



# **Review of Australia's Consumer Policy Framework**

**Submission by**

**Cash Converters International Ltd**

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## **Introduction**

Cash Converters supports the thrust of the Productivity Commission Draft Report and in particular the recommendations to bring the responsibility for regulating credit providers under a national regime with administration by Australian Securities and Investment Commission (ASIC).

It also supports the retention of an appropriately modified Uniform Consumer Credit Code (UCCC) to enhance consumer protection and maintain the viability of businesses to operate under this code.

## **Background**

Cash Converters is the industry leader in second-hand goods retailing, pawnbroking and the provision of a range of short term loans in Australia and internationally.

Cash Converters is an Australian franchise operation with its origins and head office in Perth. As a public company, listed on both the Australian and London Stock Exchanges, Cash Converters complies with the highest standards of corporate governance and ethical conduct, and is an exemplary corporate citizen.

Some eight years ago Cash Converters identified a need in the “small dollar” short-term loans sector and saw an opportunity to provide, via our franchised network, a service to borrowers that is no longer available in the mainstream credit market. This was in response to mainstream lenders withdrawing their services from this segment of the community because they were not prepared to offer high risk, high cost, and low return loans on small amounts.

Australia wide, Cash Converters provides small dollar, short-term loans (commonly referred to as pay-day loans) to hundreds of thousands of Australians each year. Each franchise is a small business, owned and operated by a franchisee, often a family business. On average, each store employs 13 staff.

Our customers value this credit facility and we work closely with our customers to ensure there is maximum satisfaction in meeting their short term financial needs with minimum risk for them and our franchises.

## **Cash Advance: Cash Converters Pay-Day Loan Product**

*Cash Advance*, a payday loan, is an advance against income that provides a solution for customers' short-term cash needs. The average loan amount is \$250 and the scheduled length of the loan is 30 days. A repayment plan is agreed to and a direct debit is arranged to provide efficiency.

The loan is unsecured, convenient and provided in a professional way within a safe and comfortable environment. The documentation and process is designed to comply with legislation and the UCCC. The cost of providing the loan is set to provide affordability for customers, viability for businesses and to be competitive in the marketplace.

Key points in regard to Cash Converters payday lending practices are:

- **We do not require security to be provided by our customers.**

This removes concerns regarding small loans requiring high value security, repossession tactics and excessive repossession fees. There is simply no commercial value in allowing our customers to over-commit. We do not support the practice of payday loan providers taking security over customer possessions. There is no security taken or lien on goods.

- **The scheduled period of a payday loan is 30 days.**

A customer can pay early with no additional costs. If a customer requires more time to repay their loan, there is no compounding of the initial fees over time and any "interest", fees or charges are for the term of the loan, regardless of the time taken for consumers to fulfill their obligations.

- **Our system is internet based allowing stores across Australia to access records.**

Our operators can connect to the entire network of Cash Converters stores, which prevents customers entering a number of our stores and taking out multiple loans without our knowledge and becoming over committed.

- **We have a robust process for assessing a customers' capacity to repay and do not allow customers to exceed this, thus preventing debt spiral.**

Our *Cash Advance* loans are offered via the Cash Converters franchised network. With over 130 stores in Australia this is an extensive network of small businesses providing a needed and valued credit facility to the communities they are located in.

## **Working with Government**

Cash Converters has received numerous awards from industry bodies as well as receiving many commendations and thanks from regulatory authorities and police forces. We have worked closely with Government throughout Australia for over 20 years addressing regulatory issues and community concerns that have arisen from time to time.

We continue to work very closely with various State and National Government institutions to assist with the shaping of legislation and regulation that governs our industry. Our extensive experience in this specialised industry means we can provide constructive information to assist Government in formulating effective, efficient and enforceable legislation and regulation improvement for consumers and businesses.

## **Analysis of State-based Consumer Credit Reviews**

Cash Converters has indicated and provided strong support for all the State consumer credit reviews and has undertaken extensive independent consumer consultation to provide Government with information to assist in formulating a sound regulatory outcome. This has included Parliamentary Petitions, international research outcomes, extensive market research of low income households in Australia, customer testimonials and business owners concerns voiced to their MP's.

Cash Converters has worked with four separate State Governments on their individual reviews of consumer credit laws – each with different approaches, consultation phases and timelines. The primary tool of market regulation cited by state governments is the 48%pa cap inclusive of fees and charges. For a one month Cash Advance loan this equates to a return of less than 4%, making the service unviable.

The following is our analysis of each of these experiences:

- **New South Wales/ACT**

The NSW Government introduced changes to the UCCC in relation to maximum interest rates with Special Provisions Regulation in 2002 and re-instated these amendments in September 2007. This regulation introduced a maximum interest rate of 48%pa inclusive of all fees and charges. There was little consultation with industry or consumers.

The immediate effect of this legislation was that providers of pay-day lending stopped providing the service under the UCCC. The changes have had little effect on rogue elements within the industry, and consequently the vulnerable or disadvantaged remain exposed.

- **Victoria**

Under a consultative approach with invitations for consumers, consumer representative groups and industry to provide submissions, the Victorian Government achieved a balance between consumer protection and continued viability of a valuable community credit facility by implementing a 48%pa cap not inclusive of fees and charges.

Public forums were conducted in metro Melbourne as well as regional centres for opinion, input and public consultation. Recommendations were published and opinion was sought on the workability of proposed changes. The final outcome included a raft of recommendations to the MCCA for future implementation to further strengthen consumer protection.

- **Queensland**

The Government's Discussion Paper recommended that a balance needed to be achieved between providing improved consumer protection and the maintenance of industry viability. In its current form, the Queensland Government's draft legislation would effectively prevent Cash Converters and other reputable micro-lenders from operating under the UCCC.

Consultation with the Queensland Government is continuing to ensure we can continue to provide Queenslanders with low dollar short term credit under the UCCC protection.

- **South Australia**

Submissions in response to a Discussion Paper were invited however there has been no public or consumer specific consultation process outside of this. Whilst no draft Regulation has been tabled in South Australia the Minister has publicly supported a regime of an interest rate, fees and charges cap.

To the various State Government consumer credit reviews, Cash Converters has made the following recommendations:

- Introduction of licensing and/or registration of all credit providers. In addition, an associated license or registration fee to enable the industry to be self-funded in administration and enforcement.
- Appointment of an Alternative Dispute Resolution Scheme (ADR).
- Administration of improved enforcement through State authorities.
- Establishment of effective education and information facilities for consumers and industry to improve knowledge of obligations and responsibilities.
- Introduction of targeted programmes for recognised vulnerable and/or disadvantaged people to ensure there is no credit exclusion. (In Victoria there was a specific commitment of budget to these consumers as an outcome of the review.)
- Achieving national consistency of regulation which offers the potential to:
  - reduce the enormous duplication of resources and effort and costs by Government and industry in consultation within each state;
  - avoid compromising industry efficiency; and
  - allow streamlined regulations and approaches to compliance.

Consumers will also benefit from a clearer, efficient and consistent application of UCCC.

## **Cash Converters Experience**

There are predatory practices in the short-term loan industry and it is necessary for the Government to address this issue, however, the approach being taken is a very narrow viewpoint that is reactionary to a number of extreme examples of unconscionable lending practices. This reaction will result in the scooping up of all responsible lenders in a "solution" to the problem, but in doing so will create a credit vacuum to the detriment of a large number of Australians.

Importantly the very people the changes were focused on protecting will be worse off. Consultation has been uneven and possibly prejudicial with major industry providers, and consumers, not being adequately engaged in consultation. Research has not been extensive in considering the international experience in fringe and pay-day lending.

## **Conclusion**

Cash Converters supports the recommendation (Chapter 5) of the Draft Report in relation to industry specific consumer regulation and believe a National responsibility for regulation of credit provision will provide a better outcome for all Australians regardless of State borders.

We are keen to co-operate in the gathering of more empirical data and research to assist Government in continuing to refine regulation and formulate soundly based policy taking into account industry trends and changing consumer environments.

The impact of credit exclusion is clearly highlighted in international research. In markets where access to credit is reduced or eliminated for those who need it most, such a credit vacuum leads to credit and ultimately social exclusion; a rise in indebtedness; a rise in the level of default including utilities, as well as the rapid rise of an illegal lending industry.

We have real concerns for our hundreds of thousands of customers, business owners and their employees if the current trend by State Governments continues.

There needs to be further discussion on capping as a means of enhancing consumer protection with key industry representatives in order to provide a workable solution that meets the uniformity sought by the intention of the UCCC.

We would like to request an opportunity to make a presentation at a future public hearing and provide details of independent Australian research of low income Australians, and results of extensive international research covering UK, Germany, France and USA on the issue of micro-credit provision.

### **Ian Day**

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Cash Converters