Executive Summary

A series of industry developments necessitate updates to the data standards maintained by LIXI. This paper outlines these changes and the next steps to be taken.

LIXI last updated the categories of Living Expenses in the Data Standards in 2016 through a consultation process with industry participants. Since then several industry developments require LIXI to revisit these standardised categories:

- Some lenders have implemented variations in the living expense categories when collecting customer declared living expenses, which is detrimental to the customer and broker experience.
- The Interim Report from the Royal Commission questioned whether the use of the Household Expenditure Measure (HEM) constitutes an adequate *verification* of a borrower's expenditure. Several major lenders continue to support the comparison of a customer's declared living expenses with HEM as a component of their expense verification and credit assessment process.
- The methodology behind the calculation of HEM has changed, and the categories of data now no longer correspond with the LIXI categories on a like-for-like basis.
- Data aggregation services now offer automated capture of transactional data that can be used to automatically populate or verify income and/or expense data.

LIXI has now received several change requests from our members and discussion on these requests has commenced:

- Expand the living expense categories to accommodate the changes to HEM;
- Allow aggregated and categorised transaction data from a data aggregator to be included in the credit application; and
- Capture all living in a simplified structure.

LIXI is now seeking input from our members, in order to propose a set of changes to the LIXI data standards to better support credit licensees' efforts to fulfil their responsible lending requirements. Contribution is sought in defining and clarifying the requirements, proposing and endorsing the changes, and implementing the changes to the LIXI Data Standards.

Once implemented, our licensee organisations are strongly encouraged to avoid implementing variations in the agreed categories without participating in the change management process. This improves the broker and customer experience and minimises the potential for data integrity issues to arise.

## Use of HEM

The interpretation of responsible lending obligations and the data collected by a credit licensee have evolved in recent years. With the release of Interim Report from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (The Royal Commission), further discussion continues. In particular, the report articulated that the practice of using the HEM as the default measure of household expenditure does not constitute a *verification* of a borrower's expenditure.

The Melbourne Institute's HEM benchmark is based on data published by the Australian Bureau of Statistics (ABS) in the Household Expenditure Survey (HES). The HEM is calculated as the median spend on absolute basics (food, utilities, transport, communications, kids' clothing) and the 25th percentile spend on discretionary basics, which includes expenses like alcohol and eating out. Non-basic expenses such as overseas holidays are excluded from calculations. HEM lookup tables are published for a number of factors, including the city/state of residence, the household type (single, couple, family), and the number of dependent children.

A consumer's declared living expenses are often compared to HEM in order to determine if they are reasonable. Their declared basic expenses (those categorised as absolute basic or discretionary basic expenses) are compared against the value from the HEM lookup table for their household situation. If declared expenses are lower than HEM it is an indication that the declared expenses are either inaccurate or unrealistic for the customer to maintain. Some lender's policy requires that the HEM value is used instead of the declared expenses if declared expenses are lower than HEM.

Commissioner Hayne, the author of the Interim Report, has challenged whether the HEM should continue to be used as a benchmark for borrowers' living expenses at all. Several major lenders continue to support the use of HEM as described in newly released submissions responding to the Interim Report. They suggest that the comparison of a customer's declared living expenses against HEM remains a valuable component of their expense verification and credit assessment process. Some other lender have indicated they plan to reduce their use of HEM as a benchmark.

Whatever the outcome, there is a need for the LIXI data standards to support a greater level of inquiry into a consumer's expenditures: both historical; and reasonable expectations of future levels.

With the publication of the (HES) data from 2015/16 in October 2017 by the ABS, an update was made to the methodology and categorisations applied in the Household Expenditure Measure (HEM) in August 2018. Some expenditures are now explicitly excluded from HEM, and others moved into different categories.



## Living Expenses in the Existing LIXI Standards

LIXI supports appropriate categories to enable comparison against HEM, most recently making changes to the Living Expense Categories supported in 2016. After extensive industry consultation, a set of Living Expenses categories was published that were incorporated into the LIXI data standards. These provide the lending industry with standard data definitions and structures for transmitting data electronically from brokers and aggregators to lenders.

The categories that were settled upon were deemed by a majority of participants to be suitably granular to support the efforts that a lender or credit assistance provider made to meet their responsible lending obligations. The categories supported comparison of a consumer's declared living expenses with the HEM. The standard categories assist in making initial reasonable inquiries about the consumer's financial situation, followed by reasonable steps to verify the consumer's financial situation and assess the suitability of the credit contract. These categories have been widely adopted over the past two years although with some slight variations between lenders.

## Allow like-for-like comparison with HEM

It is proposed that LIXI publishes an expanded set of living expense categories and standards that support these categories that, as far as possible, support a like-for-like comparison with HEM. The categories need to allow the collection of basic expenses (those categorised as 'Absolute Basic' and 'Discretionary Basic' in the HEM) independently of Non-Basic and Excluded expenses. Note that there is no need for the categories to separately categorise Absolute Basic and Discretionary Basic expenses, since they are added together for comparing with the HEM value.

If a lender continues using the existing categories of living expenses, they will need to make some assumptions that may negatively impact calculated affordability and the availability of credit to the customer.

## Allow Improved Behavioural Analysis

Evaluating a consumer's historical expenses is only a part of determining the affordability and serviceability of a credit product for a consumer. Determining reasonable expectations of future levels is key. Many of the issues highlighted in the Royal Commission stem from assumptions of future levels of expenditure being based on very modest levels of spending of any Discretionary Expenses.

The determination of ongoing expenses may be as simple as expressing current expense and ongoing expense by category. A young couple buying their first home might be quite reasonably willing to cancel their full cable TV package or eat at restaurants less. It is still important to collect their current expenses for verification purposes, but their ongoing expenses may differ significantly, and both current and ongoing expenses would need to be supported in the LIXI standards.

Some members have raised requests to allow a more granular analysis of a customer's likely expenses behaviour after taking out a credit product. Various caps and/or floors are likely to be used going forward on specific categories of expenditure. Education, Gambling and some services that are bound by a fixed contract, such as gym memberships, have been highlighted as requiring more granular capture than the existing categories provides.

Behavioural analysis such as this will be increasingly supported by the Consumer Data Right and Open Banking as it is implemented in Australia. Existing data aggregation services that enable automatic collection and categorisation of a consumer's bank transactions and other sources of income and expenditure data are already being used to assist consumers in populating credit applications or verifying the data collected manually. These aggregation services are capable of allocating expenditure into hundreds of categories: far more than a consumer would ever do manually.

## Improve Future Extensibility

A technical, but important change has been requested along with these changes. In the earlier categories, Living Expenses and Other Commitments were defined in the standard quite differently. The latest update to HEM shows that some Living Expenses are now more akin to Other Commitments, requiring a relatively substantial technical change. In addition, interest and principal expenses are captured along with data about the relevant liability.

Some members have requested a restructuring of the standard to allow all expenses to be provided, particularly by data aggregators, in a simplified structure. This structure also needs to accommodate metadata regarding the means by which the data has been captured and/or validated.

## A Balance of Competing Requirements

Standardisation remains particularly important for manual collection as variations in expense categorisation between lenders can be subtle and seemingly arbitrary, and can easily give rise to categorisation errors that undermine the integrity of the data.

It is important that the changes to the LIXI Data standards support innovation whilst allowing for standardisation by balancing two requirements:

- allowing enough flexibility to allow services to provide data to lenders and credit providers as they require it, thus encouraging innovation and competition; whilst still
- encouraging sufficient standardisation to ensure that the customer and broker journey is consistent and not too onerous where performed manually.

## Next Steps

The purpose of this paper is not to go into the minutiae of the requirement changes. Instead, those details will be available in LIXILab (the LIXI member's collaboration environment) for our members to discuss requirements, propose and discuss implementations, and finally for the changes to the standards to be implemented and published.

In summary, the following changes have been requested:

- Expand the living expense categories to accommodate the changes to HEM;
- The electronic application submission (CAL) needs to incorporate aggregated & categorised data from a data aggregator to an origination platform provider or CRM, and on to a lender. The data may be aggregated across multiple accounts, applicants, and financial institutions, noting that multiple sets of nested categories may be provided within a single bank statement analysis.
- Capture all living expenses (Absolute Basic, Discretionary Basic, Non-Basic and Excluded) in a simplified structure (that is capture all these expenses in the 'LivingExpense' element and remove the 'OtherCommitment' element).

If the establishment of a working group is required, LIXI will facilitate this, but it is expected that the discussion can be executed in LIXILab to resolve it more quickly than proceeding into a series of working group discussions.

Following the execution of these changes to the data standards our licensee organisations are strongly encouraged to use the standardised categories. To ensure that the broker and customer experience is consistent, and the potential for data integrity issues is reduced, change requests can be raised through the LIXI change management process.

The change requests are now available in LIXILab ([here](#)) for members to contribute discussion. Employees of member organisations can access LIXILab by contacting [LIXILab@lixि.org.au](mailto:LIXILab@lixि.org.au). Any comments, suggestions or concerns can be discussed further with Shane Rigby, LIXI CEO ([Shane.Rigby@lixि.org.au](mailto:Shane.Rigby@lixि.org.au)).