



Ms Irene Sim
General Manager
General Investor Division
The Treasury
Langton Crescent
PARKES ACT 2600

13 June 2012

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

Dear Ms Sim

ANZ is pleased to provide a submission on the Discussion Paper on *Strategies for reducing reliance on high-cost, short-term, small amount lending*. In our submission, we have addressed the following:

- Access to appropriate low cost, fair and safe credit products for low income consumers
- The role of financial education and savings programs in reducing reliance on payday lending
- Development of an appropriate Community Development Finance (CDF) sector in Australia

Credit for low income consumers

Improving consumers' access to safe and affordable credit is an objective which ANZ supports. This credit should be accessible to consumers who can afford to repay it and on terms and conditions which are fair and transparent. For most consumers, their demand for such products are met by the mainstream market, including banks like ANZ

The Government's initiative to introduce comprehensive credit reporting may improve access to mainstream credit for *some* consumers. These reforms should also result in an improved level of accuracy of customer credit data and facilitate more responsible lending decisions.

Nevertheless, for those whose sole income is government benefits, or those who are on very low incomes or receive no income, responsible lending laws will almost always preclude them from being able to access credit from mainstream lenders. These consumers will be unable to demonstrate sufficient uncommitted income from which to repay credit.

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Evaluation by RMIT University of ANZ's financial literacy and inclusion programs, *Saver Plus* and *MoneyMinded* shows the importance of a savings buffer in lower income households in providing an alternative to credit. More information about these programs is provided below. These programs also demonstrate that people on lower incomes can save, particularly when supported to do so (see Brotherhood of St Laurence research at http://www.bsl.org.au/pdfs/Bodsworth_Many_faces_of_saving_2011.pdf).

Financial education and savings programs

ANZ considers that a robust, well rounded approach to the issue of safe and affordable credit should recognise the role of consumers having a savings buffer and the importance of good money management skills.

To that end, ANZ has developed programs which are delivered in partnership with community organisations and the Federal Government: *Saver Plus*, a matched savings program developed by ANZ and the Brotherhood of St Laurence that has been highly successful in supporting tens of thousands of low income earners to establish a long-term savings habit.

Since its inception, *Saver Plus* has been independently evaluated by RMIT University which has found that 87% of participants continue to save at or above the levels they did on the program for the three years they were tracked after completing the program.

MoneyMinded and *MoneyBusiness* are financial education programs that improve basic budgeting, savings and money management skills. These programs help people to live within their means, increase their savings and assets, manage credit and debt, and plan for the future. *MoneyBusiness* was specifically developed to build the money management skills and confidence of Indigenous people and develop a stronger savings culture in remote communities as research has shown that Indigenous people are among the most disadvantaged in Australia in terms of financial literacy and inclusion.

MoneyMinded is delivered by financial counsellors and community partners and has reached over 160,000 people since 2005. *MoneyBusiness* is delivered through organisations funded by FaHCSIA under the Financial Management Program as well as through some of ANZ's financial literacy partners. It is delivered in 215 Indigenous communities.

ANZ supports Government strategies for reducing reliance on high-cost, short-term, small amount lending which embrace savings and financial literacy education. We can best contribute to improving access to sustainable retail banking services for consumers who are likely to utilize payday lending, through focusing on savings and education.

Development of a CDF sector

ANZ recognises that there may be a need for an appropriate CDF sector in Australia. In our view, development of an appropriate CDF sector must do more than offer lending services to individuals as an alternative to payday lending. ANZ considers that appropriate CDF initiatives should offer deposit-taking services and products and should be accompanied by savings and financial education components.

As noted earlier in this submission, our view is that people should have access to safe and affordable credit. This, along with research into financial exclusion in Australia (Chant Link & Associates 2004), led us to establish a pilot of a small loans program in 2006, *Progress Loans*, in partnership with the Brotherhood of St Laurence.

The five year pilot of *Progress Loans* gave people in Victoria on low incomes access to loans of between \$500 and \$3,000 to pay for essential household items, or up to \$5,000 for a car. On advice from the community sector, which had noted concerns to us that no interest loans do not build financial knowledge and capacity, these loans were priced the same as mainstream personal loans.

The program did not meet our objective of becoming sustainable for the principal reason that, of those consumers who enquired about the product, only a small number applied for a loan due to either poor credit history or they were not able, or prepared, to wait the average time of a month from the first phone call to the loan being approved. As well, lending under the CDF umbrella is different to mainstream lending. It requires different methods to assist in measuring risk, such as one-on-one interviews, assistance with budget planning and on-going mentoring, which are more costly than mainstream scoring methods. We consider that our cost structure makes it unviable for us to offer a small loans program and have exited *Progress Loans*.

In ANZ's view, well-run community organisations are better placed to run sustainable small loan programs where there is demonstrable, sustainable need. ANZ can support these organisations by providing:

- Non-lending support such as technical expertise, through volunteering and customer education through MoneyMinded
- Commercial relationship funding and working capital to soundly run CDFIs.

ANZ would be pleased to provide any further information on this submission. I can be contacted on (03) 8654 3459 or Michael.Johnston2@anz.com.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Michael Johnston', with a long horizontal flourish extending to the right.

Michael Johnston
Head of Government & Regulatory Affairs