March 2020

Inquiry into the National Consumer Credit Protection Amendment (Small Amount Credit Contract and Consumer Lease Reforms) Bill 2019 (No. 2)

Introduction

Good morning Ladies and Gentlemen of the Senate Economics Legislation Committee.

By way of introduction my name is Sam Budiselik and I am the CEO of Cash Converters and by my side is Peter Cumins, the Executive Deputy Chairman of Cash Converters.

The following comments are in response to the National Consumer Credit Protection Amendment Bill No. 2 in relation to Small Amount Credit Contracts and Consumer Lease Reforms.

As Cash Converters is not engaged in the consumer lease market, our address considers only the implications of the reforms proposed in relation to Small Amount Credit Contracts – or what we will refer to as 'SACC's going forward.

As the largest ASX listed operator in the SACC space, operating under the current National Consumer Credit Protection Act and regulated by ASIC, we thank the Committee for allowing us the opportunity to provide a submission.

Address

Cash Converters plays an important role in this sector of the economy and fills a credit void that banks do not wish to participate in.

Most of Cash Converters' small loans are for one-off expense items and our customers need for credit is often related to essential products and services that many of us take for granted, but are vital for getting on with life. A medical emergency, a car repair that enables them to get to work or the purchase of a fridge or washing machine.

With a loyal customer base, we recognise the importance of the role that we play in the community. Our core purpose is built on the belief that all Australians have the right to credit when in financial need and we consider the needs and wellbeing of our customers in everything that we do.

Lending responsibly and respectfully to our customers is an intrinsic component of the Cash Converters culture and will remain our ongoing focus. Our customers are treated with dignity and respect. Our Net Promoter Score is high and our complaint level ratio low.

We believe that the current legislation has achieved many of the objectives it set out to address when introduced:

- **Fees that can be levied on SACC loans are legislated and capped by law.** Many claims in the media made about the fees and charges on small loans are simply false or mis-informed.
- **The fees and charges applied to the loan cannot exceed more than the loan principal itself**; Claims made in the media in this space about cases of open ended, uncapped small amount loans that are many multiples of the amount borrowed are also false.
- A protected earnings amount or "PEA" amount is already in place in relation to Centrelink recipients and achieves its intended purpose.
- Lenders are required by law to operate under a responsible lending framework compiling a comprehensive understanding of an applicant's financial position and;
- ASIC regulating the small amount lending space works.

It should be remembered that this is high risk, unsecured lending to a consumer segment that the banks do not wish to participate in, deeming these consumers as undesirable on a risk/return basis.

Compounding this issue, the banks have also turned their backs on funding the lenders operating in this industry, forming the interesting view that it does not align with their new found social license.

To maintain our support for our customers we cannot source mainstream funding and are required to arrange securitisation facilities that are high cost structures. We do not have access to wholesale credit markets associated with lower borrowing rates that would facilitate a lower cost of credit being passed through to the consumer.

We must also comply with responsible lending obligations imposed under the NCCP Act. While understanding the regulatory need and objectives, an unintended consequence for lenders in the sector is the cost of meeting these obligations to write a small loan are essentially the same as any bank writing a mortgage

These are often salient facts overlooked in the mainstream media reporting of lending in the sector, likely because these facts get in the way of an appealing, alarmist story to a wide audience. Much of this audience are readers who themselves don't have any problem accessing mainstream credit, nor do they properly understand the mechanics and safe guards already in place in the sector.

We are pleased that the Committee is taking the time to consult further on these matters. It takes some time to understand the fundamental importance of this sector to a large Australian consumer base and the drivers of ever-increasing demand.

In terms of the amendment bill proposed, the Committee does need to be fully informed to avoid unintended consequences arising from legislative changes.

The structural challenges in the sector are already an issue, which may over time impede or restrict the ability of lenders to continue to service the needs of this consumer base. A balance is needed in terms of responsible supply of consumer credit and a commercial return to lenders in the sector.

In saying this, Cash Converters does fully support changes to the current Act that enhance the existing regulatory framework and we have already implemented many of the proposals in advance of the amendment bill being considered.

For example, at Cash Converters:

- We already have equal repayments and equal payment intervals on SACC loans.
- We do not levy any fees in respect of the residual term of a loan where a consumer fully repays the loan early.
- We fully support any legislation that strengthens anti-avoidance protections and increases penalties.

Proposal Items

In terms of the complete list of changes proposed, our positions have been made clear in our submission. There are however two recommendations contained in the review proposal that we do wish to comment on as being worthy of special consideration.

The first, and arguably most detrimental recommendation, is the reduction of the current 20% gross income Centrelink PEA, to 10% of net income, applied to all applicants.

We believe that the imposition of any cap applied to employed Australians is overreach. Australian consumers are well protected by current responsible lending obligations, and the application of a PEA across all loan applicants will be of no further benefit to the consumer. Conceptually, we question where one would draw the line with such a change.

A PEA cap for employed customers will have unintended consequences:

- if the customer needs to borrow an amount that exceeds the 10% cap, extending the loan term is the only option to reduce repayments. The need for the loan won't change, the amount required won't change, the only way the loan will be possible will be to extend the loan life and reduce the repayments. **This will make the loan more expensive** regardless of the customers' affordability test demonstrating they could afford to repay the loan sooner.
- Additionally, If the customer needs a small loan to cover an unexpected expense they **may not be able to access credit** if there is one final repayment left on an existing loan, putting them over the 10% PEA cap despite the customers' affordability test demonstrating they can afford the loan.

The second recommendation we challenge is the objective in relation to the prevention of unsolicited offers to current and prospective customers. Existing customer contact is only conducted with the consent of the customer at present. For new or prospective customers, the current responsible lending obligations prevent unsuitable loans being written, which should negate the need for any further restrictions on customer marketing.

We believe this proposal should only apply to contact associated with a pre-approved loan offer.

With overall SACC principal advanced declining year-on-year* as a direct result of existing responsible lending legislation, and an average frequency of use of 1.3x per year, we believe the current legislation applying to SACC lenders is working as intended.

*(from $667m in FY15 to just over $530m in FY18)

Summary

In closing, we reiterate the commitment of our Company to continue to support sensible legislation that provides meaningful protection for consumers.

Some of the proposed changes contained in Bill No.2 will further disadvantage financially excluded Australians, with the unintended consequence of increasing the cost of a small loan, or worse still, forcing consumers to consider using financial products that don't offer the same protections that current SACC legislation provides.

Legislation (or any amendment to it) is not fit-for-purpose if it makes credit more expensive and less flexible for financially excluded consumers, and at the same time impinges on that consumers right to be in control of their finances.

An important consideration for the Committee is where these consumers will obtain credit from if not from highly regulated, responsible lenders in this sector.

The practical and social impact of such outcomes is highly relevant in a public policy context.

We sincerely thank the committee for the opportunity to appear here today, and welcome any questions…

Notes

Recommendation Summary

CCV Supported Recommendations

- Removing rebuttable presumptions
- Short-term credit contracts
- Equal repayments and repayment intervals
- SACC database
- Prohibition on fees where balance paid early
- Referrals to other SACC providers
- Default fees (qualified)
- Bank statements
- Documenting suitability assessments
- Consequence for breaches

CCV Unsupported recommendations

- Protected Earnings Amount (PEA)
- Direct debit fees
- Preventing unsolicited invitations
- Warning statements
- Disclosure
- Anti-Avoidance measures

Average Loan Summary

The 2018 CoreData Research Report identified the average SACC loan amount was $635 and paid back in 114 days. So, the real costs for a SACC loan are as follows:

- Loan amount = **$635**
- Term of loan period (avg) = **5 months**
- Establishment fee 20% of loan amount = **$127**
- Loan credit fee 4% of loan amount = **$25.40 per month**
- Repayments per month = **$177.80**
- Total repayments including all fees = **$889 over 5-months**