Good Shepherd
Microfinance

Ground Floor, 192 - 198 High Street,
Northcote, VIC, 3070
T 03 9495 9624 | M 0438 058 085 | F 03 9495 9699
E AMischewski@gsmicrofinance.org.au
| www.gsmicrofinance.org.au

Good Shepherd
Youth & Family Service
Charity gives, justice changes.

Good Shepherd Youth & Family Service
21 Budd Street
Collingwood VIC 3066
T: 03 9418 3012 M:0439 881 627
E: t.corrie@goodshepvic.org.au

Send to: SALpaper@treasury.gov.au
Mr Christian Mikula
Ms Paul Mance

Good Shepherds Response to Discussion Paper

Strategies for reducing reliance on high-cost, short-term, small amount lending

BACKGROUND

> *'We are Good Shepherd. Our mission is shaped by our inheritance of the vision, courage and audacity of St. Mary Euphrasia Pelletier and the Good Shepherd tradition she began. Ours is a vision of promoting a world of justice and peaceful co-existence. Ours is the courage to embrace wholeheartedly innovative and creative ways of enabling people of all cultural, religious and social backgrounds to enjoy the fullness of life, which is the right of every human being. Ours is the inheritance to boldly challenge those structures and beliefs that diminish human dignity. We work to ensure the value of every human being, the communities that enable us all to thrive and the integrity of the environment that guarantees both'* Good Shepherd Mission Statement

Good Shepherd Youth & Family Service

Good Shepherd Youth & Family Service is a community based not-for-profit organisation. We believe everyone deserves an equal place in the world and a quality of life that makes participation in the community possible. This is why we work with the most vulnerable, particularly women and girls.

Our services work towards achieving life-giving outcomes for the most disadvantaged people. We also research the root causes of social injustice, advocating for change and greater independence for people experiencing disadvantage.

Our programs include:

- Financial Counselling Services: Financial counselling is a free and confidential service for people going through financial hardship and those who are concerned about how to pay bills and debts. Financial counsellors offer information and support to help people get on top of their financial difficulties. This may take place face to face at our offices or by telephone. Our financial counsellors also undertake community education through activities like group information sessions.
- Microfinance: Low and No-Interest Loans for people who are not always able to engage in mainstream banking. These programs include NILS® and StepUP – a low interest loan operated in partnership with NAB. We also offer the AddsUP program also in partnership with NAB. AddsUP is a matched savings programs designed for low-income earners to build their financial resilience and provide an avenue for people to build their savings.
- Community financial education: workshops and forums to enable people to identify and build on any gaps experienced in financial skills and knowledge. These are primarily driven through our financial counselling programs, as well as our community houses. We also work with corporate and other organisations to build their knowledge of hardship and financial stress to better enable integrated service delivery.

We are also actively involved in research and advocacy on consumer protection, consumer issues, financial inclusion and financial capability. Recent research includes:

- Landvogt, K (to be published), 'Effective Community Financial Support Networks,' Good Shepherd Youth and Family Service
- Corrie, T (2012), 'Microfinance and the Household Economy: Financial inclusion, social and economic participation and material wellbeing', Good Shepherd Youth and Family Service
- Muoy, B (2011), 'Just Credit, Good Practice: Case studies about building financial capability with microfinance loans,' Good Shepherd Youth and Family Service
- Ryan, M; Kliger, B and Healy, B (2010) 'Smiling for the First Time: Bankruptcy for people with a mental illness, what happens when credit code remedies fail?' Good Shepherd Youth and Family Service

We have also provided submissions to:

- Consumer Credit and Corporations Legislation Amendment (Enhancements) Bill 2011 – Discussion Paper
- Consumer Credit and Corporations Legislation Amendment (Enhancements) Bill 2011 – Bill
- Provision of evidence at the parliamentary enquiry

Given this, we believe we can offer first-hand, practical insight into the issues consumers face and appropriate programs and policy responses.

Good Shepherd Microfinance

Good Shepherd Microfinance is a newly established branch of Good Shepherd since July 2011. It works with over 229 accredited agencies in over 400 locations across Australia. Since its establishment, Good Shepherd Microfinance has reached over 60,000 Australians through its loans and savings programs. Good Shepherd Microfinance believes that disadvantaged Australians can help themselves as long as they have access to the right resources.

Good Shepherd Microfinance has a range of programs, each providing safe, fair and affordable credit to people who are excluded from the mainstream financial providers. These programs include: The

No Interest Loan Scheme (NILS®); StepUP; Good Money; Adds Up and Debt Deduct. Our small and no interest loans programs enable people to build assets, engage in community life as well as find and keep jobs.

EXECUTIVE SUMMARY

Good Shepherd is supportive of any reforms that reduce the need for fringe loans and reforms which reduce their harm. We are also very supportive of programs and policy responses which increase financial inclusion. We do not believe payday and fringe loans are a response to financial exclusion as much as they are a cause and consequence of it and as such we believe they require the appropriate regulation. The use of payday loans for people who cannot access mainstream banking more often exacerbates financial exclusion due to their costs. Financial exclusion is multi-faceted, with price exclusion being a larger issue in the Australian context than that ownership of banking 'products'.

We understand there is a market for small amount, short-term loans. Indeed, we concur that access to small amounts of money to iron out fluctuations in day-to-day expenditure is an essential part of financial inclusion and this is recognised in indicators used to measure financial exclusion in Australia. However, these needs being met by an under regulated fringe lending sector can cause significant harm. It is important to provide safe and sustainable alternatives to fringe loans as well *as reduce their harm through appropriate regulation.*

We suggest the ways in which demand for fringe loans can be reduced and their harm minimised is through:

Reducing demand

- Alternative finance options – no and low-interest loans, the flexibility of Centrelink Advance Payments and Community Development Financial Institution's (CDFI's)
- Financial Support – financial counselling services, budgeting services, emergency relief assistance, access to utility and debt hardship programs
- Consumer awareness – financial education, greater and clearer disclosure by utility providers, banks, and other organisations providing credit, appropriate disclosure regarding the actual cost of lending as an Annual Percentage Rate (APR)
- Income adequacy – supporting people into work and ensuring an adequate safety net is in place for those unable to work or on low incomes.

Improving supply

- Regulation – of pricing, disclosure, responsible lending and licensing requirements
- Better management and policing of both regulatory and self-imposed responsible lending practices
- Capping the amount of rates and fees that can be charged to force good business practices and responsible lending in order to reduce harm

Our response to the 'Discussion Paper: strategies for reducing reliance on high-cost, short-term, small amount lending' (referred to from here on as the discussion paper) are framed around these themes.

CHAPTER 1 – FINANCIAL EXCLUSION OF SOME CONSUMERS

We would like to provide some initial commentary in regards to Chapter 1, primarily as it pertains to how to define financial exclusion and its impacts, the role of the fringe lending industry, as well as the Federal Government's commitment to combating financial exclusion in partnership with community and other organisations.

We are heartened by Government's commitment to reducing financial exclusion. This commitment is evident in the continuation of funding of microfinance programs, financial counselling services, emergency relief provision and financial education programs. A holistic approach to financial exclusion is required, and this suite of government supported programs is reflective of this.

As part of this suite of programs, appropriate regulation that allows the market to function without further marginalising those people who experience financial exclusion needs to be in place. Hence, the reforms to the payday lending industry are pivotal to ensuring this is the case.

Financial exclusion and payday lending

> We have proposed a roundtable forum in early 2012 and work on this has been underway for a number of weeks. This will be an opportunity for participants to put differences aside and develop solutions for not only the 500,000 consumers who use our services, but the 2.65M Australians known to be financially excluded[1]

We would like to discuss the idea that access to payday loans contributes to financial inclusion or supports people who are financially excluded.

The discussion paper (pg. 2) states that 'the need for small amounts of short-term credit to help manage cash flows and lumpy expenditure should be accepted as a universal element of financial inclusion.' We do not disagree with this. However, as stated in many of our previous submissions, we certainly do not believe the payday industry should necessarily fill that gap in its current form. We also believe that there are occasions when people should not be forwarded credit – for example, if accessing credit will make their financial situation worse.

Financial exclusion is a more multi-faceted condition than the three areas outlined in the discussion paper (Geographical, access and self-exclusion). Definitions extend to include condition exclusion, awareness exclusion and importantly, price exclusion. Therefore, sensibly, credit should not be provided if it exacerbates financial vulnerability and/or financial exclusion. Definitions of financial exclusion are summarised in the table below.

Table 1: Principles of Financial Exclusion

Burkett and Sheehan - The Five A's[2]	**Financial Services Authority (UK)[3]**
Availability: The required service does not exist at all or does not exist in the individual's locality.	*Geographical Exclusion* can be contributed to by: 1. Reduction in retail outlets in poorer communities 2. Closure of bank branches in poorer communities 3. Low levels of car ownership in poorer communities,

[1] National Financial Services Federation (NFSF)(2011), Opinion by Mark Redman http://www.nfsf.org.au/pdfs/news-opinion/20111208NFSFMedRelOp-EDDec%2082011.pdf

[2] Burkett, I and Sheehan, G (2009), 'From the Margins to the Mainstream: The challenges for microfinance in Australia,' Brotherhood of St Laurence and Forresters Community Finance, Melbourne

[3] Kempson, E; Whyley, C; Caskey, J and Collard, S (2000), 'In or Out? Financial Exclusion: a research and literature review,' Financial Services Authority, Bristol, UK

Burkett and Sheehan - The Five A's[2]	**Financial Services Authority (UK)**[3]
	further exacerbating lack of access 4. Remoteness of communities who may have never had access to retail banking services, and who are further hindered by poor technological availability[4].
Access: A lack of access to financial services due to structural barriers (e.g. credit record, language, physical disability).	*Access Exclusion:* The restriction of access through risk assessment.
Awareness: Lack of awareness of fair products or a lack of capacity to engage with services.	*Marketing Exclusion:* where targeted marketing and sales effectively exclude people. *Self exclusion:* Where people decide that there is little point in applying for a financial product because they believe they will be refused.
Appropriateness: Products are not appropriate for people's needs.	*Condition Exclusion:* The conditions attached to financial products make them inappropriate.
Affordability: An inability to afford existing products, or cost structures that charge more for people on lower incomes.	*Price exclusion:* The price attached to financial products makes them unaffordable and inappropriate.

Price exclusion

Representatives from the payday lending industry often assert that they are assisting people who are financially excluded. However when the costs of credit exceed a certain percentage of income, then extension of credit furthers exacerbates their financial exclusion.

Definitions of financial exclusion reiterate that merely being able to access a particular financial product (in this instance, a small amount loan) is an insufficient measure on its own. In the report 'Measuring Financial Exclusion in Australia' the calculation for price exclusion is made up of $88 for a basic bank account, $808 for a low cost credit card, and $898 for general insurance (basic motor vehicle and basic home contents combined) – to measure costs and hence price exclusion in Australia. The report estimates that 'for 12.7% of the population this would represent over 15% of their annual income. For another 10.2% this would represent between 10% and 15% of their annual income. These costs are a barrier to financial inclusion and put pressure on policy-makers and product designers to consider alternative financial services that can better meet the needs of people on low incomes.' [5] If payday loans were used as the measure of credit costs in the above calculation, we would have people moving toward the more severe end of the financial exclusion continuum given the exponentially higher costs associated with payday loans than those associated with low cost credit cards. This is particularly so when people take out repeated loans. Hence, payday loans more often exacerbate financial exclusion rather than provide an effective response to it.

Access exclusion

Microfinance and indeed, mainstream bank loans cannot be given to people if there is no demonstrated capacity to repay the loan or if the loan will make them worse off financially. This is also why there are restrictions on loan purpose.

[4] This is not included in the original documentation but was added as it is relevant in the Australian context
[5] Connolly, C; Georgouras M; Hems L and Wolfson L (2012), 'Measuring financial exclusion in Australia,' The Centrelink for Social Impact, University of New South Wales,

Servicing a payday loan takes up such a large part of income that the capacity to repay safer forms of credit cannot be demonstrated, particularly when these borrowers get caught in loan spiralling, cycling or paralleling[6]. This dangerous practice again further exacerbates financial exclusion.

To summarise, payday loans are not a response to financial exclusion but are both a cause and consequence of it. Access to payday lending increases financial exclusion because:

- The exorbitantly expensive costs associated with them increase price exclusion
- The lack of any excess available funds makes it impossible to service lending or credit from mainstream institutions and microfinance providers, leading to access exclusion
- The experience of being caught in a cycle of debts leads to self exclusion given these negative experiences.

Financial exclusion, consumers and the role of the state

> 'With regard to the government's proposed price restrictions on fees and charges, they have been set well below the cost of providing credit to consumers. Obviously if these caps at these levels are introduced, many federation members will close their doors or refocus their business on commercially viable areas. The result will be greater financial exclusion and greater demand for public assistance' – Mark Redman Chairman of the NFSF

In this section, we intend to deal with the argument that there will be a reduction in payday lending options as a consequence of parts of the legislation, and that this will lead to higher demands for state assistance.

If someone is in genuine financial stress as a consequence of low income and/or financial shock, and does not have the resources to meet these needs, then it is the role of the state and community organisations to support those people. We believe people in genuine need should be accessing public assistance and not payday lenders, and therefore do not see merit in the argument put forward by payday lenders above.

This raises issues as to the capacity of the community sector and the state to meet this 'increase in demand' and what this means for consumers. We would like to outline why we think these are exaggerated claims.

- Low income consumers are capable of seeking alternatives to payday loans once they are aware of the options available. That is the purpose of the legislation – not to price lenders out of existence but to ensure their harm is reduced and people access safe alternatives.
- Our advocacy for greater regulation of the payday industry is not based on the view that people on low incomes are not capable of making intelligent choices and therefore need paternalistic protection. We support regulation because we know (and evidence supports this) that the 'demand' for payday loans is often driven by financial stress and because of their timeliness, availability and their use as a 'short-term' fix.
- The mere presence of payday lending outlets and their marketing can drive demand as much as the need for the loan does. The 'consumer brand loyalty', means consumers fail to fuel competition as they do not shop around for the best price[7].

[6] Banks, M (2011), 'Caught Short,' RMIT University, Melbourne
[7] Sampford, K (2001) 'Regulating Payday Lending: The Consumer Credit (Queensland) Amendment Bill pp 8-9.

- An increase in supply in payday lending outlets has not led to a decrease in their price and the costs associated are still extremely high – even though in principle low barriers to entry, high demand and additional providers should create competition benefiting consumers through lower prices. This has not been the case in the payday lending industry and is evidence of an issue in this market. State intervention is necessary in these instances, particularly when there is evidence that this distortion is causing harm
- The NAB report is often cited as evidence of the unfeasibility of a 48% cap for loans under $1000.[8] The caps as outlined in the original form are not set at this rate for loans below $2000. These loans would be regulated under the '10 and 2' rule (ten percent of loan amount as an upfront fee and two per cent per month thereafter). As modelling outlined by Consumer Action Law Centre (CALC) demonstrates, this allows for three times the fee that would be received than under the 48% cap (based on a $300 loan for one month). Again, if the industry is not able to sustain itself with these concessions, there is an issue in the market.
- While the payday lending industry has provided evidence of their operating costs and the difficulty in applying the cap on fees charged to consumers, these costs as a 'business as usual' practice do not reflect their costs as a 'business as it should be' practice.
- Clearly, payday loans are not a viable solution long term and the industry itself has reiterated this[9].

There is room in the market for institutions of significant scale to fill this gap, primarily banks. Regulation introduces legitimacy to the market and provides certainty, encouraging real competition. Research supports that organisations with a large amount of scale can make profit by providing small amount loans within the caps as proposed.

Recommendation 1: That Treasury retains cost rate caps for payday loans under $2,000 for less than twelve months at the original '10 and 2' rule, and caps interest and fees for loans above this amount at 48 per cent per annum.

CHAPTER 2: REDUCING THE NEED FOR SMALL AMOUNT LOANS

We see income adequacy as the primary way to reduce the need for small amount loans. Building financial capability through peer-to-peer and community education is another longer term strategy, as well as the provision of safe alternatives, such as microfinance, emergency relief, financial counselling and energy hardship programs.

According to recent research, about fifty per cent of fringe loans are taken out to meet large, one-off expenses. The other half are for ongoing expenses. The more loans a person takes out, the more likely it is that these loans are for regular expenses[10].

Question 1: 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?

The current mechanisms in place go a long way to meeting the needs of people who access small loans. We believe Centrepay is an important way of supporting people in managing their money as noted in the discussion paper. The reasons for this are because it is *voluntary, flexible, inexpensive* and therefore empowering. Our position is not that in order to support vulnerable people this is the

[8] National Australia Bank (NAB) (2010), 'Do you really want to hurt me,' NAB, Melbourne
[9] Parliamentary Joint Committee, 'Committee Hansard,' Commonwealth Government, Canberra
[10] Banks, M, *Op. Cit.*

primary way their expenses should be paid or that this method of payment be mandated; only that Centrepay needs to continue to be made available. We would support the expansion of the use of Centrepay to items that those in receipt of DHS payments need to pay. This would need to be done carefully to ensure that it is for important expenses and that Centrepay arrangements are clear and made in consultation with clients.

The advanced payments are also an essential mechanism in reducing the need for fringe loans, perhaps more so than the availability of Centrepay. People usually find themselves in financial stress because of an unexpected expense or because of low income, not necessarily because they are not able to manage their money[11]. So while Centrepay assists people in prioritising their spending, it is important to make the delineation between those who access short term loans because of money management ability and those who access loans because they simply do not have enough money to meet their material needs.

Recommendations from the Caught Short report were that Advanced Payments needed to be made available more often. They should be available for smaller amounts, and then available again once they have been paid back. The changes to the way Family Tax Benefits are paid is a good model in terms of meeting these needs, as they can be advanced in smaller amounts more often, and are available immediately on being paid off.

However, we are disappointed at the restrictions on Advanced Payments for other recipients. One advance per twelve month period does not assist people in smoothing the fluctuations in their budgets. These peaks and troughs are cyclical and as such these Advanced Payments need to reflect this pattern. We hold concerns particularly for people on Newstart, who are at a much higher risk of financial exclusion given the inadequacy of their payments. Access to safe, small amount loans (such as Advanced Payments and microfinance) can support people into work[12] as well as meet their day-to-day needs. To support people on Newstart, the total income security amount received needs to increase and Advanced Payments need to be accessible more frequently. We believe $500 once annually is insufficient and that Advanced Payments should be available for smaller amounts more regularly (with an obvious requirement that it can be repaid without incurring financial stress).

We believe receiving Centrelink payments weekly needs to be an option for all DHS customers, not just those deemed 'vulnerable.' It is encouraging to see that people are able to do so, however we would maintain that this needs to remain through choice and in consultation with clients and that it needs to be made available to a wider group of people.

Recommendation 2: That Centrepay be extended to a wider variety of essential services on the condition that it remains cheap, flexible and voluntary.

Recommendation 3: That flexible Advanced Payments (smaller amounts but more frequently) be made available to a larger cohort of DHS clients than currently offered, to support people to manage the fluctuations in their budgets.

Recommendation 4: That the option of weekly income support payments be extended beyond DHS clients who are deemed vulnerable to all clients who wish to be paid weekly.

[11] Corrie, T (2011), 'Microfinance and the Household Economy: Financial inclusion, social and economic participation and material wellbeing,' Good Shepherd Youth and Family Service, Collingwood
[12] Corrie, T (2011) *Op. cit*

2. Should referrals be made to FMP services at a certain stage as a matter of course?
People should be afforded the support they need. In times where the extension of an advanced payment will make them worse off, and they are therefore left with fewer options, then a referral to an FMP service should certainly be made. The option of speaking with an FMP provider should always be available. The Centrelink Financial Information and Support Officers (FISO's) are an area of further potential development which would reduce the reliance on community led, government funded FMP services.

If accessing Advanced Payments regularly is to be a trigger for a referral to an FMP provider, it is as much about the 'how' as it is about the 'when' the referral is made. It should not be assumed that people accessing Advanced Payments frequently are doing so because they cannot manage money. Accessing Advanced Payment frequently could very well be used as one of the strategies to manage their budgets. If the person is not made worse off as a consequence of the advance, or better yet, if it can be demonstrated that they will in fact be better off, then Advanced Payments should be made. The difference between taking out repeated Advanced Payments as opposed to repeated payday loans, lies in their cost and their potential to exacerbate vulnerability.

Recommendation 5: That Centrelink extends the role of FISO's to broader financial information services to support DHS clients.

3. 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?

As per our commentary in previous submissions, we do not believe it is necessarily the role of providers of fringe loans to give specific advice on alternatives, as there is a suite of support for people who are unable to meet their utility costs. We believe the responsibilities of providers should be disclosure of the true costs of the loans as an annualised percentage rate, the high cost nature of the product, and that there are alternatives available. Consumers then need advice on how to access these services through a central referral point. In this instance, the most appropriate is the Moneyhelp referral and advice service on 1800 007 007.

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

There is a range of ways to encourage individuals to use these alternatives. Full disclosure about the costs of payday loans is one way of encouraging people to access alternatives. Being made aware of the alternatives is also vital in the first instance. However there are also many other important considerations.

Hardship programs need to be more widely available and easier to access. It is difficult for many people to access programs unless they are explicit about experiencing hardship. We fully support regulation which makes the provision better known, easier to access and more responsive to consumer needs. We also support regulation which makes the process less onerous.

Emergency relief programs and utility relief grants also need to be more widely available and communicated to people who are experiencing hardship. There also needs to be an advancement of the casework role in Emergency Relief programs, to further support and assist people. This would also encourage referrals to Moneyhelp.

There also needs to be differing approaches depending on the nature of the hardship. While hardship programs will assist people experiencing hardship episodically or short-term, they are not designed to support people who are experiencing long term issues. Financial counselling is a more appropriate mechanism to support these people, as well as improving income.

5. 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?

There are clear advantages in providing this information at various points. It informs consumers of the support they can receive if they are experiencing hardship and normalises these programs, removing any stigma people may feel. It also means the information is made available before people are at a crisis point as people can start payment plans earlier on, potentially avoiding hardship altogether.

The only disadvantages could be an increase in demand; however this is unlikely to be the case. Any increase in demand could potentially help deviate people from hardship programs and if anything would decrease caseloads for financial counsellors as people are made aware of payment options prior to financial crisis.

Messages also need to be very simple. Another insert in an electricity and gas bill will be readily discarded.

Therefore, while it is an important measure, there is a risk it will be ineffective if the message is not clear and simple and is not communicated effectively.

Recommendation 6: That the Federal Government supports community organisations to work with utility companies to develop hardship policies and programs, in order to skill energy providers in recognising 'trigger points' to refer people to appropriate support

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

We support any measures that allow people to save money on their utility costs. We are aware, however, that many low income consumers struggle with their energy bills more because the costs have increased than because of 'over-use'. Low income consumers already use 20 per cent less power than other groups. Therefore, while efficiency is important, there is only so much usage that can be compromised without a cost to amenity and well-being. Furthermore, most of the increase is on the service charge and not subject to reduction in usage.

Access to energy efficient appliances, adequate housing and consumer education are important measures, but we would recommend more relief as it pertains to cost. The tax concessions stemming from the carbon pricing provide some compensation, however unless s there is a direct subsidy toward utility bills, such as increasing concessions, the tax concession will simply be absorbed into existing budgets. Further, it is an insufficient amount to compensate for price rises given Income Support payments are already so low. Given low-income consumers also spend proportionately more of their incomes on energy costs, we concur with ACOSS that a better means for supporting low income earners with their utility costs is:

> 'Fixed amount payments should be made automatically through the existing social security system, rather than rely on those affected to apply for assistance. It is important that the cash assistance is readily available on a continuing basis to meet the range of household cost

increases[13]'.

This would ensure that support provided is more equitable (as it is linked with expenditure not income) and more tangible. It would also redress to some extent the inadequacy of many DHS payments.

Recommendation 7: That the Federal Government increase the amount of utility concessions for people on low incomes to support them in managing continuing increase in prices.

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

Promoting hardship programs more widely will certainly assist people in self-identifying and seeking assistance. In many ways, as mentioned previously, it may reduce the perceived stigma associated with energy hardship programs.

They need to be promoted more widely not just with consumers but to other groups and organisations who may be working with people who are experiencing energy and/or financial stress. Community organisations and utility providers have an important role to play in identifying and referring people to energy hardship programs.

Ideally, mechanisms would be through campaigns, through community education and through working with utility providers. However, this needs to begin at the step *before* people are in financial hardship. Our previous recommendation regarding support for community organisations in working with utility providers to better respond to hardship and recognise its early signs is important as this potentially supports consumers to avoid hardship altogether. This approach also needs to extend beyond utility providers to banks and other institutions. The onus for this should sit with utility providers as much as community organisations, hence collaboration and support for collaboration is essential.

Research conducted by the Essential Services Commission in Victoria found that:

- Customers were not informed of the different assistance available unless through a third party – such as a financial counsellor – or through their utility provider

- That when arrangements had been made (payment plans in particular) these were inflexible and were more than they could afford. Customers would then miss their payment and threats were then made to take them off their plan, running the risk their power would be disconnected. Customers needed the plans to be flexible so they could pay more when they could, but also pay less when they needed to.

- That customers were not looking for a personal relationship, but just wanted 'being treated with the respect they suspect other customers receive' and that they are not thought less of because they are struggling[14]

These findings reiterate it is as much about the *how* as it is about the *what.* Customers need information and support that is timely and respectful and through a trusted source. Although energy

[13] Australian Council of Social Service (ACOSS)(2011), 'Carbon Price and Low Income,' ACOSS, Canberra
[14] Hall and Partners – Open Mind, 'Essential Services Commission: Water and energy hardship customers,' May 2011

providers and community organisations have an essential role to play, to increase awareness in the wider community, a greater education campaign is needed.

Recommendation 8: That utility and hardship payment plans be flexible enough to allow consumers to pay less than the minimum required to clear their arrears, at least for a short term, to support people experiencing hardship.

The educational process that is outlined in 'Money, Dignity and Inclusion' recognises that people need information that is clear, respectful and from a trusted source. While developed for community financial education, this rights-based approach may be applicable in the context of community education on utility programs. The broad process for identifying this is outlined below.

Table 2 – Stages of effective community education[15]

	Stage 1	**Stage 2**	**Stage 3**	**Stage 4**
Task	Identify key information points	Facilitate dialogue	Use income maximisation framework	Access resources
Principles	Proactive approach to accessibility; target life transitions and crises	Adult learning and empowerment methods	Information and support re: financial information, rights and responsibility, entitlements, minimising costs, future protection and getting assistance	Use relevant topics and materials based on participants self-identified needs
Outcomes	Engagement	Participation	Empowerment	Knowledge and skills

This is where there is an important role for Household Energy Financial Sustainability Scheme (HEFSS) workers to work more broadly in the community, facilitating dialogue and finding out what information consumers need, if and where it is available, and how to ensure they receive this information in a way that is timely, respectful and meets their needs.

CHAPTER 3: IMPROVE THE SMALL AMOUNT, SHORT-TERM LOAN PRODUCT

We understand the discussion paper is not seeking feedback on the caps on interest and costs of payday loan products themselves. We do not intend to circumvent that as such, but do hold concerns that the enhancements as originally posited run the risk of being watered down, and we do not want to see this happen.

We can only reiterate our contention outlined at the outset, and emphasise the importance of price protection. This is not intended to force these lenders out of existence, but to look at their business

[15] Landvogt, K (2008), 'Money, Dignity and Inclusion,' Good Shepherd Youth and Family Service, Collingwood

practices and reduce their operating costs. As is often the case, social and public policy is about encouraging a standard and enforcing change to business practice which work counter to free market principles and cause harm.

> 'the word 'policy' can be taken to refer to the principles that govern action directed towards given ends. The concept denotes action about means as well as ends and it, therefore, implies change: changing situations, systems, practices, behaviour. And here we should note that the concept of policy is only meaningful if we (society, a group, or an organisation) believe we can affect change in some form or another.'[16]

The main objections to the changes by payday and fringe lenders are the fettering of the market to operate and that this therefore means less 'choice' and competition for consumers.

Low barriers to entry have not shown any correlation to a decrease in costs. There does not appear to be any real price competition in the industry even though there has been such an influx of operators. Therefore, an abundance of providers has no benefit to consumers. This is evidence of a distortion of the market and the inelasticity of demand for these loans.

This inelasticity proves that the idea of choice is a misnomer. As stated previously, people who take out these loans do not realise they have 'choices.' The purpose of the Consumer Credit and Corporations Legislation Amendment (Enhancements) Bill 2011 is to ensure they are aware that they do, and in the absence of being able to access these alternatives, their last resort is a safe one. It is also designed to redress the inherent market failures in the industry.

Recommendation 9: That further research be conducted into the payday lending industry and associated costs and benefits to consumers and drivers of demand.

CHAPTER 4: ENCOURAGE ALTERNATIVES TO HIGH COST, SMALL AMOUNT, SHORT-TERM LENDING

Question 8: 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?

NILS and StepUP promote financial inclusion with safe and affordable financial services for people who are disadvantaged[17] [18]. Unlike a payday loan, a loan applicant will not be successful unless they have capacity to repay without compromising their current standard of living. Ayres-Wearne & Palafox[19], Mouy[20] and Corrie[21] identify financial as well as psychological and behavioural benefits to being a recipient of such products.

A vital component that needs to be addressed to supplement NILS and StepUP is microinsurance. To date, this area has received little attention within the Australian microfinance context and within NILS and StepUP. Measuring Financial Exclusion in Australia states that 'there appears to be a

[16] Titmuss, R (1974), 'What is social policy?' in Titmuss, R and Abel-Smith, K, Social Policy, Taylor and Francis,
[17] Landvogt, K. (to be published), 'The formal and informal service networks of financial support services' Good Shepherd Youth and Family Service, Collingwood
[18] Corrie, T. *Op. Cit.*
[19] Ayres-Warne, V. and Palafox, J. (2005) 'NILS: Small Loans, Big Changes,' Good Shepherd Youth and Family Service, Collingwood
[20] Muoy, B. (2011) 'Just Credit, Good Practice' Good Shepherd Youth and Family Service, Collingwood
[21] Corrie, T.(2011) *Op. Cit.*

significant gap in relation to general insurance, where there is little discussion about delivering basic and affordable insurance products'[22] .

We propose a number of options to explore such as having a cost added onto the NILS loan when there is a purchase of household goods. This would help with arrears due to unforeseen circumstances such as illness, fire, theft or flood. Similarly, there is scope to explore a group insurance scheme as a suitable vehicle of delivery. Lifelong Learning Council in Queensland has engaged in this with the broker Fairweather Turner. Another scheme for all community centres in QLD is done through Guilds. Therefore, there is scope to investigate these local innovations to measure their effectiveness and determine their viability at a national level.

Evidence:

Corrie[23] reports on the impact of the money conversation on financial capability in a cohort of NILS recipients. The report is a result of two sets of questionnaires sent to microfinance clients nationally through the various organisations who provide these programs, to understand and measure the effect that the loan conversation and assessment that take place during the initial application interview have on financial skills, knowledge and behaviour. Respondents were also asked what barriers they experienced in relation to adopting any of the skills and knowledge that were asked about.

The indicators used to explore these three areas were:

1. Skills: keeping budgets, keeping track of expenses, putting money aside for emergencies and goals; and planning ahead
2. Knowledge: including dealing with the bank, dealing with Centrelink (primarily to ensure income maximisation) and knowing where to go if there were any questions about money, and
3. Behaviour: what people would do in the event of a cash surplus or shortfall.

Changes in Skills

- Fewer respondents ranked themselves as having a low level of financial skills after the application process than they had prior to the application.
- More people ranked themselves as having a high level of skills after the application process in all of the skills areas assessed.
- The largest positive change in skills was being able to put money aside. This was identified as one of the challenges people faced, and indicates the money conversation can help people increase savings capability. There were no responses in the pre-test from AddsUP participants, however there were in the post-test. This may explain some of this shift (however the sample size for AddsUP was very small)
- The main challenges identified with being able to adopt certain financial skills was that things had become more expensive, making budgeting and putting money aside more difficult. Participants did not necessarily think they were not earning enough money (however this was a commonly cited barrier) but that with the cost of living increasing, that money is no longer adequate.

Changes in Knowledge:

[22] Burkett, I. and Sheehan, G. *Op. Cit.*
[23] Corrie, T (To be published) "Microfinance and the Impact of the Loan conversation on Financial Capability: Methodological Pilot," Good Shepherd Microfinance, Northcote

- Similar to skills, findings to measure changes in financial knowledge revealed that there was a positive change in all of the indicators, particularly in dealing with their bank after their application process and where to go when they have questions in relation to money.
- The challenges experienced by respondents in financial knowledge were the rising cost of living and an insufficient income to meet those costs.
- Another barrier identified was there being too much fine print.

Behaviours and Strategies

- When respondents had money left over, they tended to leave the left over money in a savings account or save it in cash at home in almost equal proportions
- The findings reveal that respondents on the whole adopt positive strategies in the event of money shortfall. The majority of respondents revealed that when there is a money shortfall, they would cut back on spending or do without. The rest would seek emergency relief and borrow from family and friends.
- Only a small portion of respondents would borrow from a payday lender or sell or pawn goods if they were short on money. This indicates that the money conversation could help respondents understand their financial options. It also indicates the benefits of microfinance in providing safe options such as purchasing or fixing cars or other irregular expenses that many seek payday loans for.

One of the biggest challenges noted in these studies by NILS and StepUP recipients was increasing costs of living and not having enough cash to live on. This challenge noted by NILS recipients underscores the necessity of addressing the limits of any microfinance strategies as being to address poverty single-handedly, but shows microfinance is a vital component in any co-ordinated and cross-sector strategy.[24]

Question 9: 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?

There is growing concern that financially marginalised people not in receipt of Centrelink payments such as 'working poor' people in unstable, irregular or seasonal work are ineligible for NILS but nevertheless experience comparable levels of financial hardship. From case studies of unsuccessful NILS's applicants, there is scope to address the needs of a growing group of people who are not in receipt of government support yet experience low income through irregular or low paid sporadic employment (the 'precariats') and as a consequence, experience financial hardship. NILS & StepUP could enter this market niche of small amount unsecured loans and preserving the successful mentoring and partnership aspects identified in *Small is the New Big* 2012[25].

There is room to explore capacity to create speedier response times for applicants of NILS, especially for those in regional and remote areas who live between 100-400 kms from banking services and financial outlets. The use of banking transactions through mobile phones is a promising area that could benefit and enhance NILS.

Due to differences in state government funding of NILS, there are different models in operation. State coordinators sitting within Good Shepherd Microfinance contribute consistency and connection to resources, research, Good Shepherd Microfinance mission & values. These factors suggest the benefits of having coordination remain with Good Shepherd. These different government streams of

[24] Corrie, T (To be Published) *Op. Cit.*

[25] Centre for Social Impact (CSI) (2012), 'Small is the New Big: Measuring the Impact of NAB;s Microenterprise Loan Program, CSI, University of New South Wales

funding can lead to outcomes of the program in each state that are not aligned with NILS core mission of distributing as much of the funding as quickly as possible to eligible recipients. Government programs funding energy efficiency could carry this concept one step further by having a complimentary rebate for NILS providers on purchase of energy efficient goods.

Recommendation 10: That the Federal Government work with microfinance providers to meet demand in markets not traditionally serviced by community organisations including people in low paid work and in remote communities.

Question 10: How could more partnerships be developed between community service organisations and financial institutions to increase the number of these products and their coverage?

There are clear incentives for increased relations between corporate and not-for-profit agencies such as how joint activities affect a corporate are triple bottom line and the level and impact of their social responsible practices. Other incentives can be developed through the taxation regimen or in the prudential obligations on credit providers, though these would involve a long lead time.

ASIC could be persuaded to impose a system whereby recalcitrant fringe lenders may be forced to extend no or low interest loans by way of disciplinary action or enforceable undertaking, where the lender has engaged in any serious conduct that is inconsistent with their regulatory obligations. Whether or not the community sector can tap into a ring fenced portion of the Future Fund is a larger and more provocative question that is imperative to ask and work through collectively with corporate, government and not-for-profit sectors.

There is scope within NILS to target specific interest groups such as Carers and Muscular Dystrophy at each state level. For example, Queensland Carers have successfully developed a specialist NILS program delivering loans to any carer in receipt of a Centrelink benefit for any loan purpose that assists that carer in their caring role. These loan purposes are for a large group of services and needs such as medical, vehicular and home renovations. At present in Queensland, there are some 265,000 carers in receipt of a Centrelink payment yet only approximately 300 NILS loans have been issued 2009-2010 to carers. This indicates potential to expand into that sector as a target audience. There is scope to examine if this model is transferable to other states and has national applicability given the number of carers who often do not have access to mainstream credit lines.

In terms of minimising defaults in traditionally considered ‘high-risk lenders’, Muscular Dystrophy under-write all loans through their donations. Defaults are minimal. From anecdotal evidence of state coordinators, benefits to these recipients are in maintaining a self-determined decent life that is focused on sustaining the family unit and maintaining social participation in the community.

There is room to explore the viability of a mobile outreach NILS’s model. Community Development Financial Institution *In Roads*, Queensland have been using an outreach model signing people up for household items with interest bearing loans. Using a mobile outreach model would assist NILS to reach some of the most disadvantaged Indigenous people in regional and remote areas. The purpose of loans would be to acquire essential household items at no interest as regional areas already pay higher rates for deliveries of goods. Interest bearing lines of credit add to the already high costs because of regional and remote location.

Local and targeted community groups are viable strategies that maximise quality impacts and enhanced well-being of loan recipients. The focus on local access to services and close relationship to client and organisation can be seen in a mental health setting with Canefields Club House QLD. This is an example of how NILS can operate effectively and efficiently within a sector that is regarded as challenging, that is mental health. Given that there are approximately 20-25% of NILS recipients on Disability Pensions (Corrie 2011), Canefields significantly reduced incidence of loan arrears because of the close relationship between the clients and the organisation. Such pockets of innovative practice provide a basis for increasing the reach to a financially marginalised group.

NILS has greater capacity to become an effective vehicle for a speedy crisis response. In a demonstration project in Queensland 2008-2009 supported by the Department of Mines and Energy, Attorney General and Justice Departments, $100K was provided in capital to lend to eligible clients with $30K for administration and deliver of program. The purpose was to deliver loans to disadvantaged clients impacted by the storm event in Brisbane. While this was potentially an effective model, it was stymied by delays in set up and adequate administration lines. There was a 6 month delay between announcement and delivery. NILS could have provided a suitable vehicle for making such a government resource available, depending on regional and client need, to immediate needs of a region post-disaster response and those most affected by these events.

Question 11: What mechanisms would be most successful in encouraging mainstream lenders to improve access for low-income individuals to small amount loans?

Fair Finance is a workable model as is In Roads, which has an Indigenous focus backed by community sector funding with its 38% interest charges for goods and services. Even though CDFIs reinvest profits back into the community, this is still a comparatively high interest bearing loan for the purposes of financial sustainability. There are also a number of promising social enterprise models associated with Foresters.

Bank charges on direct debit defaults and ATM fees need to be seen in concert with regulation of the banking industry in charging dishonour fees at a flat rate for all account types. We advocate for the review of such fees for low income clients and propose that ATM fees be waived for this financially excluded group. Given the relatively higher percentage of costs for the basic suite of financial services used by *Measuring Financial Exclusion in Australia (2012),* for some 13% of the population these costs amount to over 15% of their annual income.[26] Any shift to lower these costs would mark a move in the right direction. The legitimacy and certainty provided by regulation also provides incentives for mainstream banks to offer such services.

Recommendation 11: That regulation of payday lending be seen in concert with wider reforms in the banking sector given mainstream banking services (and credit) are out of reach for many low-income Australians.

Question 12: 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? Is it reasonable to expect financial institutions to support the CDFI sector through their corporate social responsibility activities?

We believe that legislating for corporate compliance with socially responsible activities could potentially produce a negative effect in the sector. This is because such activities would rest with a bank's compliance department. One consequence is that such activities would become a risk management activity that would need to be averted rather than a socially responsible one to be encouraged. Adopting performance-based systems has been argued as a more effective, pro-active

[26] Connolly, C; Georgouras M; Hems L and Wolfson L (2012), *op. cit.*

and innovative response[27]. It is important that impact and outcomes are the focus of reporting rather than simply how much money is spent.

While we feel it is important that investment in socially responsible programs by banks is done through obligation rather than choice, using legislation as the mechanism of enforcing this could produce less effective outcomes.

Question 13: 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?

We believe that the growth of a Community Development Financial Institution (CDFI) sector would be a positive and important step in providing another available and accessible pool of funds to vulnerable Australians. It is important for CDFI viability that Federal government provide incentives such as tax breaks for companies that input capital and human resources. In principle, there is a strong place for CDFIs provided they do not detract from and impinge upon core funding for NILS and StepUP, which both have high numbers of loans issued, national geographic distribution and an important role in supporting people in building financial resilience.

It is vital that there is a balance struck between tangible incentives and regulations for all financial institutions to address financial exclusion. Such incentives involve broader involvement across the banking sector to devise strategies for addressing financial exclusion. Similarly, meaningful reporting systems would require cross-sector discussion and debate about evidence-based factors that address financial exclusion in ways that are tuned to the complexity of these measures.

CHAPTER 5- ASSISTING LOW INCOME INDIVIDUALS WHO FALL INTO DEBT CYCLES

Question 14: Can a financial services hub provide a viable alternative to fringe lenders?
Hubs, or one stop shops, provide valuable opportunities for co-location which can be a promising foundation for increasing the referral linkages of a service. High-street style financial service hubs are a significant innovation which, due to their location, will potentially reach new client groups and challenge some of the 'pay day loans' industry

In an innovative partnership between Good Shepherd Microfinance, NAB and the Victorian government, the first of three hubs, Good Money, opened on 27 April 2012 in Geelong. This builds on new ways of delivering financial services to people living on low incomes. In short, our hypothesis is that hubs will provide a more welcoming environment that will attract at least 50% enquiries from a hard-to-reach cohort who would otherwise access payday lenders.

The model consolidates services which currently exist within local communities to 'main street' locations to directly compete with services provided by the growing fringe lending sector. By directly competing with fringe lenders it is anticipated that the services will be accessed by those who do not traditionally identify as clients of community agencies.

The model will support the strengthening of financial capability through:

- increased understanding of personal finances

[27] Burkett and Sheehan (2009) *op. cit.*

- access and referral to appropriate and affordable financial products (e.g. NILS, StepUP, AddsUP, Debt Deduct)
- access and referral to relevant local support services (e.g. Financial Counselling, Emergency Relief, Gambler's Help) with supporting information
- access and referral to information and programs which enhance financial understanding including training to establish a small business.

Evidence-base[28]

Good Shepherd Youth and Family Service has recently completed FaHCSIA-funded research exploring how services within the Financial Management Program (FMP) can be better linked in the interests of responding to the needs of clients with complex problems.

'The formal and informal service networks of financial support services' research report (to be published) provides useful information on a number of themes relevant to the question of how to better assist individuals caught in a debt cycle, including how one-stop shops ('hubs') can support this goal and what additional strategies can promote quicker, more effective referrals to appropriate services. It studies the links between FMP services (emergency relief, financial counselling, microfinance, and financial education) plus the Centrelink social worker, their referral links with other services, their co-locations and partnerships, and their membership of formal service networks of various types. It includes both quantitative data (network analysis) and qualitative case studies. The research was undertaken in four case study areas representing inner urban, outer urban, regional/rural, and remote locations.

Findings from the FMP service network research include:

- Patterns of co-location in FMP services and how co-location can improve local referral links
- Effective referral networks between FMP services and between FMP and other relevant services
- How referral links can be improved through strengthening local formal sector networks e.g. ER networks, microfinance networks.

The policy and practice foundations of service links, co-location and networks are next briefly outlined, followed by a fuller discussion of relevant research findings. Direct responses to Questions 14, 15 and 16 of the Discussion Paper and recommendations will be made at the end of this discussion.

Service integration and the 'no wrong door' principle

There is increased concern with services providing more 'integrated' services. Clients seeking crisis financial support are experiencing more complex and multi-layered difficulties, and often also require support in non-financial areas of their life as well as emergency relief or financial counselling. At the same time, the increasing specialisation of services and the development of newer types of support, such as microfinance and financial education, mean that the service system is more difficult for those in need to navigate.

Policies promoting joined-up services, integrated service systems, partnerships, collaborations and service networks are responses to these realities of both service-user's lives and service provision constraints.

[28] Landvogt, K (to be published), *op. cit.*

The ‘no wrong door’ approach means that a person who finds their way to any service will get the assistance they need, if not at that service then through an effective referral to another service. The ‘no wrong door’ approach therefore requires every service to understand other relevant local services, the needs they meet, their eligibility criteria and referral protocols. They not only need these links with other financial support services (FMP’s), but also with a very wide range of other community and government organisations assisting with health and mental health, housing and homelessness, income security and concessions, legal and family violence issues, drug and alcohol abuse, parenting and relationship issues, and so on.

Like the piloting of the ‘community finance hubs’, the recent research conducted by Good Shepherd Youth and Family Service into service networks aims to identify better ways to support effective referrals. It proposes that local service networks are an effective and efficient way to achieve greater service links both within the FMP sector and between FMP and other specialist and universal services.

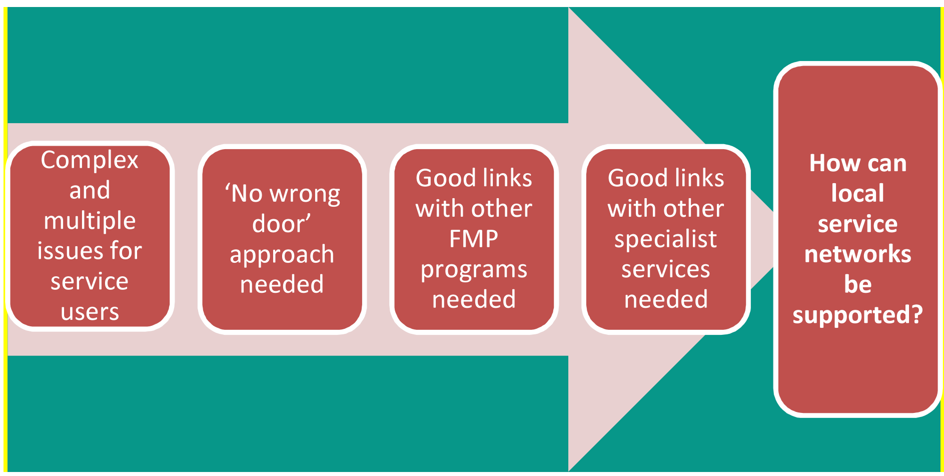

Figure 1: ‘No wrong door’ approach and increasing service links

The findings of the research relevant to “**Assisting low income Individuals who fall into debt cycles”** are briefly outlined below.

Improving the effectiveness of referrals

Co-location

- co-location of services in one-stop shops can facilitate more effective delivery of support
- co-location is not in itself a sufficient condition to increase effective linkages between services
- co-location is not a necessary pre-condition for effective links between services; there are other effective linkage models

Effective referral links (informal networks)

- effective referrals by FMP services are supported by local, formal, area-based, sector-specific networks
- the various FMP services (emergency relief, financial counselling, microfinance, and financial education) each have a different program logic and client base, and should not be assumed to require the same types of referral links

- the geographic characteristics of the area influence the patterns of referral links and it should not be assumed that all areas have similar requirements for a one stop shop or other method of linking
- stronger links are usually required between the FMP crisis-related services (emergency relief and financial counselling), than between these and asset-building services (microfinance and financial education)
- FMP services commonly need to be closely connected with non FMP services such as housing, community health, family violence, alcohol and drug services
- the Centrelink social worker is an important part of any area-based referral network or system for FMP's.

<u>The role of formal service networks</u>

- strong local links and a 'no wrong door' approach are most evident in organisations with paid staff, or volunteers supported by paid staff [29]
- there is great diversity in auspicing of local formal sector networks, including Centrelink, local government, and large organisations
- local formal sector networks require adequate resourcing through a paid worker with this included in their role
- strong local formal networks require a community development approach to leadership rather than a top-down approach from a single organisation.

Question 15: Would a hub approach make services more accessible?

Accessibility is a complex matter. The Good Shepherd Youth and Family Service research indicates that accessibility is primarily determined by geographic location and organisational differences such as eligibility criteria and cultural identity. Clients are generally very knowledgeable about the local services unless they are in a new situation and are not interacting with others who use the necessary services. Word of mouth is often the main referral source.

For people facing new situations, hubs may be a successful point of contact. Significantly, Centrelink offices provide nation-wide coverage and are usually in contact with people whose financial situation changes for the worse. Centrelink could be far more consistent and proactive than it is in providing helpful information and referral to other services. For example, grandparents who become carers due to drug addiction of the parent may be referred to support and respite organisations, or women who are newly separated can be asked if they want to talk to someone about the tensions (and potential abuse) they have been experiencing, or a newly unemployed worker can be told about a whole range of services for people living on low incomes and taken through an 'Income Maximisation' assessment (appendix 1).

Preliminary monitoring data emerging from the Good Money hubs in Geelong is promising. In terms of increased community awareness of financial support avenues available, enquiries are from low income workers who would otherwise consider payday lending options. These people are making enquiries about no-to-low interest bearing financial products under $3000. Because of street access in a civic setting, these enquiries are from people who do not know about or are not inclined to access major community providers for financial assistance. However, these trends are preliminary

[29] Nguyen, M (2011), 'Ending the Stop Gap: Case Work in Emergency Relief Services, ' Community Information and Support Services Victoria (CISVIC) Melbourne

and will need to be substantiated in the evaluations of Good Money that are taking place between 2012-2014.

In brief, the spread of enquiries have been from people who are:

- eligible for a NILS or StepUP loan and appointments are secured
- recipients of a Pay Day loan which has resulted in further financial hardship
- referred to Centrelink Financial Information Services and
- Requesting debt consolidation.

Only one person in a month has wanted 'instant cash'.

Centrelink's Financial Information Service could also reach out into groups where people may not know what is available, by working in a community outreach model. This would include identifying local partner organisations to support with community information sessions, specialist worker training in financial capability, and individual referral and follow up regarding financial issues.

Recommendation 12: That while hubs can increase the reach of alternative forms of finance to those who traditionally access the fringe lenders, it is important that the development of the hubs is seen as a community development process, to ensure services are networked and joined up and effective referral pathways are developed.

Question 16: Are there other services that could be included in the hub model?

The Good Shepherd Youth and Family Service research shows that there are other services that could well sit within the hub model.
Given that recipients of payday loans are often seeking immediate access to cash, a national toll-free phone inquiry service for alternative sources and strategies would assist in supporting the hub model. A telephone enquiry service would complement the reach and capacity of place-based hubs such as Good Money for immediate financial information on emergency relief, hardship grants and alternative sources of no to low interest financial products.

We believe that a regulated minimum loan term would alleviate some pressure if direct debits are the preferred repayment method. Across the case study areas studied there was a pattern of those non FMP services that were most centrally linked. These were:

- housing/homelessness services
- community health and mental health services
- family violence services
- alcohol and drug services
- community legal services

Centrelink was also central to all the networks.

Co-location of services in one-stop shops can facilitate more effective delivery of support.
This is evidenced in the case study of the community development approach of the Neighbourhood Justice Centre in Collingwood.

Case study: Neighbourhood Justice Centre (NJC), Yarra

> *"Being a big place NJC has built up relationships with agencies over the years that go beyond individual people. NJC really makes a point of that and agencies can use our rooms for free – that helps".*
>
> *" [one stop shops] are a good example of where networking internally works well but this still doesn't mean that they are networked externally"*
>
> *"Because we are all in here, there isn't such a need for a network"*

but there is still a need to actively share information:

> *"We need to constantly update ourselves with what we all do. ... People change and new people come, now they don't really know who is doing what, we need to look at that. Both inside and outside of NJC".*

The Neighbourhood Justice Centre has been in existence for four years. It works to address the underlying causes of offending by providing targeted intervention in a range of areas. The services are also available to people living in the City of Yarra. A Client Services team coordinates treatment and support services, providing a comprehensive approach including assessment and screening, individual treatment plans and counselling. The Client Services team works with individuals involved with the justice system including offenders, victims and witnesses.
Services available at the NJC include:

- Aboriginal and Torres Strait Islander support services
- alcohol and other drug assessment and support
- assistance for newly arrived refugees and migrants
- court support (see in the Court Room section)
- employment and training support
- financial counselling
- general counselling
- housing support
- mediation
- mental health assessment
- victims' support
- youth support

The service hosts outreach financial counselling, and emergency relief is also provided in extreme emergencies, but other financial support needs (e.g. microfinance) are referred externally.
The way various staff work with clients is different, and they spend varying amounts of their time back at their employing agency, but they share open plan offices and work together in the interests of the clients.

> *"The network between all staff working here is strong due to regular and frequent meetings... When new staff come along we are sitting so close together that you can't help but be carried along and brought up to speed very quickly."*

The NJC structure illustrates how a strong internal network in one location can provide access to a much wider external network, because the links of each worker are shared. Working together in a genuinely collaborative way, and in close proximity, exponentially increases network options. For example, financial counselling information has been provided to an external network of mental health workers to assist them to advocate for their clients in financial hardship. This occurred through the connections of a volunteer at the centre. Time is saved by having other specialist workers on hand to provide additional support as required, and when the client does not have to negotiate another service system, it is more likely they will stay engaged:

> *"I know about it and understood how difficult it was for drug users to get to meet me and keep appointments. They are only around the corner so it was easier for me to run a drop in and see whoever turns up."*

The NJC also has a team responsible for community engagement and development. Other agencies are invited to attend team meetings and information gets to lots of different agencies in one presentation:

> *"Different workers know different agencies and we invite people we think will help our clients along to tell us what they do."*

However, the research finds that co-location is not in itself a sufficient condition to increase effective linkages between services. There is no consistent correlation in the research findings between co-location and increased service-related linkages. Where co-location is a factor in increasing service links, there is evidence of purposeful information-sharing between co-located services, such as case conferences, mutual training and referral protocols. There are also accounts of strategies to reach out to hard-to-engage service users, such as re-arranging times and locations of service provision. Flexibility of both government and community organisations to out-post workers in one stop shops is vital.

Furthermore, while co-location can assist links between programs, it is not a necessary pre-condition for effective links between services. As the above discussion demonstrates, there are other effective linkage models such as local sector networks. It is clear that there are too many relevant organisations in the community sector, and geographic areas are often too large, to all be included in high street hubs. The goal of quicker, more effective referrals to other appropriate services can also be met, and may be more cost effectively met at times, by ensuring that local formal sector-specific networks are supported and strengthened. Comparisons between the case study areas with and without local formal sector networks reveal the role played by formalised local networks attended by workers for mutual learning and support. The research showed a correlation between formal network membership and the number of service-related links of an organisation.

The comparisons between types of locality and types of FMP service show that:

- the very high number of orgs that FMPs need to deal with (For example, 110 organisations serving one 20 square kilometre area)
- many effective links are based on historical and geographic factors and this has led to great diversity in the networks, especially in the emergency relief sector
- the greatest consistency in formal networks exists within the microfinance sector which has been established from the outset with a program model that requires networking and a funded network; this was possible due to the relative newness of the sector
- Each FMP sector needs to be looked at separately. For example, financial counselling services are linked through state-wide peak bodies and have less focus on their own local networks, but often participate actively in other relevant service networks. On the other hand,

financial education is still under-developed as a sector and has no consistent program model or widely available funding streams, so their networks are not generally as visible as other sectors.

The Good Shepherd Youth and Family Service research shows that local formal sector networks need a small amount of paid staff support (perhaps one day a week) in order to be effective in improving referral links with other FMP and specialist services[30].

CHAPTER 6 DEBT CONSOLIDATION PRODUCTS AND DEBT MANAGEMENT ADVICE

Question 17: What are the advantages and disadvantages of debt consolidation loans in relation to the objective of decreasing the cycle of debt for vulnerable individuals?

Debt consolidation, when used strategically and on the advice of a financial counsellor or financial planner, is a potentially effective way of decreasing then exiting a vulnerable person from recurrent debt cycles. Evidence from NILS applications who are ineligible for a loan suggest that up to 10% of applications are for debts that have escalated because of defaults and unpaid fines. In some cases, vulnerable individuals have increased their debt cycles by accessing payday loans to deal with the original debt.

We suggest addressing the area of debt consolidation from two angles. The first is legislative reform for debts from sources such as utilities providers, phone companies and government agencies such as motor vehicle registrations. There is currently little flexibility with some of these providers for part-payments and instalments for customers who are financially disadvantaged or experiencing hardship. The second approach is to provide debt consolidation loans to vulnerable individuals who meet key criteria such as a willingness to exit recurrent debt cycles and are prepared to receive financial counselling and advice.

Debt consolidation loans can provide immediate relief from negative financial and psychological pressures associated with the debt and lead into a pathway to financial services for a person to start asset building and saving (unpublished cases studies from NILS database). These should be limited, however, so they do not become a go-to option. While this outcome has yet to be confirmed through research, debt consolidation should not outweigh the utility of having such an option available.

Consolidations that are done responsibly help people avoid the clutches of those businesses that supply a steady stream of unserviceable credit and profit from the financially disadvantaged. A responsible link would be between debt consolidation and debt agreements that are serviceable and do not put a person and their dependents at financial risk.

Question 18: Is a not-for-profit debt advice service which includes capacity to implement and administer debt management plans, similar to the one implemented in the United Kingdom, desirable in the Australian context?

Debt Deduct has been developed to address concerns within Good Shepherd Microfinance and the wider community sector around the lack of access to affordable and safe credit for clients who are in need of debt management to break the cycle of unaffordable credit. As such Debt Deduct will act as a ‘circuit breaker’ by addressing the immediate need for debt relief while also building in ongoing financial capacity and resilience.

[30] Landvogt, K (to be published) *op. cit.*

One of the main features of Debt Deduct is the way it is embedded in existing relationships of trust and support that clients have with a financial counsellor. This was seen as the most effective way to ensure that Debt Deduct clients receive the required assistance to increase their awareness around credit and debt matters, financial management and beneficial behaviour changes to protect against future debt difficulties.

Clients will be assisted throughout the loan process from beginning to end. Part of the assessment will be to gauge the readiness for a loan to ensure that a client's life is not further complicated by access to a loan and the financial implications of regular loan repayments.

To be eligible for Debt Deduct loan applicants must comply with the loan eligibility criteria: by currently working with a Debt Deduct accredited financial counsellor; be in receipt of Centrelink payments; or be in receipt or be eligible for a Health Care Card or Pension Concession Card; or be deemed as being on low income and under significant financial stress by the financial counsellor.
To address issues that Debt Deduct creates a dependency, there will be no self-referral for this loan. A client must already be working with a financial counsellor. Moreover, they must demonstrate a willingness and capacity to repay a loan. Capacity is indicated by the applicant's level of disposable income and level of debt, specifically, whether the applicant has enough disposable income to repay a loan over the loan period without creating hardship. Willingness is shown by bill management and a commitment to paying outstanding arrears or debts.

Given the impact of financial distress caused by debt and the potential debt spiral caused by pay day loans and similar products, loan purposes for Debt Deduct include but are not limited to the full clearance of:

- Outstanding defaults listed on credit file
- Pay day loans
- Rental agreements for household and personal items
- Goods in hock (pawned)
- Loans with an initial interest-free period, which then revert to higher interest rates
- Goods in storage

Full and final negotiated settlement of debts via financial counsellors will be accepted. Items that do not appear above, but are considered appropriate by the financial counsellor can be referred to the Loans Assessment Committee for review.

Loans are ***not approved*** for emergency forms of relief or items where other assistance is available (such as NILS), or for re-occurring expenses including:

- bond or rent (there may be exceptions to this for private rental where all other avenues have been exhausted)
- rent arrears (there may be exceptions to this for private rental where all other avenues have been exhausted)
- living expenses such as food
- utility or telephone bills
- re-occurring expenses other than those listed above

Debt Deduct loans are not to be used against any Government-related debts.

There is sufficient unmet demand to build in capacity for NFP debt advice services to fulfil a function of administering debt management plans. From our work with NILS and StepUP applicants, those that are ineligible are often due to unpaid debts. If there was greater capacity in the financial service system to address these needs of vulnerable Australians, we would probably see a decline in use of payday lenders for such purposes. If there was capacity for NILS or other no interest debt consolidation options available, vulnerable Australians could escape recurrent debt cycles and begin asset-building and saving.

Recommendation 13: That debt management is an essential part of supporting people in financial stress when done correctly, and therefore while the 'Debt Deduct' program is still being developed, development of debt management programs needs to continue to support people in reducing their credit costs and debt amounts.

Question 19: Is a national debt reduction project another potential mechanism for reducing demand for small amount loans? If yes, what types of debts should be covered and what other eligibility criteria for client participation should be applied? Should this be restricted to long term Centrelink customers?

The National Bulk Debt Project is directed to assisting those most disadvantaged and vulnerable who are in long-term financial hardship. In 2010, West Heidelberg Community Legal Service successfully conducted the first 'bulk debt negotiation' on behalf of 425 disadvantaged and vulnerable clients, who were referred by legal aid offices, legal centres and financial counselling agencies across Australia. In 2011, Legal Aid NSW and Victoria Legal Aid joined with West Heidelberg Community Legal Service for the National Bulk Debt Project. To date, the project has negotiated waiver or closure of debts worth approximately $6.75 million with creditors such as major banks, insurance companies, credit providers, debt collectors and utility service providers.

The National Bulk Debt Project is a worthwhile avenue to pursue in that it is a species of class action without many of the complications that arise when class actions have to run the gauntlet of the courts. Current eligibility criteria align largely with profiles of vulnerable Australians who would then benefit from NILS and StepUP, if they did not have the encumbrance of unpaid debts.

Eligibility criteria for debt consolidation loans include evidence that these debts are a direct cause of a person's continued use of payday loans that are inappropriate to their financial means. From growing numbers of NILS and StepUP case studies (currently unpublished), there is a trend of recurrent debt cycles due to payday loans for utilities, vehicular and telecommunications debts under $2000. Such debts have spiralled with increasing fees and charges on defaults and late payments.

From the experience of NILS and StepUP providers, there is a gap in some of the clients seen that do not have any credit rating. Debt consolidation is often the only viable option next to payday lenders, for people for whom there are no other financial options. There are a number of criteria in NILS and StepUP that are prohibitive to a NILS client e.g. 3 months at current residence, loan purpose.

CONCLUSION

The leadership of Treasury is to be commended in calling for discussion on an area of small amount lending that negatively impacts a growing number of Australians who are financially excluded. With Australia having a strong and robust economy that has weathered the global financial crisis, the increase in financially disadvantaged people makes the findings of the financially excluded even more alarming. Our paper underscores the importance of a cross-sector approach to dealing with the negative impacts of payday lenders on the most vulnerable Australians.

While there is an urgent need to address the marked increase in high-cost small amount short-term loans, there is a call for much needed data about the real costs to borrowers in the fringe credit market. As noted by Burkett and Sheehan, 'there is a need to provide a base for more data that could expose the cost realities of the fringe market as well as open discussion about what represents fair costs in the provision of small loans over particular terms. One of the key reasons why there has been a dearth of public and academic debate about the costs of microfinance in Australia stems from a lack of data about actual costs'[31].

We do, however, have evidence of the costs of payday loans, and evidence which supports they are often sought by people on low incomes who need to meet day to day living costs. We also have evidence which documents the harm they can cause and that the high costs of this kind of credit is often borne by people who can least afford it. As such we feel that while people may need to access small amounts of credit, that this be done in a safe way. If the payday lending industry is to fill part of this gap, then these loans need to be safe and not make people worse off. Hence, why we develop and advocate for the provision of alternative forms of finance such as no and low interest loans.

Our recommendations in response to the discussion paper are:

- That Treasury retains cost rate caps for payday loans under $2,000 for less than twelve months at the original '10 and 2' rule, and caps interest and fees for loans above this amount at 48 per cent per annum.
- That Centrepay be extended to a wider variety of essential services on the condition that it remains cheap, flexible and voluntary.
- That flexible Advanced Payments (smaller amounts but more frequently) be made available to a larger cohort of DHS clients than currently offered, to support people to manage the fluctuations in their budgets.
- That the option of weekly income support payments be extended beyond DHS clients who are deemed vulnerable to all clients who wish to be paid weekly.
- That Centrelink extends the role of FISO's to broader financial information services to support DHS clients.
- That the Federal Government supports community organisations to work with utility companies to develop hardship policies and programs, in order to skill energy providers in recognising 'trigger points' to refer people to appropriate support.
- That the Federal Government increases the amount of utility concessions for people on low incomes to support them in managing continuing increase in prices.
- That utility and hardship payment plans be flexible enough to allow consumers to pay less than the minimum required to clear their arrears, at least for a short term, to support people experiencing hardship.
- That further research be conducted into the payday lending industry and associated costs and benefits to consumers and drivers of demand.
- That the Federal Government work with microfinance providers to meet demand in markets not traditionally serviced by community organisations including people in low paid work and in remote communities.

[31] Burkett and Sheehan (2009), *op. cit.* pg. 19

- That regulation of payday lending be seen in concert with wider reforms in the banking sector given mainstream banking services (and credit) are out of reach for many low-income Australians.
- That while hubs can increase the reach of alternative forms of finance to those who traditionally access the fringe lenders, it is important that the development of the hubs is seen as a community development process, to ensure services are networked and joined up and effective referral pathways are developed.
- That debt management is an essential part of supporting people in financial stress when done correctly, and therefore while the 'Debt Deduct' program is still being developed, development of debt management programs needs to continue to support people in reducing their credit costs and debt amounts.

At Good Shepherd, we look forward to working collaboratively with Treasury, the banking industry and fellow not-for-profit partners to alleviate poverty in Australia and take on the necessary challenges that will assist us collectively to realise this aim.

Thank you in advance for your time.

CEO
Adam Mooney
Good Shepherd Microfinance

CEO
Robyn Roberts
Good Shepherd Youth & Family Service

Charity gives, justice changes.

INCOME MAXIMISATION FRAMEWORK[32]

This framework provides a way to view financial information needed by people living on low incomes. It places rights, dignity, entitlements and social justice at the centre of individuals' needs, and assumes that financial education cannot be a substitute for these fundamentals but can assist people to access them.

The income maximisation framework:

- ✓ is an exploratory tool, a framework for discussion about learning goals and methods NOT a pre-determined curriculum
- ✓ raises questions as well as providing answers
- ✓ highlights service gaps that create financial exclusion as well as identifying available assistance to overcome financial exclusion
- ✓ can be used to assist members of a particular group to identify the type of financial information or other support they need
- ✓ can encourage discussions on specific topics; and
- ✓ can be used to invite sharing of experiences and knowledge.

The suggested components of an income maximisation framework are:

<u>1. Critically examine financial information</u>
Do not take financial information for granted: look at it closely. It may come from a bank, a government department, a community organisation, a fringe lender, etc. It may reflect vested interests or be genuinely impartial:

- who produced it and for what purpose?; and
- what is it expecting of us and how is it treating us? What is it assuming about us?

<u>2. Understand rights</u>
What are our rights?

- human rights – to adequate food, shelter, health care, education, etc
- consumer rights – to information, to fair treatment, to a regulated non-exploitative market; and
- legal rights – to protection, due legal process, natural justice

<u>3. Understand individual responsibilities</u>
In an era of light government regulation when financial institutions are expected to self-regulate, major responsibilities are placed on individuals. It is a 'buyer-beware' environment where it is important to know:

- how to become informed and stay informed about financial services
- how to understand marketing: 'behavioural economics' or psychological tricks of advertisers
- how to avoid exploitation: for example new forms of credit, their interest rates, and costs over the long term; and
- how to make complaints and settle disputes.

<u>4. Entitlements</u>
For people living on low incomes, accessing their entitlements should be straightforward but is often not. People do not always know what they are entitled to, especially if they are in a new situation.

[32] From 'Money, dignity and inclusion: the role of financial capability' by K. Landvogt, Good Shepherd Youth and Family Service, 2008

Government departments are not always effective in making this information available so a more proactive approach is needed in relation to the following entitlements:

- Centrelink
- child support
- Workcover
- employment
- concessions, utility grants; and
- housing assistance with bonds, rent, mortgage stress.

Minimising costs

Products and services which minimise costs for those on low incomes are frequently even less well known than income entitlements. They include government and corporate initiatives as well as local know-how about where to find cheaper goods:

- bank accounts with minimum or no fees for pension and benefit recipients
- low interest or no interest credit (NILS, StepUP)
- managing and avoiding servicing debt – good debt and bad debt
- rights to health, dental, and education services; and
- meeting household expenses – cheap deals, energy audits, budgeting.

Protection for the future

If even modest assets and wealth can be built up it provides a great deal of security and avoids financial hardship. There are various ways this might happen but there is no magic wand for people living on low incomes. Some services and products that are needed do not yet exist, others need to be more widely available and most need to be subsidised. They include:

- low cost loan programs such as NILS, StepUP & microenterprise loans
- matched savings programs such as Savers Plus
- affordable insurance; and
- affordable superannuation.

Getting assistance

If people had an adequate financial buffer there would be less need for emergency assistance, but present trends are that these buffers are less available as costs of living rise relative to income. Local assistance is often needed, even if this is just a referral to further assistance. In new situations and in crisis situations people need ready access to help, and often the best information about getting assistance comes from those who have been in a similar situation:

- Local referral points to specialist assistance such as community health centres, neighbourhood houses and community information services
- Centrelink, CAV, other government departments; and
- Emergencies – financial counselling, emergency relief, community legal services.