Consumer Policy Research Centre

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Submission: National Consumer Credit Protection Amendment (Supporting Economic Recovery) Bill 2020

4th February 2021

Committee Secretariat
Senate Economics Legislation Committee
Department of the Senate
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Committee Secretariat,

The Consumer Policy Research Centre (CPRC) welcomes the opportunity to provide a submission to the Senate Economics Legislation Committee's inquiry on the *National Consumer Credit Protection Amendment (Supporting Economic Recovery) Bill 2020*. CPRC is an independent, not-for-profit consumer research organisation, that aims to create fairer, safer and inclusive markets by undertaking research and working with leading regulators, policymakers, businesses, academics and community advocates. We conduct research across a range of consumer markets, with a focus on consumer decision-making, consumer data and the online marketplace. We also consider the outcomes of vulnerable and disadvantaged consumers participating in markets.

CPRC strongly opposes the Bill and calls on Parliament to vote against the Bill in its entirety. As part of this submission we attach our latest public report *COVID-19 and Consumers: from crisis to recovery* May-October report, as well as select data from our forthcoming report summarising our COVID-19 survey data from May-December (see Appendix A).[1]

Our nationally representative *COVID-19 and Consumers* survey suggests responsible lending legislation has not limited consumers' access to finance between May and December in 2020. The proportion of consumers taking out a new loan trended slightly upwards between May and December (see Figure 1). However, our data also shows a far higher proportion of more vulnerable subgroups have took out new loans compared with the broader population – 11% of young people reported taking out a loan in October (vs 4% broader population) and 8% in November (vs 4% broader population) clearly trending

[1] Though our data points to a sharp fall across a range of measures between November and December, note data collection was adjusted to account for reduced office hours and completed by 21st December. Also note that our data has not been seasonally adjusted to account for any unusual consumption patterns/activity in December.

upwards over the period.[2] Our data also points to a growing trend of consumer refinancing personal debt or credit cards throughout the period, peaking between November and December (see Figure 2). But again, a far larger proportion of vulnerable subpopulations like young people have refinanced their personal debts/credit cards with 11% refinancing with another provider or current provider in October and November respectively (compared with 4% nationally in each month respectively), trending sharply upwards across the period.

Consumers were also active in refinancing their mortgage throughout the period (see Figure 3). From May to December, there was a slight increase in the trend for consumers refinancing with their current bank (peaking at 8% in November), while there was a clearer increasing trend among consumers refinancing with a different provider (peaking at 6% in December). The proportion of consumers reducing mortgage payments to interest only marginally increased over the period (peaking at 6% in July).

Concerningly, our research indicates a slight trend increase in the proportion of the broader population and a more significant trend increase in the proportion of more vulnerable subgroups taking out high-risk-high-cost payday loans or consumer leases across the period (see Figure 4). In November, 3% of the broader population took out a payday loan or consumer lease (up from 1% in May), along with 9% of young people, 7% of renters, and 7% of consumers living with disability (all up from 1% in May). It is important to recognise that 9% of young people equates to **more than half a million young Australians** resorting to this high-risk high-cost finance in November alone.

Moreover, our data points to a growing proportion of consumers seeking payment assistance from essential services providers, and clear upward trend in the proportion of consumers reporting they had to miss a payment for almost all essential services - aside from mortgage repayments (see Figure 5).[3] In particular, 5% of all respondents indicated they'd had to miss a credit or debt repayment in October, November and December. But again, a far higher proportion vulnerable consumers reported missing these credit repayments – 11% young people reported they had to miss a credit repayment in October, 12% in November and 12% in December, compared with just 1% of young people who reported they had to miss a credit repayment in May.[4]

Our findings suggest that many Australians – particularly more vulnerable subgroups such as young people – have taken on accumulated additional debts and accrued significant arrears with essential service providers during the COVID-19 pandemic, even with current responsible lending laws. As outlined in our attached report, vulnerable Australians are increasingly relying on informal capital and supports to make ends meet.[5] By weakening responsible lending obligations and introducing inadequate protections in small amount

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[2] For research on the financial wellbeing on particular consumer subgroups see ANZ Roy Morgan Financial Wellbeing Indicator, *Quarterly Update 2020,* 23rd July 2020, [available online]: https://media.anz.com/posts/2020/07/almost-half-young-australians-financially-impacted-by-covid-19--?adobe_mc=MCMID%3D55003270636043828851645833941947711271%7CMCORGID%3D67A216D751E567B20A490D4C%2540AdobeOrg%7CTS%3D1597898987

[3] Consumer Policy Research Centre, *COVID-19 and Consumers: Drowning in Debt – May to October 2020,* November 2020, 13, 21.

[4] See also CPRC, *COVID-19 and Consumers: Drowning in Debt – May to October 2020,* November 2020, data from November and December forthcoming in CPRC's final COVID-19 report.

[5] CPRC, *COVID-19 and Consumers: Drowning in Debt – May to October 2020,* November 2020, 25.

credit contracts through the proposed bill, those already indebted and vulnerable consumers may be exposed to unsustainable lending practices resulting in crisis, rather than facilitating new investment and “productive” spending. As noted by an alliance of consumer advocates, people need more income not more debt.[6]

If you have any queries about this submission and the attached reports, please contact Ben Martin Hobbs, Senior Research and Policy Manager at ben.martinhobbs@cprc.org.au.

Yours sincerely

Lauren Solomon
Chief Executive Officer
Consumer Policy Research Centre

[6] Consumer Action Law Centre *et al, Treasury consultation: Consumer Credit Reforms’*, 20 November 2020, https://consumeraction.org.au/wp-content/uploads/2020/11/201120-Treasury-sub-RLO-repeal-bill-final.pdf

Appendix A.

Figure 1. Young people lead the nation taking out personal loans from a bank or financial institution

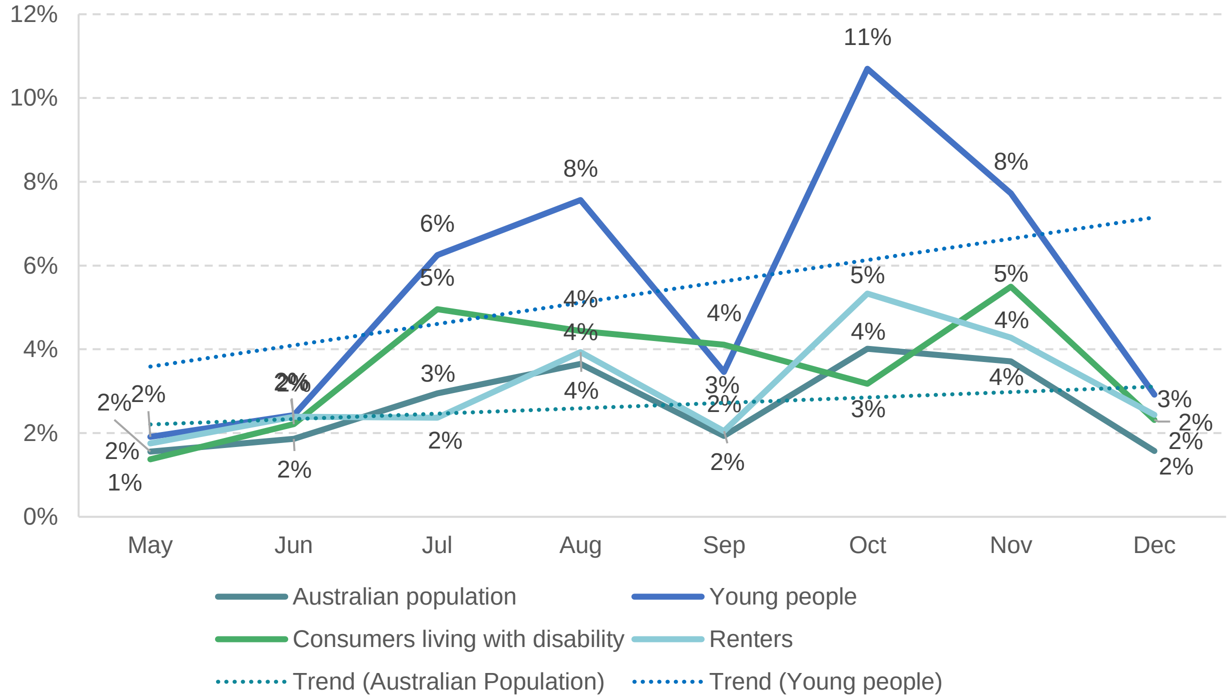

Figure 2. Young consumers most active refinancing personal loans/credit cards with current or different providers

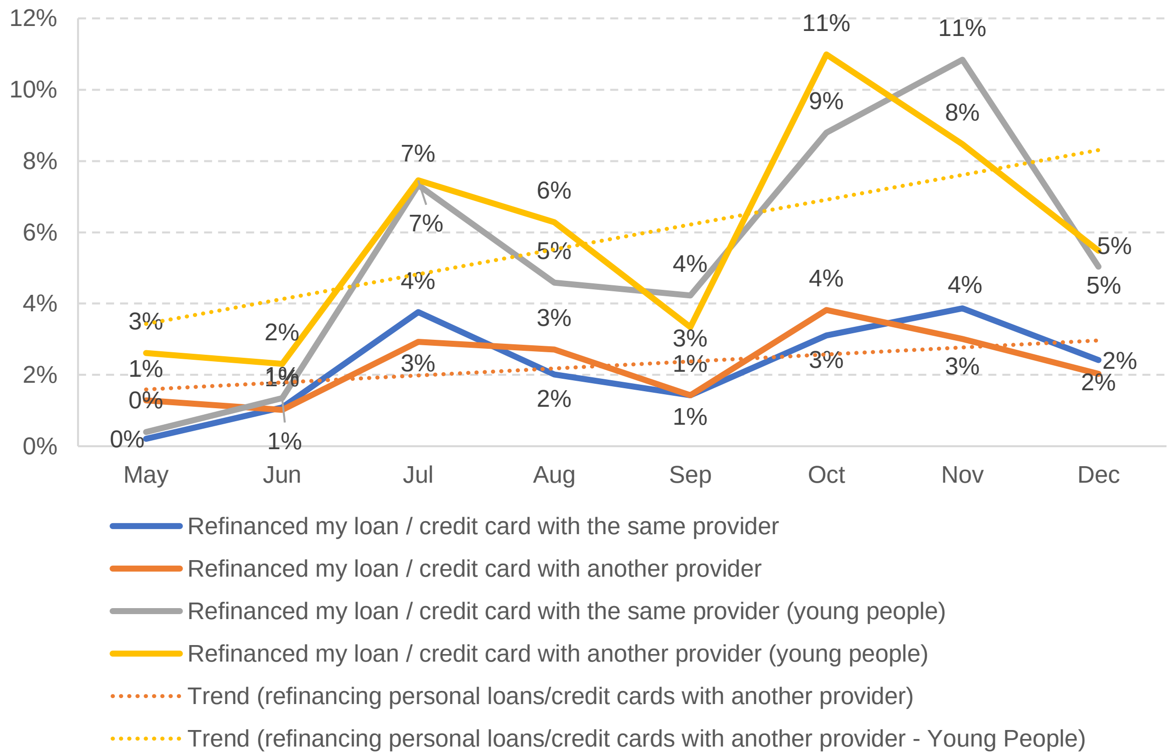

Figure 3. Consumers have been active refinancing mortgages during COVID-19 pandemic

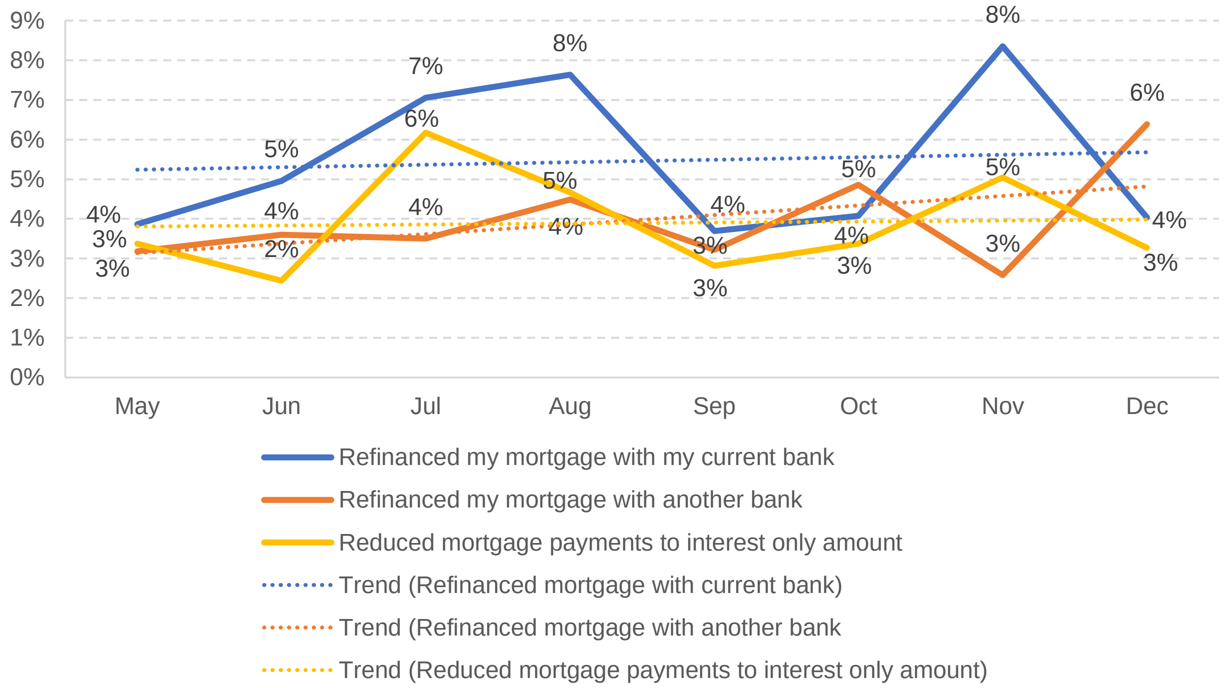

Figure 4. Growing proportion of vulnerable groups taking out payday loans/consumer leases

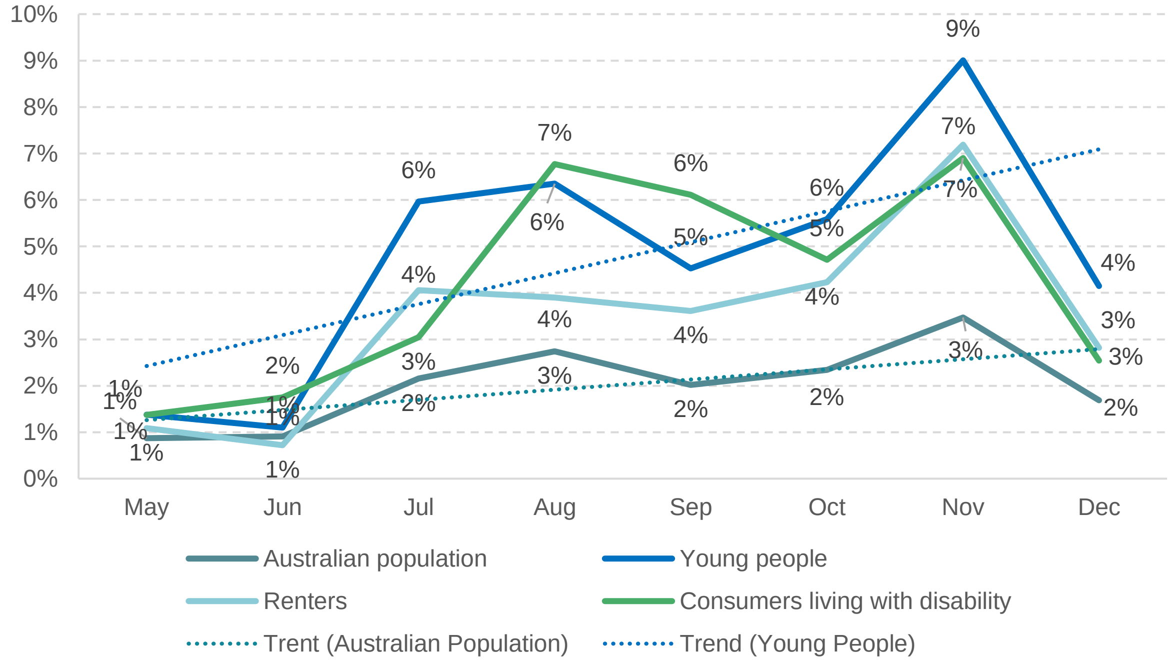

Figure 5. Rising proportion of consumers missing household bill payments