Brotherhood of St Laurence
Working for an Australia free of poverty

Submission to discussion paper: Reducing the Reliance: strategies for reducing the reliance on high-cost, short-term, small amount lending

Brotherhood of St Laurence
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Introduction

Background to the Brotherhood of St Laurence

Established during the Great Depression, the Brotherhood of St Laurence was the vision and creation of Fr Gerard Tucker, a man who combined his Christian faith with a fierce determination to end social injustice. The BSL has developed into an independent organisation with strong Anglican and community links. Today, we continue to fight for an Australia free of poverty.

The Brotherhood defines “social inclusion” as a state in which individuals and families have the personal capacities and material resources necessary to fulfil their potential to participate in the mainstream economic and social life of the nation.

Financial inclusion therefore can be defined as all Australians having access to mainstream, affordable and appropriate financial services and having the opportunity to build assets. To this end we work in partnership with financial institutions to provide appropriate financial services and education to people on low incomes.

The Brotherhood has been in a formal partnership with ANZ Bank for over ten years. We share the joint objectives of developing and demonstrating innovative financial inclusion programs for disadvantaged and vulnerable consumers and demonstrating leadership in cross-sector partnerships.

In promoting social inclusion the Brotherhood takes a life-course approach to research, policy and service delivery, with special emphasis on four life transitions—the early years, from school to work, in and out of work, and retirement and ageing. Our financial inclusion work is weaved through these life stages both in program delivery and policy advocacy.

Brotherhood’s Financial Inclusion advocacy

The Brotherhood has recently contributed submissions and conducted research reports into the provision of financial services and products, in particular insurance products and mobile phone contracts.

A research project into young people's experience with mobile phones was conducted last year with support from the Australian Communications Consumer Action Network (ACCAN). This project revealed that young people were at risk of debt by taking on complex contracts for mobile phones.[1]

[1] Fieldgrass, L, 2011*, Mobile Matters The Youth Advocates Project*, ACCAN and Brotherhood of St Laurence.

The Brotherhood followed up on these findings by making a submission to the Australian Communications and Media Authority that called for greater transparency in contracts and billing.[2]

Our research into household insurance and low income Australians found that 39 per cent of the sample surveyed had no insurance for household goods. The report identified barriers to accessing insurance products including premium payment methods.[3]

Through our role as the secretariat for the Australian Financial Inclusion Network (AFIN) we take an active role in bringing together community organisations, financial institutions and government agencies to address financial exclusion.

The Brotherhood holds the Deputy Chair position on the Federal Government's Social Inclusion Board and through this forum we have contributed to policy formation on a range of issues including payday lending and the needs of older Australians., particularly women, who have not acquired assets

Brotherhood's Financial Inclusion programs

Our services include Saver Plus, a matched savings program that was developed by the Brotherhood and ANZ Bank in 2002. Funded by the Australian Government and ANZ, participants in Saver Plus set a savings goal and are supported to achieve this through contact with a Saver Plus worker and ten hours of financial education sessions.

When they reach their goal, ANZ matches participant savings dollar for dollar, up to $500, which must be spent on education-related expenses. Over the last decade this program has grown from a small pilot at three locations to 61 sites across every state and territory.

The most recent evaluation of the Saver Plus program by RMIT University found that 87 per cent of past participants continue to save at the same rate or more, two years after completing the program.[4]

We also deliver MoneyMinded, a financial education training course developed by ANZ that focuses on individual and household budgeting skills. A train-the-trainer model, the Brotherhood offers this service free to community sector workers who then provide financial education to their clients.

The Brotherhood had been active for six years – from 2006 to March this year – in the provision of a small-amount loan with ANZ known as the Progress Loan. This product was a loan of between $500 and $5000 for essential household items and

[2] BSL response to the Australian Communications and Media Authority's draft report *Reconnecting the customer.*
[3] Collins, D, 2011, *Reducing the risks: improving insurance access to home contents and vehicle insurance for low-income Australians*, Brotherhood of St Laurence.
[4] RMIT, 2011, *Evaluation of Saver Plus Past Participants*.

services, including fridges and vehicles. At June 2011 this scheme had provided 1,254 individuals with loans of an average value of $2,952, at an interest rate of around 14 per cent. The default rate for this product was approximately two per cent.

An independent evaluation of Progress Loans showed that goods and services purchased with these loans improved personal living conditions and quality of life for clients. The evaluation found access to this credit product facilitated employment, improved access to community and institutional resources, and improved material and economic resources. It also enhanced interaction with family, friends and the community and improved personal life skills.[5]

In 2011 ANZ conducted a review of its financial inclusion and capability programs and the bank has chosen to focus on programs that improve money management skills and savings of participants such as MoneyMinded and Saver Plus.

One of the primary objectives of the Progress Loan scheme was for it to become financially sustainable over time. After six years it has been found that the program is not financially sustainable without a substantial and ongoing subsidy which has been provided wholly by ANZ.

Administrative costs for this and similar programs are high because the financial circumstances of a prospective customer can be complex due to education levels, family life and health reasons.

Brotherhood is also a small scale provider of the No Interest Loans Scheme (NILS) at three locations in Melbourne.

Summary of Brotherhood's submission

The Brotherhood welcomes the Government's interest in addressing factors that lead low income and vulnerable people to rely on high-cost, short-term lenders, also known as payday lenders.

Expanding the debate around payday lenders beyond regulatory options for these businesses provides an opportunity to consider and address factors that push some people toward fringe lenders as well as those factors that pull consumers to these businesses.

This submission supports measures outlined in the discussion paper aimed at reducing the demand for small, short-term loans. However, while these measures will assist low income Australians to better manage their money and decrease their energy consumption and costs, we submit that for some individuals and households the need to access funds at short notice will persist.

This acute need for funds to pay for regular expenses such as outstanding bills, rent or groceries[6] is serviced by the typical payday loan which is approved within

[5] Vawser, S, 2001, *Progress Loans Evaluation*, p 6.
[6] RMIT University & the University of QLD, 2011 *Caught Short: Exploring the role of small, short term loans in the lives of Australians, Interim Report*, p 16.

an hour, is for an average of $300 and repayable over a period of four weeks.[7] These loans invariably have fixed-price fees which can amount to effective interest rates of 1,000 per cent or higher.[8]

We therefore support the recent efforts of the Government to nationally regulate the payday lending industry as a step toward ensuring the products sold by these businesses are less risky and damaging to the consumers that use them.

Brotherhood encourages the Government to monitor the impact of its decision to legislate for a cap on fees at 20 per cent of the amount loaned and monthly fee of 4 per cent on those people who use these products to see if tighter regulation is needed.

This submission also supports public, community and private sector initiatives to increase the availability of safe and affordable credit for the purposes of asset building. We believe it is important to make the distinction between these products and payday loans, and submit that they serve different purposes and one cannot be seen as an alternative to the other.

Payday lenders recoup costs for the administration of small loans through high fees and charges. Loan schemes provided by community sector agencies cover the cost of administration through government funding and contributions from a small number of banks with financial inclusion programs.

The Brotherhood's own experience with Progress Loans has shown that in order for such a scheme to exist requires a substantial subsidy. The inability to meet the objective of making Progress Loans financially sustainable was one of the reasons ANZ and the Brotherhood discontinued the scheme after six years.

With the burden of administrative cost falling to financial institutions there is little incentive, from a commercial perspective, for banks to fund these programs. Given the social inclusion outcomes of Progress Loans and similar programs for the community as a whole, there sound policy motivation for Government to provide a subsidy to the community sector to encourage banks to build partnerships to deliver financial inclusion products.

Of the approaches to increasing the availability of small loans considered by the discussion paper, the Brotherhood is supportive of suggested reforms to assist the growth of the Community Development Financial Institution (CDFI) model. We submit however that the CDFI approach is fragmented in nature and lacks the coverage that could be reached by mainstream financial institutions.

We consider the discussion paper's suggestion for reporting (in annual reports) of Corporate Social Responsibility (CSR) activities by mainstream lenders is insufficient to ensure the provision of financially inclusive banking products or practices.

[7] Gillam and Consumer Action Law Centre, 2010, *Payday Loans, Helping Hand or Quicksand* p. 81 -83.

[8] *Strategies for Reducing the Reliance on high-cost, short-term, small amount lending,* 2012, p 6.

CSR is a broad measure and can include a range of activities such as environmental initiatives and equal opportunity employment policies. While these practices are to be encouraged, to ensure low income Australians are better served by the mainstream finance sector we recommend they be asked to report what they are delivering to foster Financial Inclusion.

The Brotherhood also supports exploring whether the banking industry Code of Conduct could also be utilised as a reporting mechanism as suggested in the discussion paper.

Our approach to this submission
To assist the Government in developing a response to the issues we have answered, where applicable, the questions provided for feedback.

Centrelink programs

Currently the Government offers Centrepay, advance payments and weekly payments as mechanisms for customers to manage their money. Are there any other mechanisms that could be used for this purpose?

Centrepay
The Brotherhood supports the expansion of the Centrepay scheme to allow this direct debit service for Centrelink recipients to be utilised for payments beyond what is currently available.

For example VicRoads (drivers licence and car registration agency in Victoria) does not accept payments through CentrePay or have any other instalment payment process. These fees can only be paid in an annual lump-sum or – if a person qualifies for special consideration – they can obtain a 6 month registration.

In the past, some of our Progress Loans clients who used the loan to buy a car had difficulty making an annual payment and allowing instalments would assist with the problem of 'lumpy expenditure'.

It is a similar situation with car insurance. Brotherhood understands that fortnightly Centrepay payments do not align with monthly insurance instalments and encourages the insurance industry to help remove this barrier to accessing insurance.[9]

We also support Centrepay being used to repay interest bearing loans with financial institutions including CDFIs.

The Brotherhood has approximately 100 Progress Loans clients who use Centrepay to make loan repayments.[10] Because these clients cannot use

[9] Collins, D, 2011, *Reducing the risks: improving insurance access to home contents and vehicle insurance for low-income Australians*, Brotherhood of St Laurence, p 8 - 9.
[10] Despite Progress Loans closing to new customers from March 2012, these clients remain loan customers with ANZ for the life of their loan which can be up to five years.

Centrepay to repay their loan directly to ANZ, Centrepay pays the Brotherhood, which then transfers this payment to ANZ. The Brotherhood incurs transaction fees and wage costs to facilitate the use of Centrepay in this case.

While Brotherhood supports expansion of Centrepay we would not want to see this function facilitate the payment of high interest charges to payday lenders or businesses that charge high rental fees for household items.

Advance payments

The provision of advance payments to Centrelink recipients is an important resource for people who need to access additional funds quickly. However the impact of this scheme on reducing demand for payday lenders is limited by how much can be advanced and how often.

At the lower end an advance is $250 and at the upper end it is just over $1000. These payments are only available once in a twelve month period or twice a year, depending on what Centrelink assistance the recipient is receiving.

This is in contrast to how consumers use payday lenders. The Consumer Law Centre reported in 2002 that 65 percent of consumers that it surveyed had taken out more than one payday loan, and the average number of repeat loans taken out by consumers was six over 12 months.[11]

In addition there is a large group of people – between 46 and 50 per cent – who use payday loans and who are not in receipt of government benefits.[12]

Brotherhood supports the continuation of Centrelink advance payments as it does provide access to small funds from a safe source, albeit in a limited way.

Expansion of this scheme to make more payments available more often would benefit low income Australians, but it would also risk making Centrelink a de facto credit provider. Advance payments also have the impact of reducing the fortnightly income Centrelink recipients have to spend on regular expenses which may lead people to then seek a top-up of funds for these costs through payday lenders.

Consideration should therefore be given to the adequacy of Centrelink benefit payments, especially the Newstart allowance.

Weekly payments

Brotherhood supports the standardisation of weekly payments to Centrelink recipients as a measure to assist low income earners to better manage their finances.

[11] Wilson, 2002, *Consumer Law Centre Victoria, Payday Lending in Victoria – A research report*, p 36

[12] Above n3, p 65.

Referrals

Should referrals be made to FMP services at a certain stage as a matter of course?

Centrelink clients who hold a Health Care Card are eligible for the Brotherhood's Saver Plus program, which is funded under the Financial Management Program (FMP) branch of the Department of Families, Housing, Community Services and Indigenous Affairs.

This provides an opportunity for Centrelink to refer clients to Saver Plus, but to date this has been a small source of referrals to the Brotherhood's Program. In the four months to the end of April 2012, there were fewer than 100 participants referred to Saver Plus from Centrelink.

Attempts by Saver Plus partners to get a better flow of referrals from Centrelink have had inconsistent results. It has involved a site-by-site approach where local Saver Plus workers develop a relationship with their local Centrelink office.

We support referrals as a matter of course, not just to Saver Plus but to all FMP-funded programs. It is our experience that there is a lack of awareness among Brotherhood clients of the support and services are available to them from both the Government and community sector.

We support any measures to better map the services available at all points of need, from immediate assistance to capability building and asset building, and to better communicate this both to clients and between service providers.

Energy hardship programs

Should providers of high-cost small amount loans be required to advise individuals about the existence of hardship programs where the individual is seeking loans to pay a utilities bill?

The Brotherhood supports the display of information about a range of financial support programs at payday lending outlets. While too much information may not cut through to the consumer, at a minimum there should be prominent display of Financial Counselling Australia's nation-wide phone number for free financial counselling services.[13]

Information about emergency relief providers and the No Interest Loans Scheme (NILS) could also be displayed, but at present there is no central phone number that can direct callers to the nearest provider of these services. The Brotherhood supports the setting up of an Australia-wide phone number for both of these services to make it easier for low income people to access this support.

[13] Financial Counselling Australia have the 1800 007 007 phone service.

While financial counselling, emergency relief and NILS do not immediately assist a person borrowing a small amount to pay a due or overdue utility bill, promoting these services at payday lenders may encourage some people to seek these services in a preventative capacity at another time.

In relation to promoting utility hardship programs this information should also be made available at payday lending outlets. Due to the number of energy retailers – at June 2011 Victoria had 14 retailers in the residential and small business market[14] – it would be necessary for an agency to compile a list and distribute it accordingly.

Such a task could fall to the Australian Energy Regulator (part of the Australian Competition and Consumer Commission) when it becomes the national regulator for energy retailers – except those in WA and NT – from July 2012.

How can individuals be encouraged to use these alternatives for paying utility bills rather than using high-cost small amount loans?

Apart from raising awareness of hardship schemes, accessibility to these schemes could be enhanced by improving the service offered by energy retailers in relation to phone waiting times and call costs.

Clients of the Brotherhood often report that they have not contacted a utility company due to the cost involved in making phone calls. Increasingly clients are choosing to not have a landline phone and instead to only have a mobile phone. This is particularly the case when people are living in insecure housing or under short term leases. These people would be encouraged to contact their energy retailer if there was a free-call telephone service provided by the company.

What are the advantages and disadvantages of requiring energy providers to provide information on their payment plans and hardship programs initially when contracts are entered into or renewed, and on each bill?

Hardship program details should be printed on utility bills as a standard piece of information. Having a direct (and free-call) phone number for customers would make it easier than simply providing a website for further information. Not all customers, particularly those who do not have landlines, have the internet connected at home. Encouraging customers to use hardship programs and to negotiate a payment plan may help to prevent people from using payday lenders.

Are there other support services that would help reduce energy hardship and the demand for small amount, short-term loans to pay energy bills?

The Brotherhood supports measures aimed at reducing energy consumption in low income households, including programs to encourage the more efficient use of

[14] *State of the Energy Market*, 2011, Australian Energy Regulator, p 106.

existing appliances and programs that facilitate the purchase of new energy-efficient appliances.

Some low-income households, especially those with older people, carers or people with disabilities, spend most of their time at home and are limited in how much they can change energy consumption habits, particularly in periods of very hot or cold weather.

The Brotherhood has submitted an expression of interest to the Low Income Energy Efficiency Program (LIEPP) to run a scheme that will facilitate the replacement of high-energy-use electric hot water systems with gas or solar. This is aimed at older people who own their homes (and as such may be considered ‘asset rich’) but who lack the liquid funds to make upgrades to the home.

Should energy hardship programs be promoted more widely? If so, what mechanisms could be used?

In addition to the provision of hardship program information at payday lending outlets, having a free-call phone number and standard information on electricity bills, the Australian Energy Regulator as a central agency could promote hardship scheme awareness through an adequately resourced communications campaign targeted at low income earners.

Existing microfinance programs

Is building upon existing programs and extending the criteria for accessing these programs, such as NILS and StepUP, an appropriate alternative to small amount, short-term loans?

Small amount loans provided by NILs and StepUp are an important source of safe and affordable credit for many low income Australians. Expanding these schemes through higher levels of Government funding would increase the number of people who could access these loans, however the delivery model of these programs have significant limitations when compared to Payday loans.

A payday loan can be approved within an hour, and on average is for an amount of $300, repayable over a period of four weeks. NILs and Step Up have waiting periods for interviews to be assessed for a loan, and then only lend money for household goods and car repairs. The loan is not provided to the client but is paid to the business providing the good or service.

Payday lenders recoup costs for the administration of small loans through high fees and charges. Loan schemes provided by community sector agencies cover the cost of administration through government funding and contributions from a small number of banks with financial inclusion programs.

We believe it is important to make the distinction between NILS and StepUp and payday loans, and submit that they serve different purposes and one cannot be seen as an alternative to the other.

If yes, should the eligibility and purpose criteria for no interest and low interest loans be expanded and what should these criteria be expanded to include?

Eligibility criteria for NILS and StepUp currently captures only those people who have a Health Care Card or Pensioner Concession Card. We believe these programs should continue to be targeted at those who have the least access to mainstream financial services.

Expanding purpose criteria beyond household items and car repairs to include utility bills and rent would fundamentally change the policy objective of these loans, which is for asset building.

If NILS and StepUp were used to pay for regular ongoing expenses as opposed to larger expenses on household appliances these loans would risk becoming an income substitute. This would result in increased demand for these loans which would require greater resourcing to fulfil.

Mainstream financial sector

How could more partnerships be developed between community service organisations and financial institutions to increase the number of these products and their coverage.

Currently there are only two large mainstream financial institutions that have developed partnerships with community organisations to deliver financially inclusive products to low income Australians: ANZ with the Brotherhood of St Laurence, and the National Australia Bank (NAB) with Good Shepherd Microfinance.

These financial institutions have demonstrated that products aimed at low income earners and delivered through a community organisation can fit within the corporate banking model.

ANZ's contribution to matched savings through the Saver Plus program is a significant commitment of funds. In the last two years alone 10,000 participants received $500 on completion of the program representing a $5 million investment by the bank in financial inclusion. This figure does not reflect the entirety of financial support provided by ANZ to Brotherhood programs which could not be delivered to low income Australian's without the commitment of the bank.

Both the ANZ/Brotherhood and the NAB/Good Shepherd partnership receive Government funding through the FMP branch of the Department of Families, Housing, Community Services and Indigenous Affairs.

This cross-sector model brings not only benefits for low-income Australians and helps to increase social inclusion in the community, but it also provides the opportunity for the corporate, community and public sectors to share experiences and learn from each other.

For these reasons the Brotherhood supports ongoing Government assistance to the community sector to encourage and leverage partnerships with mainstream financial institutions for the provision of small loans and matched savings programs.

Administrative costs for these programs are high because the financial circumstances of a prospective customer can be complex due to education levels, family life and health reasons. Given the social inclusion outcomes of Progress Loans and similar programs for the community as a whole, there is sound policy motivation for Government to provide a subsidy to the community sector to encourage banks to build partnerships to deliver financial inclusion products.

What mechanisms would be most successful in encouraging mainstream lenders to improve access for low-income individuals to small amount loans?

Due to the small number of mainstream financial institutions with financial inclusion programs in Australia there is a need for a mechanism that will facilitate the entry of more institutions into the marketplace to offer products and services to low-income Australians.

As a first step, the Brotherhood supports the introduction of voluntary reporting measures and monitoring of the effectiveness of this mechanism to consider whether mandatory reporting or greater regulatory reform is necessary.

Would reporting be an effective mechanism for encouraging mainstream lenders to increase their small amount, short-term loan activity and, if so, what type of reporting would be most effective?

Reporting against a Corporate Social Responsibility (CSR) measure is standard for most, if not all financial institutions in Australia. The development of CSR as a business practice is long established and seen as tool to enhance the reputation of corporations.

CSR is a broad measure and can include a range of activities such as environmental initiatives and equal opportunity employment policies. While these practices are to be encouraged, to ensure low income Australians are better served by the mainstream finance sector we prefer reporting against a financial inclusion measure within CSR.

Such a measure could require banks to report on hardship policies, financial education activities and bank products (savings and loans) aimed at low income earners, students and pensioners. It could also require a financial inclusion strategy to be developed by the institution and for this to be communicated to staff at a branch level to assist in creating cultural change in the institution.

Outcomes of the programs could be detailed in the institution's annual report, and the Brotherhood also supports exploring whether the banking industry Code of Conduct could also be utilised as a reporting mechanism.

Community Development Financial Institutions (CDFI)

Should the growth of a CDFI sector in Australia be supported? If yes, what are the base requirements for growth of the sector? Would a UK style financial inclusion growth fund be an appropriate mechanism for developing a pool of capital funds that CDFIs could access?

As identified by the discussion paper, the financial services sector in Australia has undergone consolidation in recent years, and very few small lenders with a focus on individual and household banking remain active. In 2009, fewer than ten were identified and while a further five were added through the FaHCSIA-funded pilot program that concludes in June this year, the CDFI sector remains significantly under-developed.

The Brotherhood supports growth of the CDFI sector to increase product offerings to low-income Australians but recognises that there are currently several barriers to expansion including access to capital, legislative change for regulatory oversight and tax status. The evaluation of the five pilot programs that is due in August 2012 will help to better inform the options for expansion.

The CDFI approach has potential to provide small loans to low-income Australians but the model is fragmented in nature and lacks the coverage that could be achieved through the participation of mainstream financial institutions.