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AUSTRALIAN
RETAIL
CREDIT
ASSOCIATION

Committee Secretary

Senate Economics Committee

By email only:

21 February 2020

Dear

Submission by the Australian Retail Credit Association (ARCA) - National Consumer Credit Protection Amendment (Small Amount Credit Contract and Consumer Lease Reforms) Bill 2019 (No. 2) – Senate Economics Committee Inquiry (SACC & Consumer Lease Reforms Inquiry)

Thank you for your invitation to make a submission in respect to the SACC & Consumer Lease Reforms Inquiry.

ARCA is the peak industry association for businesses using consumer information for risk and credit management. Our Members include Australia's leading banks, credit unions, finance companies, fintechs, and credit reporting bodies. Collectively, ARCA's Members account for well over 95% of all consumer lending in Australia.

ARCA Members have been at the forefront of reform which supports the use of data to enable better credit decisions. This data has included both comprehensive credit reporting (CCR) information, and in the future will include open banking data. Making information about an individual's financial situation more transparent and readily available to potential and existing lenders reduces the risk that consumers will become over-indebted, strengthens lenders' ability to meet their responsible lending obligations, makes credit more accessible, as well as reducing the overall cost of lending.

Given the findings of the Independent Review of the Small Amount Credit Contract Laws we consider that additional reform is warranted to strengthen consumer protections. We agree with the Panel Members who conducted that review, that the "laws applying to SACCs and consumer lease providers should be designed in a way that promotes financial inclusion and attempts to protect consumers from descending into a spiral of financial exclusion"[1].

[1] Page v, Review of the small amount credit contracts law - Final Report (March 2016)

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While we appreciate that many organisations within the SACC and consumer lease sector seek to promote responsible lending within this sector, we also have concerns that others appear to adopt predatory practices, which may result in vulnerable consumers becoming seriously over-indebted and trapped in a cycle of debt. In this regard, we support reforms which would reduce the risk that a SACC or consumer lease is not the appropriate product for the consumer or is provided to a consumer who cannot afford it (such as the proposal to set a protected earnings amount for SACCs and consumer leases, as well as the requirements for equal repayments and the prohibition on charging fees where the balance is repaid early).

We also note that the 2016 Review recommended against the creation of a national database of SACC, in order to provide time for the comprehensive credit reporting (CCR) regime to be fully implemented. Since then CCR has made considerable progress, with 36 credit providers accounting for well over 90% of all credit accounts in Australia now participating in CCR.

Given CCR both protects consumers from over-indebtedness and strengthens responsible lending practices, there is a risk that higher risk and more vulnerable consumers migrate to credit providers who have chosen not to participate in CCR. In this respect we have observed that there is limited participation in CCR from the SACC and consumer lease sector compared to other industry sectors.

We consider the SACC and consumer lease sector could benefit from greater utilisation of the credit reporting system, including the use and disclosure of CCR data to support its decision-making. The disclosure of CCR data by this sector will, in many respects, promote positive payment behaviour by customers as it provides a record of repayments. This enables customers within the SACC and consumer lease exhibiting positive behaviour to bolster their creditworthiness, and, where necessary and appropriate, seek access to credit facilities from more mainstream lenders on better terms. Access to mainstream lenders will be more difficult if SACC and consumer lease users are less visible in the credit reporting system.

We would welcome the opportunity to discuss this submission further. Please contact our Legal & Regulatory Affairs Manager, Elsa Markula with any queries.

Yours sincerely

Mike Laing

Chief Executive Officer

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