Brotherhood of St Laurence
Working for an Australia free of poverty

The Stewardship Principle: how Australia's financial industry can better serve the needs of low-income and vulnerable consumers

A submission to the Commonwealth Government's Financial System Inquiry

Brotherhood of St Laurence

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Summary

Since its establishment in Melbourne in the 1930s the Brotherhood of St Laurence has researched the causes of poverty and advocated policy reforms and initiatives to redress the impact on low-income and vulnerable Australians.

Over the past decade the Brotherhood has partnered ANZ in developing the Saver Plus matched savings program, now recognised as one of the most successful and longest-running schemes of its kind in the world. Research undertaken into the program demonstrates the value of collaboration as a means of building a more resilient community.

The Brotherhood submission to the Australian Government's Financial System Inquiry focuses on the fourth Term of Reference, namely the obligation on the Inquiry Panel to identify policy options that 'promote the efficient allocation of capital and cost efficient access and service for users' and 'meet the needs of users with appropriate financial products and services.' To this end the Brotherhood contends that the recent rapid growth in high-cost fringe lending reflects a lack of mainstream products and services able to meet the reasonable needs of consumers, particularly low-income consumers, in a dynamic economy. This shortage of products and services is an unfortunate reality in 2014 which, if not addressed, will continue to impose unreasonable costs on vulnerable Australians, impede their full economic and social participation and make many of them more reliant on welfare support than would otherwise be the case.

The Brotherhood is not seeking a heavy-handed regulatory response to the problem identified in this submission. A more constructive option exists that would enable government, the financial services industry and the welfare sector to contribute their expertise and help develop low cost solutions. The establishment of an industry Stewardship Principle within the Australian financial system represents the basis upon which this future tripartite commitment can be based.

1 The Brotherhood of St Laurence

The Brotherhood of St Laurence (BSL) is an independent non-government organisation with strong community links that has been working to reduce poverty in Australia since the 1930s. Based in Melbourne, but with a national profile, the Brotherhood continues to fight for an Australia free of poverty. We undertake research, service development and delivery, and advocacy with the objective of addressing unmet needs and translating the understandings gained into new policies, new programs and practices for implementation by government and others.

2 Introduction

Financial inclusion and inclusive growth

Deregulation of financial markets has deeply changed the institutional frameworks within which we manage our finances and financial risks are now borne by a much wider group of Australians than in the past. Individuals now need to continuously develop their financial knowledge and money management skills. This need for development is occurring in an environment of information disparities and gaps and constantly changing information. Financial capability (adequate incomes, financial literacy, financial autonomy and access to financial services) is essential to socially just economic growth, bolstering both productivity and material consumption. However, increasing income and wealth inequality in Australia is hampering the ability of all Australians to create and share in prosperity.

In recognition of the importance financial inclusion plays in shaping life's opportunities, particularly for those experiencing low income and disadvantage, the Brotherhood of St Laurence is involved in a number of activities to:

- enable those facing persistent financial hardship to move into more secure and stable financial situations and reduce rising inequality in income and assets
- address barriers to accumulation of assets, for example savings and superannuation, that are of growing importance as we live longer
- expand and strengthen financial safety nets for people facing adverse financial situations
- improve access to fair and adequate mainstream financial services
- address the lack of appropriate and accessible financial information to navigate both predictable and unpredictable life transitions.

However, more needs to be done to ensure all Australians are able to participate and benefit.

The Brotherhood's financial inclusion work

Our Financial Inclusion department is currently involved in a range of programs:

Saver Plus is a matched savings asset building program designed by ANZ and the Brotherhood of St Laurence a decade ago. The program now operates across 60 sites and has been demonstrated to achieve outstanding results in forming saving habits amongst clients and their children and raising self-esteem. The program is funded by the Commonwealth Department of Social Services (previously Families, Housing, Community Services and Indigenous Affairs (FaHCSIA)) and ANZ. The Brotherhood delivers Saver Plus directly in Frankston, Brunswick, Craigieburn and Pakenham. The Smith Family, the Benevolent Society and Berry Street partner the Brotherhood in delivering the program at numerous other locations around Australia. Current funding at $6.5 million per annum continues to mid-2015.

Developed by ANZ, **Money Minded** is an adult financial literacy program designed to help educate people to make informed choices about their money. The Brotherhood delivers the popular Money Minded Facilitator Training monthly to community workers as well as tailored workshops for participants in Brotherhood programs

The Brotherhood continues to offer small loans for personal items under Good Shepherd Microfinance's **No Interest Loan Scheme (NILS)** which is primarily a volunteer-based service. In 2013 some 50 loans were issued, predominantly in the Frankston region. The Brotherhood plans to expand its NILS service through 2014.

We are piloting an **Aged Care Financial Health Worker Program** that provides financial information, tools and resources to Brotherhood clients, their carers and aged care staff through a Financial Health Worker. The service has been developed out of recognition that an increasing number of older Australians, many of whom live alone, experience difficulty with managing their financial interests.

The Brotherhood has also commenced a new **Home Energy Efficiency Upgrade Program** which aims to upgrade 1400 home hot water systems to more efficient options over three years. The program is funded by the Commonwealth Department of Resources Energy and Tourism (DRET) and is jointly managed by the Brotherhood's Equity and Climate Change and Financial Inclusion departments. Participants will be able to access Commonwealth Government subsidies for appliance upgrades as well as a No Interest Loan to support their contribution. Through this program we aim to develop a better understanding of the information and capital needed to encourage lower income Australians to choose more energy and cost efficient hot water service options.

3 Financial exclusion in Australia today

Financial exclusion is generally defined as the inability of an adult to access a reasonable range of mainstream financial services necessary for economic participation and the social participation that this both permits and accompanies. Notwithstanding the strengths of Australia's financial system, a significant number of Australians enjoy only limited access to its products and services. One way of measuring access has been formulated by the National Australia Bank (NAB), which in recent years has developed three criteria: access to a transaction account, credit card and general insurance. According to the NAB:

> Around 17.7% of the adult population in Australia were either fully excluded or severely excluded from financial services in 2012. This figure comprises 1.1% of adults who were

> fully excluded (they had no financial services products) and 16.6% of adults who were severely excluded (they only had one financial services product).[1]

A feature of NAB's analysis is that this cohort has not diminished but grown since the previous survey (17.2%).[2]

The NAB report provides a valuable window on the lives and circumstances of Australians. The number of Australians living without access to a credit card may in part be explained by demographics: prior to the 1970s credit cards were not in common use in Australia and many older Australians today still do not see them as a necessity. What is of greater concern to the Brotherhood, however, is the group of Australians without access to either credit cards or transaction accounts. For many of these, the lack of mainstream financial system facilities would impede their day-to-day social and economic participation.

The NAB report indicates that 2.2% of the total population does not have a transaction account or a credit card. This represents a population of 388,234, equivalent to the combined population of Townsville and Hobart, or the entire ACT.[3]

It should also be noted that the NAB report refers only to adult Australians. The inability of almost 400,000 adults Australians to access savings and credit via transaction accounts and credit cards impacts not just on their own lives but also on their dependants. Thus financial exclusion affects a wider group of Australians than those enumerated in the NAB report.

Another useful measure of financial exclusion arises in respect of insurance. Consumers who do not obtain and maintain insurance protection of their assets are more vulnerable to financial shock. Yet a surprisingly high number of Australians are uninsured. The 2011 ANZ Survey of Adult Financial Literacy found that one-quarter of Australians who owned, were purchasing or were renting their properties did not have contents insurance.[4] This finding challenges the preconception that insurance is lacking only among low-income Australians.

Financial exclusion is not confined to a single group of Australians. Research undertaken by the NAB profiles it against different community segments, noting that:

> Some population segments have dramatically higher rates of exclusion, especially young people aged 18–24, students not in employment, people born in a non-English speaking country, and people earning between $20,000 and $25,000 (the working poor). Demand for credit and insurance is likely to be lower amongst 18–24 year olds and students, however their lack of access to mainstream products makes this group vulnerable to predatory lending products and to the loss of uninsured assets.[5]

Industry-related causes of financial exclusion in Australia

Financial exclusion in Australia today does not arise from a single factor. Rather, it is the result of numerous factors, a number of which are detailed below. The Brotherhood of St Laurence believes, that financial exclusion, generally, reflects the failure of Australia's financial system to bring to

[1] Connolly et al. 2013, *Measuring financial exclusion in Australia*, Centre for Social Impact, UNSW for NAB p. 10.
[2] Ibid.
[3] Ibid. (2.2% is the sum of two groups identified in the survey)
[4] ANZ 2011, *ANZ survey of adult financial literacy in Australia*, p. 83.
[5] Connolly et al. 2013, op.cit, p. 7.

market and sustain a sufficient range of products and services to meet the needs of Australian consumers, particularly those on low incomes.

Poor credit rating

Financial exclusion has a number of precursors including an individual's poor credit rating. A 2011 report identified a link between lack of credit card access and fringe sector borrowing. The report noted that of 122 respondents:

> few people had a current credit card (8) and 68 respondents commented that they had a poor credit rating compared to twelve who thought they had a good credit rating.[6]

Australia's leading concessional loans program is the No Interest Loans Scheme (NILS), which grew out of the pioneering work of the Good Shepherd Sisters, and has been designed to accommodate low-income borrowers with bad or no credit ratings. Provided the client can demonstrate a recent history of responsible bill payment (e.g. for utilities) a poor or absent credit rating will not prevent the loan being approved. The NILS scheme does not, however, provide a route back to mainstream borrowing, as successful repayment of the loan does not erase a pre-existing negative credit rating.

Geography

Geography can influence financial exclusion. NILS began in 1981 with $20,000 of loan capital set aside for low-income Collingwood (Vic) residents. In the intervening years more than 125,000 loans have been provided and repaid.[7] Today an extensive network of community providers offer loans of between $300 and $1200, repayable over 12–18 months. Access to the service varies enormously: for example, the service operates at Corrimal in New South Wales for only two hours per week.[8] The inconsistency of access points to an inconvenient truth about the nation's financial system: if, good as it is, NILS is the best on offer to Australia's most vulnerable consumers, are we not permanently consigning them to second-class citizenship? At a time of a global '24/7' financial system, few things define opportunity and exclusion more starkly than only two hours of access per week.

This point is made similarly with respect to NAB's StepUP Loan. The product, available up to $3000, was developed by Good Shepherd Microfinance (GSM) and NAB to assist with larger low-income household purchases and expenses such as car and house repairs, medical care and vocational training. However, StepUP Loans are available at only eight Victorian locations.

Industry indifference

The Brotherhood's contention that exclusion has been exacerbated by the industry's inability to develop and sustain tailored products and services is not an unduly harsh judgement; the industry itself has acknowledged this reality. In some cases the failure is due to indifference as demonstrated by a lack of concerted industry effort to address the shortfall. For example, in commenting on the failure to achieve higher levels of insurance coverage, the NAB acknowledged 'there has been very

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[6] Banks, M 2011, *Caught $hort: exploring the role of small, short-term loans in the lives of Australians. interim report*, p.13.
[7] Good Shepherd Microfinance 2013, *Annual report 2012–13*, p. 10.
[8] Operating hours of NILS providers can be found at <http://goodshepherdmicrofinance.org.au>.

little effort to provide insurance products that are suitable for low income and other disadvantaged groups."[9]

The insurance industry cannot claim that its efforts to grow coverage have been impeded by a lack of knowledge. Successive reports have identified affordability as a key reason why consumers interested in protecting their assets do not purchase policies. In 2001 the NRMA commissioned a survey which found 22 per cent of respondents cited the cost of home building or contents insurance as the reason they did not purchase cover.[10] Surveying one hundred Progress Loans clients a decade later, Collins found 69 per cent cited unaffordability as the reason they did not have more insurance cover.[11] Notwithstanding this, insurers have designed their products in ways which discourage take-up by lower income consumers; RACV contents policies, for example, cost 20 per cent more if paid by monthly instalments. Furthermore, the insurer recently advised that ‘it is most likely we would not provide contents insurance for $5,000 or $10,000’.[12]

Recognising and responding to changing market needs

The Australian economy is not static. The combined effects of deregulation, internationalisation and the rapid modernisation of developing economies will ensure that the rate of change within the Australian economy continues to accelerate. Australia’s financial system needs to reflect the dynamism of the economy by being able to quickly identify and respond to emerging market needs.

The test of a mature financial system is that its response capability extends beyond only taking advantage of favourable cyclical conditions. If this is the limit of the industry’s responsiveness to changing market place conditions then the economy will not be served as well as it ought. For example, the growing propensity of Australians to invest in property in the early 2000s encouraged the financial industry to loosen credit limits. While this was an understandable and rational response to the changing market environment it was not a sustainable position in view of the well understood property market cycles.

A more sustained trend within the Australian economy is the casualisation of labour. Citing ABS data, the 2012 Independent Inquiry into Insecure Work noted that:

> Almost one quarter of all employees in Australia (23.9% or 2.2 million workers), and one fifth of the total workforce, are engaged in casual employment. The proportion of Australian employees engaged in casual work has grown significantly over the past decades: from 15.8% in 1984 to around 27.7% in 2004, before declining slightly and remaining relatively stable at around a quarter of all employees since then.[13]

Unlike property market cycles, this trend is well established and will continue. As casualisation has confirmed itself as a labour market feature complaints have arisen in respect of the financial system’s failure to recognise and respond to it. For example, the Victorian Parliament’s Economic

[9] Connolly et al. 2013, op.cit, p. 43.
[10] Collins, D 2011, *Reducing the risks: improving access to home contents and vehicle insurance for low-income Australians*, BSL, p. 5.
[11] Ibid. p. 26.
[12] Email from RACV to Tony Robinson, BSL Senior Manager Financial Inclusion, 21 September 2013.
[13] Independent Inquiry into Insecure Work 2012, *Lives on hold: unlocking the potential of Australia’s workforce*, ACTU, p.14.

Development Committee, in a report on labour hire practices in 2005, noted the Australian Meat Industry Employees Union's concern at "the difficulty its casual members had in securing loans."[14]

That the financial system has yet to fully adapt to a more casualised labour force is supported by the Australian Education Union's submission to the Independent Inquiry into Insecure Work. The submission, which noted a 70 percent rate of casual staff within the NSW TAFE sector[15], included the South Australian branch's observation that:

> There are also those employees who cannot even contemplate a mortgage or home ownership because banks consider them a financial risk making it almost impossible to even get a bank loan. These people are locked into spiralling rental charges at a time of low vacancy rates.[16]

Not all financial institutions in Australia can be held to account on this point; some have come to terms with the reality of long-term casual labour. In 2005 the Bank of Queensland recognised the need through a partnership with Recruitment and Consulting Services Australia (RCSA):

> The problem of accessing loans by labour hire workers has been acted on recently by the peak body for the labour hire industry, the RCSA. The RCSA has entered into an arrangement with the Bank of Queensland whereby a temporary or labour hire worker with 6 months' continuous employment with an RCSA member will be considered eligible for home loans, as well as for other credit and financial services.[17]

The arrangement between the Bank of Queensland and the RCSA is still in place. One labour hire firm, Kelly Services, currently notes on its website:

> Bank of Queensland's alliance with the RCSA means temporary and on-hire staff of Kelly Services have the same access as full- time employees to a complete range of finance products including:
>
> - Home Loans – all types of owner-occupied and investment loans
> - Personal Loans – fixed, variable, unsecured, mortgage secured, car loans
> - Credit Cards – Bankcard, MasterCard and Visa under interest-free days or no interest-free days option, Low Rate Visa Card @ 9.99% p.a. ongoing.
>
> Applicants will need to supply a letter from their RCSA Member employer ... confirming their employment and income history over the previous six months.[18]

It is perplexing that while some casual employees are able to enjoy product modifications that reflect the changing structure of the economy others are not and remain underserviced. For them, as for others, the consequences include diminished economic participation, recourse to more expensive forms of credit or both.

Australia's financial system did not initiate the move towards an economy more reliant on casual labour. Equally, it cannot be held responsible for measures such as state government educational

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[14] Economic Development Committee 2005, *Inquiry into Labour Hire Employment in Victoria*, Parliament of Victoria, p. 52.
[15] Australian Education Union submission to the Independent Inquiry into Insecure Work 2012, p. 1.
[16] Ibid. p. 18
[17] Recruitment and Consulting Services Association media release *Home loans now a possibility for on-hired employees*, 9 May 2005.
[18] Kelly Services
<http://www.kellyglobal.net/eprise/main/web/au/mykelly/en/bank_of_queensland?division=kel>

staff hiring policy that have embedded the change. Nonetheless, the financial system provides the products and services vital to Australian consumers whatever their employment status. The financial system's inability to broadly come to terms with labour casualisation and develop a capacity to accommodate it represents a disservice to a significant number of Australian consumers and ultimately a restraint on economic growth.

Developing sustainable products in response to changing consumer needs

It is one thing for Australia's financial system to recognise changing market needs. It is another to develop sustainable responses. In 2006 ANZ launched the Progress Loan in partnership with the Brotherhood, a product specifically designed for low-income Australians. Underpinning this effort was research that found low-income earners are at risk of exclusion from mainstream financial services. The Progress Loan had a commercial interest rate and was established to provide a suitable alternative to more expensive forms of credit such as payday loans.[19]

The loan product was discontinued in 2012, its evaluation having identified that the program "reached a relatively small group of people compared to the large number that were financially excluded."[20]

The Progress Loans experience is a reminder that good intentions, resources and perseverance will not always deliver the desired result in the form of a sustainable financial product or service. At the same time the experience confirms that a targeted product or service cannot be expected to become established without the application of research, effort and resources, regardless of how they are provided. The Brotherhood has come to the view that the current and future shortfall in products and services required to meet the needs of Australian consumers, particularly low-income consumers, will only be overcome with a greater application of the financial system's expertise, skill and resources. This effort does not have to be made in isolation. NILS, StepUP Loans, Saver Plus and Progress Loans all arose from the collaboration of banks, government and the non-government sector, the same formula which is the key to tackling existing and future product and service shortfalls. This point is explored more fully in the recommendations laid out later in this submission.

Consequences of financial exclusion

The Brotherhood supports the NAB contention that "overall the efforts to address financial exclusion in Australia appear to be dwarfed by the scale of the problem,"[21] and believes two main consequences arise from this exclusion.

Higher credit costs

Credit is a necessary feature of any economy and the costs associated with credit provision necessarily represent a determinant of the overall level of economic activity. Fringe lending that involves recurrent loans, a practice referred to as cycling, can generate spectacularly higher credit costs. Higher interest charges represent an opportunity cost to the economy in that the expenditure could be directed to more productive uses. In recent years the United Kingdom has witnessed very strong growth in fringe lending and there is evidence that the same is now happening in Australia.

[19] Vawser & Associates, 2011, Progress Loans evaluation, foreword.
[20] Ibid, p. 7.
[21] Connolly et al. 2013, op.cit, p.7.

It has been reported that between 2010 and 2013 nine of the ten largest fringe lenders in the UK doubled their turnover. A review by the UK Office of Fair Trading identified that half of the revenue generated by the sector in that time arose from loan rollovers.[22]

Lending rates for payday lenders are higher than for mainstream credit as borrowers typically hold less secure employment or have impaired credit ratings. When the loans are not paid back in the prescribed time the compounding effect of the higher rate quickly escalates, as do potential lender profits. Commenting on the UK situation, *The Guardian* calculated that:

> One firm, Lending Stream, which offers loans of up to £1,500 for up to six months at an interest rate of 4,071.5% APR, has increased its turnover by 42 times in three years, while Wage Day Advance, which quotes an APR of 7,069.3%, has increased its profits 32-fold to £20m since 2008.[23]

The rapid growth in this industry, estimated today to turn over $800 million a year in Australia[24], challenges policy maker thinking about the role the fringe lending sector plays. For many years the relationship between low-income Australians and fringe lenders has been understood, namely that some lenders and consumers would allow this form of provision to become a continuous rather than occasional credit solution. The attention of policy makers, consumer and welfare advocates has focused on this problem. A report in 2011, for example, noted that of 117 payday lending clients:

> Seventeen ... had only borrowed one small, short-term loan. Over half the respondents had taken out more than ten loans, with many saying they had received over 50 loans.[25]

The same report noted the payday lending sector's changing business model:

> Contrary to the Australian industry claim that a payday loan is 'designed to help meet unexpected expenses' the seven most commonly cited reasons borrowers gave why they took out their first loan were all to meet regular, weekly type needs and expenses.[26]

The extent of consumer over-reliance on fringe lending is demonstrated by the report's highlighting of various dependent behaviours:

> Forty-four per cent of people discussed a practice of cycling – how they had immediately taken out a new loan once the previous loan had been paid out. Twenty-three per cent became involved in the spiralling process of refinancing the balance of a partially paid out loan to start a new loan, and a quarter of respondents described how they two or more parallel loans from the same or different lenders simultaneously.[27]

While these insights demonstrate the way the industry's traditional low-income customer base has come to be heavily reliant on high interest products, another significant trend has emerged more recently. In both the UK and Australia fringe lending growth reflects growing use by non-traditional consumers. According to the Consumer Action Law Centre (CALC) in late-2010:

[22] *The Guardian*, 6 September 2013.
[23] Ibid.
[24] *The Australian*, 24 June 2013.
[25] Banks, op.cit, p.11.
[26] Ibid, p.14.
[27] Ibid, p.17.

> In broad terms, the proportion of high-cost short term loan consumers with incomes above $30,000 seems to have increased, although 50% of high-cost short term loan consumers still earn less than $40,000 and only 14.5% are known to earn more than $60,000.[28]

This characteristic of the payday lending market was amplified last year by Cash Converters Chief Executive, Peter Cummins, who reported that one-third of the company's clients earned in excess of $150,000 per year.[29]

The Brotherhood acknowledges that payday lending has a role to play in the Australian financial system. Notwithstanding its higher cost, short-term loans suit some consumers confronting irregular, time-sensitive circumstances. Evidence of increasing consumer dependency, however, points to a growing misapplication of the product which challenges key assumptions relevant to Australia's financial system. First, it contradicts the long-held view that fringe lenders exist only to serve the credit needs of a high-risk/low-income consumer cohort. In that construct the role of government was limited to ensuring low-income and vulnerable borrowers were afforded protection lest extensive usage of the product aggravated their circumstances. The claim of Peter Cummins suggests fringe-lending customers are less likely to belong to this traditional cohort.

Secondly, the assumption that consumers become more cautious in times of economic downturn is not borne out by a high-cost sector experiencing rapid growth in a depressed economy. This is particularly the case in the United Kingdom, where the sector's rapid recent growth coincided with the GFC. The use of markedly more expensive forms of credit is irrational behaviour at a time of economic uncertainty.

A third assumption under challenge is that higher levels of financial literacy will ensure consumers develop skills in selecting the most appropriate financial product for their circumstances. Over recent years a very significant investment in financial literacy has been made by ASIC, the broad financial services sector and the community sector; yet borrowing from a high-cost sector has increased. Fringe lending may be more convenient than mainstream lending but it can never claim to be cheaper or its use of capital anywhere near as efficient. The education of consumers in relation to financial products and services is predicated on the market presenting consumers with a choice, something the Brotherhood does not believe exists for many Australian consumers. If those consumers believe payday lending is the only readily available option it is to that source of credit they will turn.

Fringe lending's growing share of the credit market represents an impediment to higher economic growth because its utilisation by wealthier Australian consumers introduces a higher cost of capital into a broader range of consumption-related activities than was previously the case. The higher cost of credit displaces alternative productive expenditure and investment.

Underemployment and labour market dysfunction

The financial exclusion imposed on Australian consumers by the limited range of mainstream financial products and services gives rise to higher levels of unemployment and underemployment, as well as labour market dysfunction. The linkage is demonstrated through the lack of mainstream loan products available to low-income or credit rating–damaged Australian consumers needing access to a reliable car.

[28] Gillam, Z & Consumer Action Law Centre 2010, *Payday loans: helping hand or quicksand*?, CALC, p. 52.
[29] *The Australian*, 24 June 2013.

As Australian cities expand, a greater share of the population lives more distantly from places of employment, making private car ownership a labour market necessity. This point was made by the 2008 Eddington report:

> While still a relatively undeveloped area of research in Australia, a growing body of evidence indicates that 'location within the metropolitan urban structure ... has become a key determinant of households' and individuals' access to employment and other opportunities'. A number of researchers and commentators view transport disadvantage as a particularly acute problem in Australian cities because they sprawl to a greater extent than equivalent sized cities overseas and because low income households tend to be located on the city fringes (rather than in the inner city).
>
> Insufficient public transport options can lead to 'forced car ownership', where households are 'forced' to own and operate multiple private vehicles due to a lack of transport options. Research by Professor Graham Currie from Monash University shows high rates of 'forced car ownership' in low income households outside Melbourne's inner city. [30]

Outlying suburbs combine lower household income with greater private vehicle dependency. For the purpose of securing and maintaining work, which is increasingly casual and spread over irregular hours, people need a vehicle that is reliable as well as roadworthy and registered. The latter two qualities entail additional costs; yet the only widely available concessional loan product in Australia today for this purpose is the $3000 NAB StepUP Loan. A loan for a vehicle is diminished by significant on-road costs such as stamp duty and vehicle transfer fee. A cursory study of vehicle sale websites suggests that a $3000 loan will, typically, only secure a vehicle that has already been driven more than 200,000 kilometres or is at least ten years old. The experience of the Brotherhood and other agencies is that a disproportionate number of concessional loans arise in relation to vehicles:

- The 2013 Centre for Social Impact review of StepUP loans revealed that motor vehicles were the primary purpose of almost 64% of 500 loans analysed in the report.[31]
- A 2008 report about payday lending in Victoria which drew upon work undertaken by the CALC identified over 20% of payday lender loans being used for car repairs.[32]
- A 2009 evaluation of Progress Loans found that about a third of loans issued were for vehicle-related purposes. As a response to this the maximum loan amount was raised from $3000 to $5000. The subsequent 2011 evaluation indicated car-related loans had doubled to almost 60% of total loans issued.[33]
- A 2010 review of the Good Shepherd Microfinance/NAB StepUP Loan program reported that the majority of loans were for the purchase of second-hand vehicles, household furniture, computers or medical and dental expenses.[34]
- The same report repeated an earlier StepUP Loans finding that up to the end of 2007, some $1.46 million had been lent to 599 people with an average loan size of $3000, the main purposes being cars and car repairs.[35]

[30] Eddington, R 2008, *Investing in transport*, Victorian Department of Transport, Chapter 1 (1.2.3).
[31] Centre for Social Impact 2013, *A little help goes a long way: Measuring the impact of the StepUP Loan program*, figure 5, p. 19. The 500 loans were among 6800 loans issued since the program's inception in 2004.
[32] Scott, R, 2008, *Report of the Small Amount Lending Inquiry*, Department of Justice, p. 18.
[33] Vawser & Associates, op cit. p.19.
[34] Mouy, B, 2010, *Just credit, good practice*, p. 11.

- The In-Roads CDFI pilot, aimed at assisting low-income earners, issued 23.4% of its concessional loans for vehicle-related purposes. One of the agencies delivering the program, St Luke's Anglicare, identified private vehicles as the main purpose for loans.[36]

The Brotherhood contends that the lack of affordable car provision for low-income Australians has several critical impacts. First, it ensures that these consumers will be more reliant on poor quality, less reliable vehicles. Second, in the absence of tailored credit products consumers will access more expensive forms of credit. A third impact is the higher ongoing maintenance cost borne by consumers owning poorer quality cars. All of these contribute to the fourth impact, namely the decreased household income that arises from less reliable transportation.

The relationship between dependable car access and employment outcomes is demonstrated by long-running affordable car provision programs operating in the United States and there is no reason to believe that the same relationship does not exist in Australia. Ways to Work, an umbrella group representing more than forty car provision programs across the United States noted that almost two-thirds of US households lacking vehicle access earned less than $25,000 per year[37]; and identified that car provision delivered a range of improvements, including:

- Some 94% of borrowers reported that their Ways to Work car helped them improve their employment circumstances.
- Nearly half of employed participants had received a promotion or pay increase (35% increased by more than 10%) since receiving the Ways to Work loan at a time when wages fell nationally by 4.9%.
- About half of all borrowers attributed a reduction in lateness and missed days of work to the car they obtained through the Ways to Work program.
- 82% of participants sustained themselves without Temporary Assistance for Needy Families (TANF) despite receiving it before their Ways to Work loan
- Borrowers experienced mean credit score increases, even during the recent recession, of up to 44.6 points.

The employment benefits were also shared by employers, the report noting:

> the annual benefit for employers during the four years under analysis was approximately $9.3 million, or $1,950 per borrower. Employers benefitted from approximately $3.9 million or about $817.44 per borrower when averaged over all 4,771 borrowers in avoiding costs of recruitment and training that would otherwise have been incurred had the Ways to Work borrower been unable to retain employment.
>
> The cost avoidance of productivity losses associated with absenteeism and lateness (or leaving early) was approximately $5.4 million or about $1,130 per borrower.

Another US car provision program has reported similar positive results. Vehicles for Change, a program that uses donated cars to assist low-income families living close to Washington DC

[35] Ibid. p. 18.
[36] Plant, A & Warth, S 2013, *Community Development Financial Institution pilot evaluation report*, FaHCSIA, p. 66.
[37] ICF International 2011, *Evaluation of the National Ways to Work Program*, Ways to Work Inc., p. 16.

identified that 73% of program participants were able to get better jobs. As a consequence their annual income rose by around $5000.[38]

Low-income Australians who live in the outer suburbs are and will remain dependent on private vehicle access for their employment. The lack of concessional loans enabling low-income consumers to more easily access reliable vehicles will continue to be an impediment to their full economic participation. Recent Brotherhood inquiries with job service agencies in the outer northern suburbs of Melbourne confirm this point. According to Rod Styles, Regional Business Manager for CVGT Australia, private transport is the 'critical link' in the employment equation for a substantial number of clients who 'invariably' cannot rely on public transport to reliably get them to and from their prospective job.[39] Stephen Butler, Craigieburn Site Manager for Workskil spoke of the number of his clients with cars that are of poor quality and in constant need of repairs.[40]

The perspective of these job service agencies is shared by Victoria's peak employer body, VECCI, whose Executive Manager for Policy, Steven Wojtkiw, recently met with the Brotherhood to discuss the significance of private transport provision in successful job placement.[41]

While the provision of larger concessional loans by a bank or credit union would provide many low income consumers the opportunity to acquire a more reliable vehicle it is probable that the service would not be commercially sustainable. A more likely solution lies in collaboration between financial institutions, government and the community sector. The US experience cited earlier reflects a range of ways in which more affordable car provision can be achieved, none of them dependent on an individual financial institution bearing a large and unreasonable risk. The Brotherhood has been examining an innovative affordable car provision scheme which would bring together elements of existing concessional loan products, the experience of a matched savings scheme, current tax deductibility rules and a large and growing vehicle fleet turnover. Our view is that collaboration with the financial sector and government would allow this concept to be further developed, tested and hopefully brought to the market in sustainable form. Without the support of a financial institution, however, the chances of success are negligible.

[38] See <http://www.ehow.com/list_5939025_low-income-grants-buying-cars.html>
[39] Conversation with Rod Styles, CVGT Australia, at Craigieburn, February 2014.
[40] Conversation with Stephen Butler, Workskil, at Craigieburn, February 2014.
[41] Conversation with Steven Wojtkiw, VECCI, at BSL, January 2014.

4 Recommendations

1 Establishing the Stewardship Principle

The Brotherhood of St Laurence believes a dynamic Australian economy requires a dynamic financial system, capable of recognising and responding to emerging market needs particularly among low-income and vulnerable consumers. A financial industry unable or unwilling to act in this way will deny a greater number of Australians the opportunity of full economic participation.

The Brotherhood contends that Australia's financial system can only fulfil this role if its participants accept a shared responsibility to ensure that an adequate range of products and services exists to serve the reasonable needs of Australian consumers, including low-income and vulnerable consumers. Furthermore, the Brotherhood believes that not all industry participants currently acknowledge this obligation, and that fewer still act constructively on it. The individual actions of some entities within the system, such as ANZ through its commitment to Saver Plus and NAB in relation to NILS and StepUP Loans, demonstrate that positive benefits arise for low-income and vulnerable consumers where the obligation is recognised and acted on.

The notion of a shared responsibility will be challenged by some but its primacy is demonstrated through the posing of a simple question: if ensuring an adequate range of financial products and services to meet the current needs of Australian consumers is not in the first instance a responsibility of those entities licensed by government to operate in the industry, whose responsibility is it? Ignoring the question of responsibility or seeking to pass it to others overlooks an essential truth of the industry, namely that it possesses the very expertise needed to ensure the needed products and services can be developed. Furthermore, an industry resistant to this ideal will ultimately encourage government, notwithstanding its lack of day-to-day familiarity with financial products and services, to consider imposing its own solutions, an outcome that will not necessarily achieve the desired objective.

A failure by financial system participants to acknowledge a shared responsibility will embed within the financial system product and service deficiencies that will continue to hamper national economic growth as well as stymie the individual aspirations of hundreds of thousands of Australian consumers, particularly the most vulnerable.

The Brotherhood believes that a principle of Financial System Stewardship should be established as the basis of a permanent commitment to ensure products and services are developed to meet identified needs. The principle would acknowledge the key economic servicing role that financial system participants play and remind them of the need to contribute to this objective.

The principle would not go so far as to compel industry members to offer products and services that are loss-making, although the Brotherhood hopes that some participants will continue to provide products and services that are non-commercial. Rather it would place on them a responsibility to contribute to the establishment of these services in a form that can most reasonably be sustained. To achieve this, industry participants would collaborate with government and the community sector to research and develop viable solutions to the gaps that are identified. In the case of insurance provision the principle would find expression in a number of ways including collaborative work that would identify whether low-cost contents policies can be offered as a rental accessory through community and social housing providers. In the case of car loans, the principle would bring together parties to ascertain whether the combination of tax deductibility, employment service programs and the need for Australia's vehicle leasing industry to place more cars each year into the price-volatile second-hand car market could be combined to deliver an affordable and sustainable reliable vehicle provision service.

The principle of industry stewardship does not presuppose that sustainable solutions can be found in every case of an identified product or service deficiency. It would, however, provide constructive guidance to an industry that has not often enough used its strengths to help bring to market innovative solutions.

Establishing a principle of Financial System Stewardship does not require any major change to current licensing arrangements. Section 9 of the *Banking Act 1959* provides APRA with the power to grant an authority to carry on banking business in Australia. Nothing in the Act would prevent the Commonwealth Government from introducing a Stewardship Principle as an implicit feature of the authority granted by APRA to conduct banking activities in Australia.

2 Articulation

The responsibility that lies at the heart of the Stewardship Principle can be given shape and effect by the Commonwealth Government through a periodic articulation of financial product and service deficiencies that it wishes to see addressed. The Commonwealth Government has a number of options as to how its commentary can proceed.

One option is an annual statement as to how effectively, in the government's view, the financial services industry is meeting the broad needs of Australian consumers. This could take the form of an annual statement by the Treasurer that outlines both the continuing product and service gaps and the progress made in addressing deficiencies since the last statement.

A separate option is to embed the government's commentary in the mission of a special purpose entity, such as a Co-operative Research Centre (CRC), dedicated to financial resilience. To our knowledge funding has not previously been provided for a CRC that is dedicated to the development of new products and services to meet the needs of low-income and vulnerable Australian consumers.

The key feature of an articulation, whatever form it takes, is the guidance it would provide to Australia's financial services industry and those with whom the industry would partner in a renewed effort to research and develop products and services that satisfy emerging market needs.

3 Funding collaborative innovation

Critical to the above two points is the sustainable provision of funding to ensure the necessary collaborative research and development of new products and services can be undertaken. The Brotherhood believes the quantum of funding required to expand the work currently underway via individual entities and their community partners need not be excessive. It is not unrealistic to expect that funding offered by the Commonwealth Government would at least be matched by the financial industry participant seeking to involve itself in a specific project, and further complemented by in-kind support from a non-government agency. This is the basis for much current financial inclusion related research.

Funding options available to the Commonwealth Government include:

- an appropriation as part of the annual budgetary process
- a levy applied to all licensed financial industry participants
- a policy change allowing fines imposed on industry participants for breaches of national credit laws to be directed to a special purpose fund. While this option may be opposed by Commonwealth central agencies it is a model that was used successfully by Consumer Affairs Victoria for a number of years, and persists in the form of a Victorian Consumer Fund established at the time the national consumer law took effect.
- a reform of current unclaimed money and superannuation arrangements that would allow the funds currently transferred directly to the Commonwealth Treasury to be held by a special purpose Trust Fund for up to two years before transfer to the Treasury, thus creating an interest-generated funding stream dedicated to product and service development for low income and vulnerable consumers

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Acronyms and abbreviations

ABS	Australian Bureau of Statistics
APR	Annual Percentage Rate
APRA	Australian Prudential Regulatory Authority
ANZ	ANZ Bank
ASIC	Australian Securities and Investments Commission
BSL	Brotherhood of St Laurence
CALC	Consumer Action Law Centre
CDFI	Community Development Financial Institution
GFC	Global financial crisis
GSM	Good Shepherd Microfinance
NAB	National Australia Bank
NILS	No Interest Loans Scheme
RACV	Royal Automobile Club of Victoria
RCSA	Recruitment and Consulting Services Association
TAFE	Technical and further education
VECCI	Victorian Employers Chamber of Commerce and Industry