National Credit Providers Association Submission on the Financial Counselling Industry Funding Model

About the NCPA

The National Credit Providers Association (NCPA) is the peak national industry body representing the Small and Medium Amount Consumer Lending Industry in Australia. This includes companies that provide Small Amount Credit Contracts (SACCs) and Medium Amount Credit Contracts (MACCs). Our members are all ASIC-licensed credit providers, who operate from more than 250 retail locations across Australia and via dedicated online platforms.

Overview of the Proposed Model

The NCPA welcomes the opportunity to comment on the proposed industry funding model which seeks to address demand for financial counselling services to assist individuals experiencing financial hardship.

The NCPA recognises the value of financial counselling in assisting individuals in financial hardship, and so will encourage its members to support a voluntary levy. However, this support is based on an appropriate method for calculating the right level of contribution.

To make the most out of the opportunities highlighted within the Discussion Paper, the NCPA recommends that Small Amount Credit Contract (SACC) providers work with financial counsellors to bridge the gap between the two sectors and protect the interests of consumer credit customers in financial distress.

The NCPA welcomes the opportunity to work with the financial counselling sector and the Department of Social Services (DSS) to:

- identify standards or benchmarks, which will apply to the operations of individual financial counsellors as a condition of the financial counselling sector receiving industry funding; and,
- to apply contributions under a user pays model, and to identify an appropriate methodology within subsectors that informs an appropriate level of funding from the SACC and MACC sectors;

The NCPA also recommends;

- AFCA statistics be applied as a reference point, along with the 2021 financial counsellor time spent survey, to give a clearer picture of financial distress caused within the sector;
- A centralised data hub be established to clarify how much of the unmet demand for financial counselling services is being generated both solely from the SACC and MACC sectors and also as a joiner to other products and services causing a consumer financial distress;
- The DSS strongly considers including the gambling sector as a part of the funding model due to the high levels of economic loss it generates, with these losses able to be compensated through voluntary contributions to the financial counselling sector; and,
- SACC providers be included as a part of the proposed independent body to enhance understanding of our members' services within the financial counselling sector.

The NCPA generally supports the principles used to guide the development of the industry funding model however, the NCPA is particularly interested in four of the six principles and how effectively these principles have been adhered to in the draft proposal to date:

Principle 3: Quantum and split of suggested industry contributions are determined on a fair and transparent basis.

Principle 5: The operation and effectiveness of the model is supported by robust data and evidence collection and analysis

Principle 2: Industries that contribute to the demand for, and benefit from, financial counselling, contribute to the funding of the services.

Principle 1: Industry funding helps to address the unmet demand and improves the predictability and stability of funding for financial counselling services.

Quantum and split of suggested industry contributions are determined on a fair and transparent basis

To obtain formal commitment from the individual businesses in the SACC sector, the NCPA must be able to assure its members that voluntary funding will not be prohibitive to their business operations.

Table 3 of the Discussion Paper proposes SACC/MACC contributions are $900,000 for the first two years and $1 million for the third year. We find that this proposed quantum of annual funding for the first three years is significantly too high and will require further engagement with the DSS to identify an appropriate level of support given the current restrictions and financial constraint our sector is under.

For example, the SACC sector already contributes to a number of compulsory levies and fees including the ASIC levy, which for many members increased by approximately 400% over the last few years added to this, increases in AFCA membership and general business cost have also increased significantly.

It is important to note, the sector fees charged is entirely constrained by legislation and has no capacity to increase their fees and so any additional financial costs are borne by businesses with no capacity to recover these.

Should NCPA members agree to contribute to the funding of financial counselling services, as stated above, it would be more beneficial to work directly with the DSS to determine an appropriate methodology to apportion within subsector contributions. This would enable clear and streamlined communication of our members' positions.

The operation and effectiveness of the model is supported by robust data and evidence collection and analysis.

Given recent regulatory changes and the high number of Australians struggling with the cost of living, the process by which the DSS selects financial counselling businesses to provide services is important. The NCPA believes the demand for such services is likely to increase across the entire consumer finance business community in the near to medium term, and so it is important that financial counselling service providers are sufficiently trained and qualified and can adhere to a set of industry agreed standards.

The data used to determine the quantum of funding from the subsectors will need to be updated to reflect recent legislative changes, that is likely to have the effect of reducing the number of providers over the next twelve months. Recent legislative change will also likely mean that customer turnover will be higher in comparison to other subsectors. Therefore, annual revenue is likely to be lower in this subsector.

For these reasons, the NCPA urges consideration be given to a method that apportions contributions between businesses based on complaint rates or caseloads – possibly a combination of Methods 1 and 2. The NCPA considers a 2-week survey completed by financial counsellors is not sufficiently robust as a way of determining contributions for lenders.

Industries that contribute to the demand for, and benefit from, financial counselling, contribute to the funding of the services.

The NCPA finds that a number of its members deal with consumers who are experiencing financial distress as a result of the gambling sector long after having established a loan or those applying for finance which cannot be approved/provided due to a consumer's gambling commitments.

While the discussion paper shows that financial counsellors have spent less than 3 per cent of their time on the gambling sector, we feel that it is highly unlikely for consumers to admit that they are experiencing distress from this sector.

We also note that the population size of those that engage with the financial services sector is quite large in comparison to that of the gambling sector. However, we note the Australian Institute of Health and Welfare states that Australians lost approximately $25 billion on legal forms of gambling during 2018/19.

This calls into question the validity of the (time metric) measure used for proposed sector contribution. This is a significant economic loss that could be remedied by having the gambling sector formally commit to voluntary contributions to financial counselling.

We ask the Department to consider including the gambling sector as a part of the funding model. NCPA's members deal with under banked/financially challenged and financially excluded Australians on a regular basis, and our experience has shown that many are unable to pay off their debt due to gambling. As a result, many SACC providers are forced by some in the financial counselling sector to waive customer debts under the threat of an AFCA complaint, the costs of which the business cannot afford and if taken to case management or further, regardless of the outcomes, the cost would in fact be greater than the consumer's debt.

Industry funding helps to address the unmet demand and improves the predictability and stability of funding for financial counselling services.

The NCPA welcomes the opportunity to bridge the gap between the SACC and MACC industry and the financial counselling sector to protect consumer interests.

The ability for consumer credit customers to pay off their debt is what SACC and MACC businesses rely upon for smooth trade operations. It is in the best interests of financial counsellors to gain an understanding of who our members are, the services they provide and how they operate.

The discussion paper defines the 'unmet' demand figures as attempts made by individuals to access services with a financial counsellor and the failure to secure face-to-face appointments within a two-week period, as well as attempts to contact the National Debt Helpline met with failure to connect with an operator.

The 2021 survey addressing the industry distribution of financial counsellor time spent does not address this 'unmet' demand. There is concern that the time metric is too dependent on the level of experience and understanding of the individual financial counsellors to appropriately determine whether the SACC/MACC sectors are either solely or jointly contributing to an overflow in demand.

Closing Remarks

Government has been warned of the impacts of the recent legislated changes to the protected earnings amount for SACC loans which will make it difficult for financially excluded Australians to access loans when they need it the most. Desperate consumers will most likely end up turning to providers such as Cigno or other forms of unregulated credit.

While the NCPA and its members agree that there needs to be a starting point, we feel that the DSS should use industry provided data to inform accurate apportioning of sector contributions.

The NCPA is happy to work with the Department to apply contributions under a user pay model so as to better inform funding expected from the SACC and MACC sectors. This would be a transparent and robust measurement tool in comparison to the 2021 financial counsellor time metric. This will allow the NCPA to assure members of the fairness of the model increasing their likelihood to contribute.

We look forward to working with the Department and the financial counselling sector to effectively service financially vulnerable Australians.