Submission to

Consumer Credit Unit
Retail Investor Division
The Treasury

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Re the discussion paper

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

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Executive Summary

In Chapter 1, NFSF applauds Government for acceptance of a need for Australians to have access to short-term credit as a universal element of financial inclusion. NFSF further agrees with the Discussion Paper which references two key components of the small finance industry: timeliness and availability of such loans. However, NFSF expresses concern that Government continues to rely on outdated (see Appendix A) and often discredited research to justify proposed legislative changes which, in an attempt to protect an insignificant portion of the market, will cause substantial detriment to the highly significant majority of consumers who use small loans in a responsible manner which does not necessarily lead to financial distress. The Paper purports to show proof that there is no competition in the market place but NFSF points out that the research relied upon for this statement actually shows that there is healthy competition as well as more than one type of loan in the small finance market.

In Chapter 2, Questions 1 – 3, NFSF highlights that currently available Government schemes appear to discriminate against some benefit recipients; have significant time lags in the application process; and are restrictive and prescriptive in nature. NFSF warns that possibly no amount of information will induce benefit recipients to take up Financial Management Programs. NFSF is happy to support a requirement to provide information about the availability of other sources of funds and support schemes. However, this support is contingent upon certain provisos as to responsibility, format, and content. Furthermore, NFSF wishes to make clear that no other industry sector is required to provide potential customers of alternative, possibly cheaper, product alternatives. When answering Questions 4, 5, 6 & 7, the point is made (with reference to Appendix B) that energy hardship programs are not infallible and that considerable national numbers annually are at risk of energy disconnection.

In Chapter 3, NFSF reiterates its commitment to working with Government and other stakeholders to bring about suitable reforms in the small loan industry but any such reform must allow for the continuation of a viable industry. Preliminary comments for Chapter 4 highlight concerns by NFSF (shared by Luke Geary of Salvos Legal) that unintended consequences of the proposed legislation could be severely detrimental to consumers seeking further or cheaper refinancing. With respect to Questions 8 – 13 in Chapter 4, NFSF warns that extension of existing alternative-source programs, new programs, and possibly freeing up criteria, must be based on timeliness and availability of the loan product and further warns that significant sources of funds will be needed to supply further possible demand through these schemes.

Chapter 5 raises the possibility of providing financial service hubs to help meet demand for small loans and NFSF discusses three major concerns in relation to Questions 14 – 16: consumers may see these hubs as just an extension of Centrelink or a charity; the centres may not be adequately staffed or funded and involve copious paperwork; and the hubs will face the high cost of delivering these loans which is a continuing problem for the small loan market. NFSF further warns that the tremendous cost needed for infrastructure investment on a national basis will see these hubs at risk of closure in times of Government cutbacks. As an alternative, NFSF suggests the most cost effective option for a sustainable long term model would be for existing financial hubs, Centrelink offices, to be expanded to perform this function.

Chapter 6, Questions 17 – 19, asks what other services could be included in these hubs. NFSF agrees debt consolidation through these hubs could be advantageous however, care needs to be taken that proposed legislation will allow for debt consolidation which it currently doesn’t. NFSF further discusses that continued application of Responsible Lending Obligations will continue to provide protection against financial distress and that use of a protected earnings amount and debt spiral control mechanisms would be preferable and provide greater protection than setting up these hubs.

CHAPTER 1

FINANCIAL EXCLUSION OF SOME CONSUMERS

Chapter 1 of this Discussion Paper (the Paper) sets out background material on four topics which speak to the financial exclusion of some consumers in the current Australian financial market. The National Financial Services Federation (NFSF) will address issues raised in this chapter before addressing the specific questions in subsequent chapters as some fundamental inaccuracies and misconceptions appear to be driving this Paper.

These fundamental inaccuracies and misconceptions are a direct result of Government's continued reliance on research which is:

- outdated;
- heavily biased;
- inadequate and/or poorly constructed; and
- discredited.

This Paper at times relies on some statements which are not backed up by any research or the quoted reference appears to be inappropriate for the point being made. Appendix A presents a list of references from the Paper which shows where there is a problem with the accuracy of some references and also highlights the Paper's reliance on outdated research to back up its assertions.

In some cases, particularly research from Consumer Action Law Centre (CALC)[1], the 'research' as presented:

- relies on cases where the loans were taken out at a time before the commencement of the National Consumer Credit Protection Act (NCCP) on 1 July 2010 and associated Responsible Lending Obligations, therefore does not represent current industry practices;
- has been prepared by a consumer advocacy group which (a) makes their opinion very clear that they would prefer the industry to be closed down by lobbying policy-makers and fuelling inaccurate and sensationalist media reports; (b) is very selective so that only data that appears to support their agenda will be discussed in their report and therefore cannot be relied upon to produce unbiased data and research outcomes;
- has been drawn from a sample of small loan consumers who unfortunately needed to seek help from financial counsellors and therefore is not a

[1] For example: Gillam, Z and Consumer Action Law Centre, 'Payday loans: Helping hand or quicksand? Examining the growth of high-cost short term lending in Australia, 2002-2010', September 2010.

representative sample of the whole market but focuses instead on a highly insignificant portion of the small loan market; and

- has been discredited by the NFSF for these and other issues, e.g., where CALC has unduly and incorrectly maligned the report outcomes which did not align with the source data.

Although, reports and representations from CALC continue to promulgate the misconception that there is a market failure in the small loans industry, annual reports from Credit Ombudsman Service Limited (COSL), available on their website, [2] clearly show that the rate of complaints from the small loan sector is not indicative of a market failure necessitating significant reforms. By continually focussing on issues which affect a highly insignificant portion of the market, the policy-making process has produced, or proposes to produce, legislation which will be detrimental for the highly significant portion of the market which uses small loans responsibly, either by choice or necessity, and do not get into financial distress from the use of these financial products.

FINANCIAL EXCLUSION

The Paper very specifically states that:

> *'In a modern society such as Australia, the need for small amounts of short-term credit to help manage cash flow and lumpy expenditure (large bills or unexpected expenses) should be accepted as a universal element of financial inclusion.'* (parenthesis added)[3]

NFSF applauds the Government for acceptance of the fact that there is a need in modern Australian society for access to short-term credit and that such access is a universal element of financial inclusion. The Paper asserts that research in 2011 suggested that '15.6 per cent of Australians (2,650,000 individuals) are fully or severely excluded from [mainstream] credit.[4] (parenthesis added).

CONSUMERS OF SMALL AMOUNT LOAN (CREDIT CONTRACTS)

The Paper further discusses how:

> *'As a result of exclusion from mainstream credit providers, these consumers may have few alternatives other than to source finance as quickly as possible from the first available lender at whatever cost and accept the terms offered.'*[5]

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[2] http://www.cosl.com.au/
[3] 'Strategies for reducing reliance on high-cost, short-term, small amount lending', Discussion Paper, April 2012, p.2.
[4] 'Strategies for reducing reliance on high-cost, short-term, small amount lending', Discussion Paper, April 2012, p.1.
[5] 'Strategies for reducing reliance on high-cost, short-term, small amount lending', Discussion Paper, April 2012, p.2.

This extract points out **two key components** of the **small finance industry** upon which consumers rely:

(1) timeliness, and

(2) availability.

The Paper relies upon 'a review of Australian research'[6] to develop statistics regarding usage to which consumers put borrowed funds and to build a typical profile of a consumer for 'these types of loans', i.e., roughly 50% of Small Amount Credit Contract borrowers are in receipt of Government benefits and have annual incomes of less than $24,000.

IMPACT OF FINANCIAL EXCLUSION

After a discussion of the effects of financial exclusion on society in general and low-income earners in particular the Paper sets out the Government's view regarding a commitment to financial inclusion.

This commitment involves:

(1) 'providing opportunities for those who are financially disadvantaged to improve their own situation, including improved access to mainstream financial services; and

(2) 'more opportunities to take up mainstream credit that is fair and equitable'. [7]

While these stated commitments speak to the key component of the small finance industry 'availability', **the commitments neglect the other key component of 'timeliness' in deliverance** of an acceptable product to the consumers in the small finance industry.

EXTENT AND COST OF SMALL AMOUNT LENDING

The Paper relies on Queensland research in 2008 by Howell, Wilson and Davidson[8] to discuss how 'Reviews of small amount lending have identified a significant divergence in the level of costs charged by different lenders, with some lenders charging significantly

[6] 'Strategies for reducing reliance on high-cost, short-term, small amount lending', Discussion Paper, April 2012, p.3.
[7] 'Strategies for reducing reliance on high-cost, short-term, small amount lending', Discussion Paper, April 2012, p.4.
[8] Howell, Wilson & Davidson, December 2008 - Interest Rate Caps: protection or paternalism? - Through the Griffith University survey 40 members of the National Financial Services Federation representing micro and payday lenders in Australia.

higher costs'. [9] The Paper asserts that considerable differences in cost were found and presents three example loans. The Paper relies on these three examples to state:

> *'The differences in cost reflect the lack of competition in this area, where consumer choices are driven by the need to access credit rather than price.'* [10]

However, the NFSF asserts that this information actually **provides proof that healthy market competition** is in action. The examples provided by Howell et al show that there are **at least these three different types of products in the market**. This is contrary to how proposed legislation regards Small Amount Short Term Loans which is that there is a perception that only one type of loan exists in the small finance market, i.e., loans up to $2,000 and up to 2 years to repay.

The examples also show that within each of these three different types of loan there is a range of fees and charges which is concrete **evidence that market forces are in play**. The Paper itself states that there are 'considerable differences in cost'.[11] It is these evident cost differences which show that there are market forces in play for the loan providers to be competitive.

CHAPTER 2

REDUCING THE NEED FOR SMALL AMOUNT LOANS

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?

Reply to Question 1

> In Chapter 2, the Paper discusses 'reducing the need for small amount loans' but focuses heavily on only 50% of the market for Small Amount Credit Contract by discussing Government programs and initiatives for those receiving social benefit payments. This ignores the other half of the small loan market which uses Small Amount Short Term Loans either by choice or by necessity because of emergency (timeliness) or lack of access to main stream products (availability).

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[9] 'Strategies for reducing reliance on high-cost, short-term, small amount lending', Discussion Paper, April 2012, p.5.
[10] 'Strategies for reducing reliance on high-cost, short-term, small amount lending', Discussion Paper, April 2012, p.6.
[11] 'Strategies for reducing reliance on high-cost, short-term, small amount lending', Discussion Paper, April 2012, p.5.

However, restricting the discussion to just benefit recipients, while the Government program's stated aims to 'build financial resilience'[12] are commendable, these programs largely entail significant time lags and restriction/prescription on the 'what and where' access and usage of funds. The issue of significant time lags before benefit recipients can access extra funds means that these programs do not address one of the key components of the small loan market; timeliness.

Also, these program funds contain significant restriction/prescription of 'what and where' any loan funds can be spent. This takes away a consumer's choice and can mean that approved suppliers of goods or credit are not geographically convenient and/or may only supply goods that are more expensive than the consumer's needs, e.g., new white goods instead of second hand.

The results of this time lag and restriction/prescription of Government programs and initiatives means that it is unlikely that every benefit recipient's needs can be met by the mechanisms discussed or by others of this nature.

The other problem which is inherent in these schemes is the need for the Government to provide loan funds to meet demand from benefit recipients as well as the funds needed to build infrastructure to service these schemes. If an attempt was made to quantify the net result of these schemes, the NFSF is confident that there would be a significant shortfall of funds that could be provided by Government with these schemes.

An interesting point which stands out from the discussion of currently available Government schemes is that there appears to be features of (a) discrimination between different types of benefit recipients, and (b) the ability for some schemes to provide more than one concurrent loan and/or consecutive loan to certain benefit recipients.

For example, pensioners receive favourable discrimination when they are entitled to 'one, two or three advances of their pension entitlement, up to a maximum amount (currently $1,074.90 for a single full rate pensioner), in a 13 fortnight period.'[13] This is in contrast to Eligible Parenting Payment Single and allowance recipients who may access funds in advance of up to $500. 'These advances are limited to one per 12 month period.'[14] The Paper goes on to discuss recent changes to the Family Tax Benefit (FTB) advance scheme where 'eligible FTB customers can now receive an <u>unlimited number</u> of advances' and further 'Subject

[12] 'Strategies for reducing reliance on high-cost, short-term, small amount lending', Discussion Paper, April 2012, p.7.

[13] 'Strategies for reducing reliance on high-cost, short-term, small amount lending', Discussion Paper, April 2012, p.10.

[14] 'Strategies for reducing reliance on high-cost, short-term, small amount lending', Discussion Paper, April 2012, p.10.

to eligibility, both pension and allowance advances may be held concurrently with an FTB advance.'[15]

In summary to this question, the NFSF's opinion is that, while these existing schemes are commendable, the addition of any hitherto unknown schemes would not contribute significantly to a lowering of demand by benefit recipients and especially of non-benefit-recipient consumers.

Question 2

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

Reply to Question 2

The Paper's discussion of FMP's for benefit recipients highlights the strategies adopted and the stated aims of building 'financial resilience and wellbeing' as mechanisms for alleviating financial and social exclusion for vulnerable people. The Paper further states that these 'services are voluntary, free and available to those experiencing financial difficulties.'[16]

The Paper focuses closely on benefit recipients who, as discussed earlier, make up roughly only 50% of the small loan market. Therefore, roughly 50% of the small loans market will not benefit from such schemes and will still need recourse to small loan providers for access to credit.

If the Government believes or has proof as to the efficacy of such programs to achieve their stated aims, then it appears that earlier recommendation of these schemes may be beneficial to benefit recipients. However, just as proposed legislation wishes to prescribe the early presentation of certain information to potential borrowers outlining other, possibly cheaper, sources of funds, then so too should this recommendation be made early to new benefit recipients and reiterated on a regular basis to continuing benefit recipients.

Furthermore, as involvement in these programs is voluntary, it is possible that no amount of information will make benefit recipients take up these programs as:

(a) the programs could be seen to be 'charity' with a perception that the person needs to beg for access, or the person is reluctant to attempt access to these schemes because of previous bad experiences or knock-backs;

(b) they do not answer the specific needs of the benefit recipients as to timeliness and availability to such funds; and

[15] 'Strategies for reducing reliance on high-cost, short-term, small amount lending', Discussion Paper, April 2012, p.10.
[16] 'Strategies for reducing reliance on high-cost, short-term, small amount lending', Discussion Paper, April 2012, p.7.

(c) strict compliance rules of such schemes as to eligibility and reason for funds mean that these schemes are not suitable for all needs.

Question 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?

Reply to Question 3

As stated in other submissions, NFSF is happy to support a requirement for small loan providers to provide information to possible consumers about the availability of a range of other (possibly cheaper) sources of funds and payment support schemes such as for utility bills. This support is with the proviso that the information:

- is nationally consistent;
- shows national contact details for alternate, and possibly cheaper, sources of funds; and
- is provided by and through Government sources for ease of reference by both the lender and the customer.

Provision of this information could be as simple as Government printing business cards which have details of the existing Money Smart website and national phone and email contacts for financial counselling services. However, NFSF wishes to make clear that <u>no other industry is required to notify potential customers of any, possibly cheaper, alternatives.</u>

Furthermore, as previously presented to Treasury in 2011, an examination by NFSF of utility payment support schemes found that these schemes were not infallible and that significant numbers of users (an estimated annual average for 2011 was 87,831[17]) may still be at risk of disconnection and therefore may seek access to small loans to help them pay their utility bills rather than face disconnection. This examination concluded that from a borrowers perspective, 'The choice of a payday loan would ensure continued supply rather than suffer the alternative economic, and social wellbeing impacts and possible personal

[17] NFSF, Energy Disconnections, Information requested Monday 24th October 2011 at the Parliamentary Joint Committee on Corporations and Financial Services Hearing into the Consumer Credit And Corporations Legislation Amendment (Enhancements) Bill 2011, p. 9.

exclusion, which could potentially result from the disconnection/reconnection issues, penalties, and embargoes of energy supply to residential customers.'[18]

For convenience, this report has been attached as Appendix B.

Question 4

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

Reply to Question 4

As pointed out in Reply to Question 3, these utility payment support schemes are not infallible and that significant numbers of users may still access small loans to help them pay their utility bills especially when faced with disconnection. Refer to Appendix B.

As ambitious or as comprehensive as these utility payment schemes may appear to be, copious information regarding these schemes may still not encourage consumers to use them. There will always be consumers who 'slip through the gaps' or will choose to handle payment of utility bills in their own way, i.e., through the use of Small Amount Short Term Loans.

Also, using these schemes relies on forward planning by the utility consumer which does not always fit with emergency situations.

Question 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?

Reply to Question 5

Advantages:

(a) Bringing the information to the attention of the new utilities user may have the advantage of the consumer being prepared for situations where they may be in danger of defaulting on their utility payment and hence will be able to take appropriate action to take advantage of payment support schemes.

(b) Showing the information on each bill could serve as a reminder that these schemes are available for use.

[18] NFSF, Energy Disconnections, Information requested Monday 24th October 2011 at the Parliamentary Joint Committee on Corporations and Financial Services Hearing into the Consumer Credit And Corporations Legislation Amendment (Enhancements) Bill 2011, p.10.

(c) By presenting and repeating this information in a consistent format, given time, it could be expected that the existence and usefulness of these schemes may become widely known.

Disadvantages:

(a) Showing the information up front with any new utility contract may put the information in a situation where the consumer is in 'information overload' and cannot process the information being disclosed especially if that person has never had a utility account in their own name before.

(b) Repeating the information on every bill may instil a feeling of familiarity (contempt) or perception that it is 'just the fine print' and therefore not relevant, i.e., the only information that is seen to be relevant is the total of the bill and the date by which it has to be paid.

(c) Use of these utility hardship schemes rely heavily on forward planning by the consumer which does not always fit with life's emergencies.

(d) Some consumers still may be reluctant to make contact because of perceived notions of asking for charity or just general embarrassment. So no amount of information on payment schemes will catch all consumers and especially those consumers who may choose to use a small loan to pay for their utility service.

(e) More information on the availability of hardship programs may have the undesired effect of some utility consumers abusing the system, i.e., claiming financial distress when there is none.

Question 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?

Reply to Question 6

The NFSF is not aware of other support services that may help reduce energy hardship and the demand for small amount, short-term loans to pay energy bills.

Also, as pointed out in Reply to Question 3 & 4, these utility payment support schemes are not infallible and that significant numbers of users will still access small loans to help them pay their utility bills either by choice or apparent necessity. That is, 'The choice of a payday loan would ensure continued supply rather than suffer the alternative economic, and social wellbeing impacts and possible personal exclusion, which could potentially result from disconnection/reconnection issues, penalties, and embargoes of energy supply to residential customers.'[19]

Question 7

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

Reply to Question 7

Comment: Such program considerations should also be expanded to include water utility companies, as the ever increasing cost of water is also impacting the family budget.

If these energy hardship programs are to have any significant impact on prevention of utility disconnections then their availability should be more widely disseminated to the public. Information could be available in venues where people expect to be able to gather useful information, e.g., public libraries and community centres.

If existing or new schemes are developed, these schemes need to address the issues of timeliness and availability. That is, schemes should be available where the application process takes only a day or two to be processed and there needs to be sufficient funds in whatever schemes are used to meet the possible demand for funds to pay utility bills.

Appendix B shows that an estimated annual average of possible disconnections for 2011 was 87,831[20] which, at an averaged assumed quarterly bill of $300 per utility consumer, would require approximately $105.4 million annually to be available in the system. This estimated figure only looks at utility consumers at risk of disconnection and does not include these consumers who are already using the utility hardship programs. If utility providers cannot guarantee continued supply then will Government or charities be able to pick up the shortfall in funds needed, and in a timely manner?

Chapter 3

Improve the small amount, short-term loan product

General comments

The NFSF wishes to reiterate its commitment to working with Government and various stakeholders to bring about suitable reforms in the small amount, short-term loan

[19] NFSF, Energy Disconnections, Information requested Monday 24th October 2011 at the Parliamentary Joint Committee on Corporations and Financial Services Hearing into the Consumer Credit And Corporations Legislation Amendment (Enhancements) Bill 2011, p.10.

[20] NFSF, Energy Disconnections, Information requested Monday 24th October 2011 at the Parliamentary Joint Committee on Corporations and Financial Services Hearing into the Consumer Credit And Corporations Legislation Amendment (Enhancements) Bill 2011, p. 9.

market which, at the same time, will allow for the continuation of a viable small loan industry. These reforms are building on the Credit Act's licensing requirements and responsible lending obligations which have already been implemented successfully.

The NFSF agrees with the findings of the Parliamentary Joint Committee on Corporations and Financial Services (paragraph 5.223) that the short-term loan market is complex and a proportion of consumers in the market may not be fully aware or informed about alternative and possibly cheaper sources in credit.

The Paper states that these proposed reforms 'are intended to help mitigate the extent (to which) small amount lending causes financial harm to individuals excluded from mainstream financial services'. [21] (parenthesis added) The NFSF concedes that some consumers in the market may be in danger of financial harm but must point out that there are far more Small Amount Credit Contract borrowers who are not financially or socially harmed by the use of Small Amount Short Term Loans.

CHAPTER 4

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

General comments

One of the stated aims of the Paper is to improve access to alternative sources of small amount lending which may be cheaper than currently available through licensed providers of small loans. Attention was bought to the Government of the unintended consequence of a proposal to restrict consumers to only one loan at time even if the new loan was cheaper and more suitable.

This proposal would have had the effect that a borrower could change from one lender to another even if the cost of the loan is cheaper, or the loan package more suitable, with the alternative lender. This possible unintended consequence was also a concern to Luke Geary of Salvos Legal who explained some of the challenges behind government attempts to regulate pay-day loans in a recent radio interview.[22]

Geary commented in the interview (paraphrasing) that the spirit of the amendments is to get rogue lenders by stopping encouragement and processing of multiple loans which can easily cause financially harmful debt. But a scenario was discussed in the interview where a borrower could take out a loan for $2,000 to fix their car but then 6 months later, while still paying off this loan, there is a change of circumstances and the borrower needs more money to fix the car again.

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[21] 'Strategies for reducing reliance on high-cost, short-term, small amount lending', Discussion Paper, April 2012, p.17.

[22] ABC SUNDAY NIGHTS, Sunday, May 20, 2012, Luke Geary on regulating pay-day loan sharks. http://www.abc.net.au/sundaynights/stories/s3507495.htm?site=melbourne

Geary points out that the amendments will effectively prevent refinancing for the second problem and will prevent the borrower from accessing a lender with a lower rate or a lender able to consolidate with a far better offer. Geary stated that he was speaking within the context that recently the Commonwealth had piloted a program for a collective of banks called Community Development Financial Institutions (CDFIs). His comment was that the law makers for this pilot program and those for the proposed amendments may not be sufficiently aware of the intentions of the other because the no and low interest loans (so called NILS and LILS loans) also would not be available if a consumer already had an existing loan.

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?

Reply to Question 8

Building upon and extending existing programs could be one option to enhancing access to alternatives to small amount, short-term loans. However, there is a strong possibility that these schemes will remain:

(a) severely restricted by geographical considerations (both for access to funds in the first place as well as access to approved suppliers);

(b) severely prescriptive for the reason for the loan; and

(c) not available in a timely enough manner to meet the needs of consumers, all aspects of the supply must meet consumer demands otherwise it will not be a viable option.

Another problem with this proposed solution is the long lag time for these projects to be extended and the considerable funding needed by Government to build the infrastructure in the first place and then have sufficient funds to lend.

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?

Reply to Question 9

Yes, the eligibility and purpose criteria for no interest and low interest loans should be expanded to address the problems as outlined in Question 8. However, any such expansion will need to be supported by increased funding for lending.

Question 10

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

Reply to Question 10

It is doubtful that sufficient partnerships could be developed between community service organisations and financial institutions to increase the number of these products and their coverage. The reasons for this are as follows:

(a) The Paper sets out how specific restrictive and prescriptive requirements for these schemes has lead to limited coverage for financially excluded groups and that this is one factor that has led to significant growth in the high-cost, short-term loan sector.[23] It is doubtful that sufficient funds could be made available through more Government schemes and not-for-profit sources to meet this demand as significant funds are needed to build initial infrastructure, maintain administrations services as well as provide continual funding for loans.

(b) The Paper acknowledges that service delivery to the targeted market is high cost and therefore a significant challenge for an emerging CDFI sector especially in gaining access to affordable capital to develop and maintain the loan portfolio.[24] This high cost of service delivery would be an impediment to any such Government, not-for-profit, or philanthropic based scheme created to supply low cost loans. The NFSF wishes to point out that it has continually presented material that speaks to this high cost of delivery of services in the small loan market.

(c) Some schemes, such as the CDFIs are still in pilot testing phase. 'At 20 March 2012, these organisations had provided 804 loans to individuals. The pilot is currently being evaluated and its future is subject to a report on the pilot, due in August 2012.'[25] With all due respect to the worthwhile intention of this and other schemes, 804 loans is a mere drop in the bucket of the unmet demand for small loans.

(d) These schemes, by their nature, are restrictive because they try to minimize bad debts by imposing rigorous eligibility criteria. This in turn creates time lags between the application for the loan and the possible approval of the loan. It is just such time lag which makes licensed small loan providers more attractive to consumers especially when the need for funds is urgent and unexpected.

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[23] 'Strategies for reducing reliance on high-cost, short-term, small amount lending', Discussion Paper, April 2012, p.20.
[24] 'Strategies for reducing reliance on high-cost, short-term, small amount lending', Discussion Paper, April 2012, p.26.
[25] 'Strategies for reducing reliance on high-cost, short-term, small amount lending', Discussion Paper, April 2012, p.20.

Question 11

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

Reply to Question 11

It is difficult to envisage what may be a successful encouragement mechanism to improve access for low-income individuals to small amount loans. Suggested mandating reporting requirements for mainstream lenders does not appear to also mandate specific lending targets to help reduce the unmet demand in the market. Previous experience with such schemes, e.g., NAB pilot scheme, reveals that they are heavily prescriptive and restrictive and, above all, not timely enough to meet consumer demands. This results in very small numbers being able to access funds in this manner. Multiplying these very small numbers by the small number of mainstream lenders in the Australian market still only produces a very small number of consumers who could gain funds through these mechanisms.

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?

Reply to Question 12

NFSF is of the opinion that mainstream lenders would be encouraged to report on their small amount, short-term loan activity as this would add to the fell-good corporate social responsibility activities which are now common features of corporate reporting. However, it is doubtful that this mechanism by itself would be sufficient to put a dent in the annual demand for small loans. On the other hand, reporting on mandated dollar targets in providing small amount loans may provide more impetus to produce more than just lip service and hyperbole to this unmet need.

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?

Reply to Question 13

At this stage there is too little information available on the success and/or viability of the CDFI sector in Australia. The Paper reports that the sector is embryonic in Australia and consists of only a handful of organisations which provide a limited range of products to a small number of people.[26] As at March 2012, only 804 loans had been provided to individuals and the current evaluation and future of the project is subject to a report due in August 2012.[27]

It is also imperative that the legislative development of this sector should be in tune with legislative developments in other sectors of the finance industry as encouraged by Geary from Salvos Legal.[28] This is to ensure that anomalies or unintended consequences don't develop during the legislative preparation stage.

CHAPTER 5

ASSISTING LOW INCOME INDIVIDUALS WHO FALL INTO DEBT CYCLES

Question 14

Can a financial services hub provide a viable alternative to high cost small amount lenders?

Reply to Question 14

The concept of a financial services hub, on the surface, appears to have merit as a way of providing a viable alternative to high cost small amount lenders. However, as meritorious as this approach appears (because it will also extend services to non- government benefit recipients), it does not address the central need for these hubs to have enough capital to meet demand for these loans and, at the same time, provide these high cost services at a viable rate. There is also the question of these financial services hubs needing to provide loans in a timely manner and to suit borrowers' needs rather than be restrictive and prescriptive in nature.

The tremendous cost needed for infrastructure investment for enough 'hubs' to be effective on a national basis will mean that these hubs will be one of the first schemes to be withdrawn in times of government cut backs. Such an investment could conceivably be in the hundreds of millions. Is it too novel an idea to think that industry could act in a similar fashion to these proposed hubs and thus industry and Government work together on this point?

Alternatively, the existing financial 'hubs', Centrelink offices, should be expanded to perform this function. This would appear to be the most cost effective option for a sustainable long term model.

As with the CDFI scheme, there is a small version of this concept currently being trialled over three years from 2011 with an evaluation performed at the end of the

[26] 'Strategies for reducing reliance on high-cost, short-term, small amount lending', Discussion Paper, April 2012, p.22.
[27] 'Strategies for reducing reliance on high-cost, short-term, small amount lending', Discussion Paper, April 2012, p.20.
[28] ABC Sunday Nights, Sunday, May 20, 2012, Luke Geary on regulating pay-day loan sharks. http://www.abc.net.au/sundaynights/stories/s3507495.htm?site=melbourne

trial.[29] This means that the reality of setting up sufficient and effective financial services hubs to cope with current demand for small loans is a considerably long time away.

Question 15

Would a hub approach make services more accessible for individuals who may be reluctant to visit major church providers for assistance?

Reply to Question 15

It may be possible for a financial services hub approach to make services more accessible for those individuals reluctant to visit major church providers for financial assistance.

However, there are certain elements of these proposed hubs that would likely be of concern to such individuals.

(a) The hub could be seen by some individuals as just an extension of services provided by church and other not-for-profit organisations. The hub may also be seen as just an extension of CentreLink. Subsequently, for these individuals, the hub could be seen as just another form of charity which they are too proud to accept.

(b) The proposed hub would need to be adequately staffed and funded. One of the key components of the small loan market is that people want the money in a timely manner. They do not have time to, or do not want to, fill out copious forms which will then take several days or weeks to be assessed and then likely rejected because the criteria are too rigid.

(c) Although the intention of these proposed hubs is admirable, the NFSF feels that the proposal is unlikely to fill any great portion of the market demand for several years. The hubs will then face the high cost of delivering these loans which has always been a stumbling block for main stream lenders and led to their withdrawal from this market in the first place. The high cost of delivering these loans is still a problem for the specialised small loan market and is one of the driving forces for lenders in the market to be able to earn adequate income from fees and interest for the industry to remain viable and supply a valuable community service.

Question 16

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

Reply to Question 16

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[29] 'Strategies for reducing reliance on high-cost, short-term, small amount lending', Discussion Paper, April 2012, p.27.

There may be other services that could be included in the hub model such as discussed later in Chapter 6 but NFSF is unable to provide details of any other services which may be complimentary to those proposed to be offered in the hub.

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?

Reply to Question 17

Advantages:

(a) Debt consolidation could be of benefit to individuals where more than one loan is current and an alternative loan package (with lower repayments and/or lower interest and charges) is available to take over the other loans. However, as Geary from Salvos Legals points out, the proposed legislation appears not to allow an individual to take advantage of debt consolidation (even for NILS and LILS loans) because the individual is allowed only one loan at a time and is locked into that loan until paid before being able to access another loan.[30]

Disadvantages:

(a) For individuals to gain access to such debt consolidation schemes, they will need to be referred by a financial counsellor. In this respect it appears not to be available to individuals who know they are struggling even without a financial counsellor pointing it out to them.

(b) The NFSF feels that the need for such schemes will be minimal in the future with the continued application by loan providers of recent Responsible Lending Obligations (RLO) regulations. Further safeguards to consumers suggested by NFSF during discussions regarding the proposed legislation include use of a Protected Earnings Amount (PEA) in determining the amount of loan available to an individual and debt spiral control mechanisms.

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?

Reply to Question 18

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30 ABC Sunday Nights, Sunday, May 20, 2012, Luke Geary on regulating pay-day loan sharks. http://www.abc.net.au/sundaynights/stories/s3507495.htm?site=melbourne

NFSF suggests that such not-for-profit debt advice service could be incorporated into a financial services hub approach as discussed in Chapter 5.

The NFSF is also of the opinion that the need for such debt advice services will be reduced with the continued future application of RLO and could be reduced further if PEA and debt spiral stop mechanisms were to be introduced into legislation. This debt advice service may then be mostly limited to low income earners who have accrued debt through utility and other service providers (e.g., medical) rather than debt in the form of borrowed funds from small loan providers.

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?

Reply to Question 19

A national debt reduction project could be a potential mechanism for the reduction of demand for small amount loans. However, the current project appears to deal with debts incurred by very specific types of benefit recipients who are said to be 'judgement proof', i.e., have very little or no income and no assets.[31] The individuals must be referred by financial counsellors or similar and, up to now, seems to have been limited to basic services including utilities and medical services. The project is only now stating on the front page of their website that 'From **16 April 2012 until 1 June 2012** we are collecting a large number of debts owed to certain debt collectors, credit providers and utilities.'[32]

The current users of this service come from a very narrow, very low or no income demographic (including the homeless) and would be unlikely to be considered for a loan by any licensed lender following current responsible lending obligations. Also, as suggested by NFSF, if a protected earnings amount is built into future legislation, then it is highly unlikely that these individuals would be successful in seeking a loan from the small loan market in the first place.

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[31] The Bulk Debt Negotiation Project, March 2011, D. Nelthorpe and K. Digney, West Heidelberg Community Legal Service.

[32] https://www.bulkdebt.org/Public/HomePage.aspx

Appendix A

Extract of References and Support Research relied upon

Appendix A

Extract of References and Support Research relied upon in
Treasury Discussion Paper – Strategies for Reducing Reliance on Small Amount Credit Contracts

Discussion Paper Page #	Footnote #	Date of Research/Study Referenced
Page ix	1	2011* – *given the necessary time lags in research, reports and papers dated 2011, are most likely dealing with data and information collected prior to that date and therefore not recognising the positive effects of Responsible Lending Obligations under NCCP.
Page ix	2	2011*
Page 1	3 4 5	2011* 2008 2004
Page 1	6	2006
Page 1	7	2011*
Page 1	8	2004
Page 2	9 Whyley (2010) Name appears to not match information in footnote	9 *HMT Financial Inclusion evidence Review: the costs of credit exclusion and the benefits of access to affordable credit*, Financial Inclusion Taskforce
Page 2	10	2010
Page 2	11	2002
Page 3	12	Undated -12 Ellison, Forster, The Dynamics of Low Income Credit Use, undated, p8.
Page 3	13	Undated – 12 Ellison, Forster, The Dynamics of Low Income Credit Use, undated, p8.
Page 3	14	2008
Page 3	Material referenced but no Footnote or date details - "Data provided by Cash Stop quoting Smiles Turner research"	Footnote and date missing
Page 3	15 – text refers to Australian research but not matched in footnote	Footnote 15 refers to 15 The Regulation of Short Term, Small Amount Finance, Regulation Impact Statement, June 2011 – page 15.
Page 3	Referenced but no footnote (Connolly, 2011; Chant Link, 2004).	Footnote missing
Page 4	16	2010
Page 4	17	2010
Page 4	18	2000
Page 4	19	2000

Appendix A

Page 4	20	Date Missing
Page 4	21	2009
Page 5	22	2010
Page 5	23	2006
Page 5	24	2010
Page 5	25	2008
Page 5	26	2008
Page 9	27	2011*
Page 11	No footnote for reference to CALC paper	2010
Page 22	References made to US and UK situation but no footnotes	No dates or referenced work
Page 23	28	2009
Page 28	29	2011*
Page 29	30	Website reference – no date given: *http://www.infochoice.com.au/personal-loans/unsecured/interest-rate-comparison/*
Page 30	31	2009
Page 30	32	Website reference – no date given: See www.bulkdebt.org
Page 33	33,34,35,36	Information regarding "Existing utility financial assistance programs" – various dates but mostly 2011 – one website but no 'date accessed'
Page 34	37, 38, 39	Information regarding "Existing utility financial assistance programs" – various websites given but no 'date accessed' except for one date of 2011
		Throughout text, many references are made to initiatives and information by and from government (Aust, US, & UK) as well as consumer groups but often no details of documentary evidence/support is provided

Promoting Responsible Consumer Lending

www.nfsf.org.au

Appendix B

A brief exploration of
economic, social, and personal ramifications to customers with
Energy Supply Disconnections

TABLE OF CONTENTS – Appendix B

A brief exploration of
economic, social, and personal ramifications to customers with
Energy Supply Disconnections

Executive summary
Preparation of this exploration was spurred by recent media articles which have reported on the disturbing unexpected increase in the number, and change in type, of households who cannot pay their energy bills to the point where disconnections occur. The purpose of this exploration is not to present accurate, concise figures but to demonstrate that problems exist in the community in relation to residential energy disconnections. It is also to demonstrate that reconnection of these services have a potential impact on customers' economic and social wellbeing, as well as possible personal exclusion.

This exploration shows that, with an estimated 80,731 households being disconnected from electricity and gas services each year in Australia, it should be expected that residential energy customers seek access to credit to maintain essential energy supplies when the hardship, instalment and payment programs provided by the energy suppliers fail to deliver the much touted protection to these customers.

Furthermore, this exploration will demonstrate why it may be a better option to access short-term credit to maintain these vital energy services rather than risk suffering economic and social wellbeing penalties, and possible personal exclusion resulting from disconnection and reconnection of these energy services.

Introduction
Access to domestic electricity and gas supplies is considered a basic necessity for most Australians. Yet there are thousands of Australians each year who lose access to this basic necessity due to non-payment. These disconnections occur despite payment and instalment plans that are set in place and designed to support struggling and disadvantaged energy users.

This brief exploration will examine publically available information on the internet. Firstly, two media articles are examined which describe disturbing developments in the residential energy supply industry regarding an increase in the number, and change in type, of households which suffer energy disconnections. Then an examination is made of possible supplier programs which are available to assist customers who struggle to pay their energy bills as well as other types of assistance that might be available. This is followed by a discussion on how these schemes can nevertheless still mean that a residential customer will have their energy supplies disconnected.

An examination is then made of the penalties and ramifications of the reconnection process. Then an endeavour is made to put a number on how many disconnections happen each year and how this can be extrapolated to determine an estimate of annual disconnections nationally.

Finally, a brief examination is made as to how this problem goes beyond the actual disconnections and draws conclusions about the supplier assistance programs and the associated ramifications of these programs.

Disturbing developments in the energy supply industry

Two recent media articles[1] describe disturbing developments in the residential energy supply industry. In September 2011, an article in the Courier Mail reported that the number of Queensland households that had electricity disconnected due to non-payment rose 38 per cent in 2011. (CM 2011) The article, which reported on newly released figures for electricity supply to Queensland households, stated that '25,000 had their electricity cut off for non-payment in 2010-2011, compared with just under 18,000 the year before'. (CM 2011)

This trend was echoed in an article in July 2011 in the Sydney Morning Herald on the New South Wales gas and electricity supply industry which warned of an expected 'increase in disconnections in the current financial year because of "price pressures"' (SMH 2011) although the article also reported that there actually had been a decrease in the number of disconnections in 2009-10 compared to 2007-08. This Sydney Morning Herald article further reported on another disturbing trend in that there had been a change in the type of household suffering disconnections. The article reports:

> 'PEOPLE who work, and not pensioners, the unemployed and students, are the new group who face having their electricity disconnected in NSW.
>
> Both the NSW Energy and Water Ombudsman and the Public Interest Advocacy Centre report that working people are increasingly facing disconnection, and it is a trend that would get worse.
>
> The Energy and Water Ombudsman, Clare Petre, said consumer anxiety was high.' (SMH 2011)

[1] Only two media articles were chosen for discussion from many other such recent articles which are easily accessible on the internet.

This article further commented that '...working people were vulnerable to disconnection because they were less likely to qualify for low-income rebates.' (SMH 2011)

This evidence for lack of assistance to working households is supported by a comparison of other comments within both of these media articles. The SMH article reports comments by Energy Minister (Qld), Chris Hartcher that payment assistance vouchers were available to people needing 'emergency assistance to pay their bills'. When compared to a comment in the CM article where 'QCOSS([2]) is calling for electricity concessions that apply currently to pensioners to be extended to all low-income earners who have a healthcare card' (CM 2011 [parenthesis and footnote added]), it appears that the workers caught in this emerging trend may not be sufficiently catered for in energy assistance and concessions schemes.

These disturbing trends warrant an investigation as to how Australian households can be protected from energy disconnections and the ramifications which ensue when reconnections are attempted.

Supplier assistance to pay

On a national basis, it is reasonable to assume that instalment and payment assistance plans for residential customers would be similar to those set out in a reporting guide prepared by the Economic Regulation Authority Western Australia (ERAWA) titled "Electricity Retail Licence Performance Reporting Handbook" (2011). While this particular guide is for reporting indicators for Western Australia and the electricity supply industry, it appears reasonably safe to assume that similar reporting guidelines are set out for other Australian states and other residential energy suppliers, such as gas suppliers.

In the ERAWA reporting guide, under the heading of Affordability and Access, a list of specific indicators is given which form the basis of reporting on instalment and payment assistance plans. (ERAWA 2011, p6). These reporting guidelines indicate that there are (at least) four types of instalment and payment assistance programs available. These are as follows:

- an instalment plan used to pay both account arrears and continued usage;
- an extension of time to pay bill;
- a shortened billing cycle (to make smaller regular payments more often); and
- a direct debit plan/facility.

[2] QCOSS (Queensland Council of Social Service)

Other assistance by suppliers

There are other ways in which an energy supplier can assist if the customer is having trouble in paying for their energy consumption. For example, according to the Energy Water Ombudsman Queensland (EWOQ) website, the residential customer may be offered:

- access to a financial hardship program;
- information on independent financial counselling; or
- an energy usage audit to identify where the customer could save money. (EWOQ 2011)

Financial hardship programs could include assistance vouchers in the form of low-income rebates (SMH 2011). However, it appears that these vouchers/rebates may only be available to (at best) ‘low-income earners who have a healthcare card’ (CM 2011) and therefore will not address the growing number of disconnections to households which have paid income (SMH 2011). This means that workers will not have access to emergency assistance when they need it to pay their energy bills.

Disconnections still occur

Despite these identified assistance schemes disconnections still occur. The ERAWA handbook, under the heading of Disconnections for Non-Payment, further sets out the reporting indicators for this section to be those residential customers who:

- have been disconnected for failure to pay an energy bill;
- have been disconnected and previously the subject of an instalment plan;
- have been disconnected at the same supply address within the past 24 months;
- have been disconnected while receiving a concession. (ERAWA 2011, p8).

The SMH article reports that, in Queensland, ‘About 8 per cent of residential customers who were disconnected in 2009-10 were disconnected more than once’ (SMH 2011).

So with the best of intentions in making payment and instalment plans and other avenues of keeping the energy supply open when a customer is struggling to pay a bill, there are still customers who have their energy supply cut off. **A disturbing trend has been identified (SMH 2011) that these unfortunate customers are increasingly found in households which have income from paid employment and not just those which have income as pensioners, unemployed or students**.

Making reconnections

The ERAWA guide also goes on to discuss indicators for retail reconnections such as customers who have been reconnected:

- following a disconnection for failure to pay a bill;
- within 7 days of disconnection and in the same name and at the same supply address; and
- among groups such as those who had previously been on an instalment plan and those in receipt of a concession. (ERAWA 2011, p10).

A requirement to report on these reconnection indicators infers that, even with the best of intentions and social benefit factors included:

(1) not all disconnections are reconnected;
(2) not all disconnections are reconnected in the same name and/or address;
(3) not all disconnections can be reconnected within 7 days of the disconnection; and
(4) any forced disconnections for whatever reason will have economic and social wellbeing ramifications for the customers involved. Even one day without electricity can spoil a family's food purchases because of non-refrigeration and cause health problems for example when no heating is available in very cold weather.

Reconnection Penalties

Apart from general economic and social wellbeing ramifications as in point 4 above, it is also possible that some sort of penalty or embargo is placed on an account by a supplier to enable reconnection to occur. For instance, the EWOQ website warns:

> 'Contact your retailer straight away if you can't afford to pay your bill....If you wait until you have been disconnected to contact your retailer **you may have to pay a reconnection fee, security desposit (sic) and the balance of your bill before reconnection'**. (emphasis added) (EWOQ 2011).

Another, more obvious 'penalty' before a reconnection can occur would be that the person whose name is registered as the **account owner is personally excluded from having a reconnection done** and that an account reconnection at the same address would have to be done in a different name (see point 2 above). This could cause significant problems if the household was a one-parent or one-person household. Arrangements would have to be made to find a relative or friend who would consent to have their name on the energy account so that supply could continue to that particular address.

Summary of possible penalties
- payment of reconnection fee;
- payment of a security deposit;
- payment of balance owing before reconnection can occur; and
- account owner personally excluded from being reconnected.

How many disconnections happen each year?

A report on electricity usage in New South Wales put out by Independent Pricing and Regulatory Tribunal (IPART) examines "Electricity retail businesses' performance against customer service indicators in NSW for the period 1 July 2006 to 30 June 2010". This report contains the following warning to electricity suppliers regarding disconnections to retail customers:

> "Disconnections for non-payment of bills
> Disconnection of essential services is expensive for both the consumer and the provider. It creates further hardship for consumers who are already experiencing financial difficulties. In March 2010, new licence obligations were imposed on energy retail suppliers to develop and implement customer hardship charters and ensure customers experiencing financial difficulties have access to payment plans. It is too early to determine the effectiveness of these new obligations. However, we note that despite electricity price rises the reported number of customers disconnected for non-payment of bills is at its lowest level over the last 5 year period and has remained constant in percentage terms over the last 3 years. With further electricity price rises expected in the next few years, all energy retailers will need to maintain their focus on providing assistance to customers experiencing financial difficulties." (IPART 2011a, p 6).

An extract of figures from Table 3.1 from this report is produced below:

Table 3.1 Total residential and non-residential disconnections for non-payment of **electricity** bills in NSW

Type of Customer	2005/06	2006/07	2007/08	2008/09	2009/10
Residential **(electricity)**	24,056	18,339	18,153	18,168	15,835
As % of residential custs	0.9%	0.7%	0.6%	0.6%	0.6%

(IPART 2011a, p 6).

These figures indicate that 24,056 of residential customers had their electricity supply disconnected in 2005/06 but that this number had reduced to 15,835 in 2009/10. In percentage terms of total residential electricity customers these figures represent a drop from 0.9% in 2005/06 to 0.6% in 2009/10.

Similar figures are available (see extract below) from a similar IPART report for gas retail customers with disconnections having a higher percentage rate to total residential customers compared to disconnections in the electricity industry. An examination of residential disconnection figures for the gas industry show a decrease from 19,781 (2.1%) in 2005/06 to 14,811 (1.4%) in 2009/10.

Table 3.1 Total residential and non-residential disconnections for non-payment of **gas** bills in NSW

Type of Customer	2005/06	2006/07	2007/08	2008/09	2009/10
Residential **(gas)**	19,781	22,707	19,441	12,633	14,811
As % of residential custs	2.1%	2.3%	1.9%	1.3%	1.4%

(IPART 2011b, p 6).

Using the 2009/10 number and percentage figures for electricity and gas, a number and percentage range can be extrapolated for combined electricity/gas customers who have had their supply disconnected. The simple average of these figures is 15,323[3] customers or 1%[4] of total residential energy customers in NSW in 2009/2010.

Annual disconnections extrapolated nationally

Determining an estimated national figure for the total number of electricity and gas customer disconnections per year is difficult because of:

- the number of states involved;
- the different levels of usage of gas compared to electricity in each state; and
- the lack of publically available current figures.

However, an estimate can be made by extrapolating the above figures for NSW and the number of national households taken from the Australian Bureau of Statistics.

The number of households nationally in 2006 was 7,780,000 and there was a projection of 8,498,000 households in 2011 (ABS 2010). It must be acknowledged that not all of these national households would use electricity or gas supplies as their household energy source. Other energy sources used (either as an alternative or as a supplement to retail electricity and gas supplies) could be one or more of solar power, wind power, or petrol generation power.

[3] Average number of residential disconnected customers in NSW in 2009/2010 ((15,835+14,811)/2)) = 15,323
[4] Average percentage of total residential disconnected customers in NSW in 2009/2010 ((0.6%+1.4%)/2)) = 1%

In the absence of public data on the number of households currently using these alternative energy sources (households also could be using a combination of alternative sources and/or mains electricity and gas), if an educated guess of 5% is applied to the above household numbers then these household numbers using retail electricity and gas supplies fall to 7,391,000 for 2006[5] and a projection of 8,073,100 for 2011[6].

Using the simplified average figure of 1% calculated from the NSW figures above, an **estimated annual number of national households which have energy supplies disconnected is:**

- **73,910 (2006)[7]; and**
- **80,731 (2011)[8].**

Given the amount of extrapolation needed to get to these figures, the figure of 80,731 for 2011 is at best a broad estimate but it does serve to illustrate that there:

(1) are potentially 80,731 residential energy customers per year who may consider seeking out a payday loan to stop the process of energy disconnection; and

(2) will have been many thousands more nationally who, by seeking out a payday loan, managed to keep their energy connections. from becoming a statistic for disconnection and paying penalties (e.g., economic and social wellbeing, and possible personal exclusion) for reconnections.

More than just the actual disconnections

As discussed above, this estimated figure does not speak to all of the many thousands of residential energy customers who already seek a payday loan to stop disconnection or who do not wish to approach a charity where it may be seen as 'begging' for money to pay their bills.

With NILS and LILS loans provided by charities, consumer advocacy groups and others taking up to 3 weeks to go from application to approval, and the low number of loans actually available through these schemes or only available for specific items like new whitegoods, there appears to be a huge shortfall in access to credit for energy customers who do not wish to suffer disconnection of their energy supplies.

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[5] Calculated estimate of number of Australian households not using alternative energy sources in 2006 is 7,391,000 (95% x 7,780,000).

[6] Calculated estimate of households not using alternative energy sources based on projection of number of Australian households in 2011 is 8,073,100 (95% x 8,498,000).

[7] Estimated annual number of disconnected Australian households in 2006 is 73,910 (7,391,000 x 1%).

[8] Estimated annual projected number of disconnected Australian households in 2011 is 80,731 (8,073,100 x 1%).

The monetary, social wellbeing, and personal exclusion penalties revealed in this exploration appear to indicate that an energy customer could conceivably go to significant lengths, such as getting a payday loan, to keep the energy supply connected. The interest and charges on a payday loan could be a much better option compared to the penalties and personal embargoes applied for reconnection to an energy supply.

Conclusion

The purpose of this exploration is not to present accurate, concise figures but to demonstrate that problems exist in the community in relation to energy disconnections. It is also to demonstrate that these problems include economic, and social wellbeing impacts as well as possible personal exclusion and that the ramifications of these impacts from disconnection could conceivably warrant the choice of using a payday loan. The choice of a payday loan would ensure continued supply rather than suffer the alternative economic, and social wellbeing impacts and possible personal exclusion, which could potentially result from the disconnection/reconnection issues, penalties, and embargoes of energy supply to residential customers.

This exploration has demonstrated that an estimated 80,731 households are being disconnected from electricity and gas services each year in Australia. It has also demonstrated that there is a growing disturbing trend for those households suffering energy disconnections increasingly to be found in households with paid income as opposed to traditionally only in households with pensions and other social support payments. Consequently, it should be expected that customers seek access to credit to maintain essential energy supplies when the hardship programs fail to deliver the much touted protection to these customers.

Furthermore, this exploration also demonstrated why it is a better option to access short-term credit to maintain these vital energy services rather than risk suffering the economic and social wellbeing penalties, and possible personal exclusion, of disconnection and reconnection of these energy services.

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Media Articles

1 – SMH - Workers can't pay power bills

2 – COURIER MAIL
Numb of Qld households that had elect disconnected rose 38 per cent

Number of Queensland households that had electricity disconnected due to non-payment rose 38 per cent in 2011

Source Link:
http://www.couriermail.com.au/news/queensland/number-of-queensland-households-that-had-electricity-disconnected-due-to-non-payment-rose-38-per-cent-in-2011/story-e6freoof-1226144858803

COURIER MAIL

- From: *AAP*
- September 24, 201112:00AM

THE number of Queensland households that had their electricity disconnected because they couldn't pay their bills rose 38 per cent in the past financial year, latest figures show.

The Queensland Competition Authority's hardship statistics for the last quarter was released this month.

Taken with previous reports, the latest publication reveals 25,000 had their electricity cut off for non-payment in 2010-2011, compared with just under 18,000 the year before.

The Queensland Council of Social Service (QCOSS) says the skyrocketing cost of essentials, including electricity, is driving the trend.

"Consumer price index has increased by 19 per cent over the last five years but over that same period of time electricity's gone up by 63 per cent, public transport's gone up by 48 per cent, insurance has gone up by 40 per cent, rents have gone up by 35 per cent, and food's gone up by 23 per cent," QCOSS director Mark Henly told AAP.

"So what we're finding is it's the cost of essentials that are the ones that are spiralling at a far greater rate than other costs out there in the community and these are all the ones that are basic essentials that people need to rely on day to day."

He said the number of disconnections could be reduced if more people sought to join hardship programs through their electricity provider.

Many don't even know the programs exist, he said.

"We're saying to consumers, make sure you ask about what's available, make sure that you inform people if you are experiencing issues around financial capability in relation to paying for electricity.

Number of Queensland households that had electricity disconnected due to non-payment rose 38 per cent in 2011

"And we're also saying to retailers make sure that you let people know what programs are available so they're best supported."

QCOSS is also calling for electricity concessions that apply currently to pensioners to be extended to all low-income earners who have a healthcare card.

"This is done is other states and is a far more equitable system," he said.

Workers can't pay power bills

Alicia Wood
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Source: http://www.smh.com.au/nsw/workers-cant-pay-power-bills-20110730-1i5e7.html

PEOPLE who work, and not pensioners, the unemployed and students, are the new group who face having their electricity disconnected in NSW.

Both the NSW Energy and Water Ombudsman and the Public Interest Advocacy Centre report that working people are increasingly facing disconnection, and it is a trend that would get worse.

The Energy and Water Ombudsman, Clare Petre, said consumer anxiety was high.

"This is a group of people who work but are on low incomes and are so financially stretched that they have no financial flexibility to deal with any increases," she said.

Although the profile of people who have utilities disconnected is changing, the rate of gas and electricity disconnection in NSW is decreasing.

Figures from the Independent Pricing and Regulatory Tribunal (IPART) show that in the 2009-10 financial year, 30,646 people in the state had their gas and electricity disconnected, compared with 37,594 in 2007-08. About 8 per cent of residential customers who were disconnected in 2009-10 were disconnected more than once.

But in the past six months, the Ombudsman has seen a 5 per cent increase in the number of people who have called and said they were facing disconnection, compared with the same period last year.

Carolyn Hodge, the senior policy officer at the Public Interest Advocacy Centre, said she expected an increase in disconnections in the current financial year because of "price pressures".

She said working people were vulnerable to disconnection because they were less likely to qualify for low-income rebates.

The Energy Minister, Chris Hartcher, said that the government provided Energy Accounts Payment Assistance vouchers to people who needed emergency assistance to pay their bills, and he would make sure fewer people were forcibly disconnected from utilities in future.

"We are doing everything we can to reduce the impact of power price rises and prevent massive increases in the future, including reducing instances of disconnected utilities," he said.

IPART predicted residential customers would pay between $4 and $6 a week more for electricity from July 1.

Energy companies must contact a customer at least twice before disconnection and propose a suitable payment plan.