Recommendation 11 – Cap on costs to consumers

GST inclusive or exclusive?

There was no indication in the final report whether the cap on costs, included or excluded GST.

A position put forward by SACC providers in the interim report, was that GST should be included in the lessor's cap because a lessor can depreciate the rental asset. In response to the SACC providers claim, I illustrated that the ability for a lessor to depreciate a rental asset, gave the lessor no overall financial advantage.

For the cap to be reflective of the current cap on SACC's, GST will need to be added to the cap.

Cap on Costs

From my analysis the proposed caps do not give a lessor sufficient operating margin on shorter lease terms of 12-24 months. In order for lessors to maintain a satisfactory margin they would be forced to extend lease terms to 36-48 months, which would increase the overall lease cost. To avoid this, a better approach would be to give lessor's the ability to use a higher multiple on 12 and 24 month lease terms.

Base Price: $1,000

Lease Term	Panels Recommended Cap	Total Lease Cost	Rentorilla's Recommended 12 Month Lease Cap	Total Lease Cost	Rentorilla's Recommended 24 Month Lease Cap	Total Lease Cost
12 months	1.48	$1480	1.78	$1780		
24 months	1.96	$1960			2.18	$2180
36 months	2.44	$2440				
48 months	2.92	$2920				

As illustrated in the table above although the cap on both 12 and 24 month lease terms are higher, it represents a large saving to the consumer compared with the longer lease terms. See savings comparison table below:

Panel's Recommended Cap		Rentorilla's Recommendation		
Term	**Total Lease Cost**	**Term**	**Total Lease Cost**	**Savings**
24	$1960	12	$1780	$ 180
36	$2440	12	$1780	$ 660
48	$2920	12	$1780	$1140
36	$2440	24	$2180	$ 260
48	$2920	24	$2180	$ 740

It is our belief that introducing a staggered cap tied to the lease term would encourage lessors to offer shorter term leases. Not only is a shorter term lease in line with current industry trends, it also benefits the customer by reducing their commitment and provides a better financial outcome by reducing the overall lease cost. The panel's recommended cap forces lessor's to offer longer term leases with a higher overall cost which is not in line with the panel's objectives.

If the option above is not considered, the cap on cost needs to be increased by 20% or a multiple of .20 per annum above the panel's recommendation to allow lessor's to offer 12-24 lease terms.

Recommendation 15 – Affordability – 10% Income Protection Cap

It is our view that this recommendation is unnecessarily restrictive and will result in consumers losing access to essential goods. The example put forward by the panel, used a product mix where the base value of the goods was within $1 of the base price limit proposed under 10% income protection cap, which would be extremely rare in the real world. Low value items such as a microwave and dryer were also used to optimise the outcome, but neglected other essential items such as furniture, TV's, air conditioners, computers and phones. Furniture rental is common, in particular beds and lounge suites, whereas rental of low value goods such as microwaves are extremely uncommon. Also, the 3-year lease term used in Table 14 is not reflective of the current industry trend towards shorter term leases.

To replicate the panel's optimised example would be very difficult in commercial reality, it's much more likely that customers will only ever have 7-8% of their income utilised because they will be denied access to 1 product due to it pushing them slightly over the 10% income protection cap. In contrast it is very easy for a SACC provider to adjust loan amounts to precisely line up with the confines of an income protection cap. This is impossible for a lessor as the base price of goods differs and cannot be adjusted. In a real world situation, a customer would lose access to essential goods once they utilise 7-8% of their income. It would be impractical for a lessor to source a cheaper version that falls within the confines of the cap once the customer hits this limit, as this would only increase costs and decrease efficiency. To avoid this, we propose a 2% buffer on top of the income protection cap.

Unlike a SACC which provides a short term debt relief solution, consumer leases differ in that consumers rely on these to provide a long term solution for them to obtain essential goods. In the majority of cases this is the only way a consumer can access essential goods. A recent survey commissioned by Radio Rentals (conducted by independent firm Roy Morgan) found, if customers had not being able to rent through Radio Rentals they would have to go without and 70% said they were the only way to access essential affordable everyday goods. Although it is the belief of the panel that customers will not be restricted, it is our view that customers will be severely restricted by this recommendation.

The 3-year lease term used in table 14, is not reflective of the current industry trend towards shorter term leases. The majority of customers want a short term lease period of 12-24 months. A lease with a shorter term provides a better financial outcome for the customer but also lowers the base price of goods that can be leased under the 10% income cap because of the higher fortnightly payments. Although the panel is aware that this recommendation will encourage lessors to extend their lease terms because of the lower fortnightly payments, this does not align with the panel's objective to provide recommendations to promote financial inclusion.

Given the current absence of proposed income protection cap, it is our view that the majority of lessee's currently exceed the 10% income protection cap. Although Rent4Keeps suggested that 10% was the typical amount of income consumers devote to consumer lease payments, we don't believe this is reflective of the industry as whole. This would mean that many current lessees would not be able to lease a new essential good until they fell below the 10% income protection cap. The long term nature of a consumer leases, means that these customers may not be able to enter a new lease for some years. A lessor's reliance of repeat business would be severely hindered by this recommendation and I believe this would result in many business closures. As a result, the customer would lose access to essential goods which does not align with the panel's objective.

In conclusion we don't believe this recommendation satisfies the objectives put forward by the panel. We do however believe a 20% income protection cap + 2% buffer would achieve the required objectives. The following would be achieved:

- Customers would have access to all essentials items
- A bright line test for lessors to conduct financial assessments
- Lessors continue to have the flexibility to offer short term leases
- The industry remains viable

Recommendation 16 – Centrepay Implementation

The implementation of ***Recommendations 11*** & ***15*** by the department of Human Services will not ensure the most vulnerable consumers are protected by the caps.

It should be noted that only regulated leases can utilize the Centrepay system and these lessors are required to comply with responsible lending regulations.

The Centrepay implementation will force lessor's that currently use Centrepay as a payment method into a situation where they would have to rely solely on direct debit as a means to collect payments. This will not prohibit regulated leases being offered but will mean consumers would incur additional charges relating to dishonour payments. These fees are not incurred using the Centrepay payment system. Increasing lease costs does not increase protections for vulnerable consumers and is not in line with the panel's objectives.

In fairness it will take time for lessors to implement IT & business systems to comply with any new regulations. This is normal process and another reason why legislative changes have a transition period.

Recommendation 19 – Bank Statements

It was suggested that there should be disclosure warnings about the risks of providing log-in details to 3rd party technology platforms e.g. Credit Sense/Yodlee.

All credentials entered via these services are SSL encrypted as they will not work unless you carry a valid SSL certificate on your website. To my knowledge, a consumer's login credentials have never been compromised using these services.

A warning like this would be counterproductive, as most consumers presented with this warning would not proceed. This would mean manual collection of statements which would result in increased business processing costs and stifle innovation.