The Salvation Army Australia

The Salvation Army
Submission made on behalf of The Salvation Army Australia

Response to the

Senate Inquiry into credit and financial services targeted at Australians at risk of financial hardship

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For more information, please contact:

Major Brad Halse
National Head of Government Relations
The Salvation Army Australia
95-99 Railway Road,
Blackburn, VICTORIA, 3130

[redacted]

About The Salvation Army

The Salvation Army is an international Christian movement with a presence in 128 countries. Operating in Australia since 1880, The Salvation Army is one of the largest providers of social services and programs for the most marginalised and socially excluded individuals in the community.

The Salvation Army Australia has a national annual operating budget of more than $700 million and provides more than 1,000 social programs and activities through networks of social support services, community centres and churches across the country. Programs include:

- Emergency relief, material aid and case work
- Financial counselling and assistance
- Youth, adult and aged homelessness and housing services
- Family and domestic violence support and accommodation services
- Drug and alcohol support and treatment services
- Child, youth and family services
- Education, training and employment support services
- Personal counselling and support
- Emergency and disaster response and recovery services
- Chaplaincy
- Migrant and refugee services
- Aged care services.

Mission oriented organisation

As a mission driven organisation, The Salvation Army seeks to reduce social disadvantage and create a fair and harmonious society though holistic and people centred approaches that reflect our commitment to and primacy of:

- Caring for people
- Creating faith pathways
- Building healthy communities
- Working for justice.

We commit ourselves in prayer and practice to this land of Australia and its people, seeking reconciliation, unity and equity.

Senate Inquiry into credit and financial services targeted at Australians at risk of financial hardship

Thank you for the opportunity to make a submission to this Senate Inquiry into credit and financial services targeted at Australians at risk of financial hardship. The Salvation Army regularly works with people in financial hardship and at risk of financial hardship. We welcome this inquiry and support the review of the credit and financial services, the subject of this inquiry that fell outside of the terms of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

We respond to the specific terms of reference of the inquiry below and make some general opening comments regarding money and debt and the need for change generally.

1. Money and debt - the system needs to change

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry has shown to the world the depth of irresponsible and in some cases allegedly criminal behaviour of those in the banking and finance services world.

Most of the people coming to the Salvation Army's Moneycare financial counselling and capability services for help are there because their financial circumstances have unexpectedly changed. If you happen to find yourself in a vulnerable circumstance, for example, you've lost your job, or lost some income, you or a family member have a serious illness, you are experiencing domestic violence or other misfortunes then you can find yourself at the mercy of financial predators and a system that seemingly conspires against you.

You can rapidly find yourself having to cut back significantly on basic necessities of life, you can find yourself in serious housing stress, possibly facing homelessness, you can find yourself on the brink of bankruptcy. Financial hardship can and does happen to *anyone.* In 2017/18 the number of new people the Salvation Army Moneycare helped increased by 18%.

Recent research[i] by The Salvation Army about people accessing the Moneycare service found that:

- People spent less on basic necessities compared to Australian households, specifically on food, transport and health. This is likely to reflect a prioritisation on payments for unavoidable costs such as housing and utilities, resulting in people not being able to afford things that average Australians normally enjoy, such as eating out, owning a car or having private health insurance.

- People had stagnant incomes and housing costs were a source of continuous struggle throughout the 10-year study period. Of total expenditure, people generally spent 35% on housing, compared to 20% among Australian households.
- The incidence of housing stress was also significantly high with 64% experiencing housing stress in 2017/18. People in the private rental market were at most risk of housing stress. In 2017/18, 74% of participants in private rental experienced housing stress, compared to other housing types: owners with mortgage (61%), social housing (42%), and rooming/boarding house (68%).

We have heard clearly in the Royal Commission that financial services can keep offering you credit, extending your credit and offering you loans without properly considering your current circumstances.

Behavioural science tells us that people in crisis experience cognitive overload, which impacts their decision making and focus. Their focus is on meeting their pressing need and their decisions in times of crisis can and often does put them in a worse financial position in the long term.

According to a Treasury submission to the Senate Committee in 2015 into credit card interest rates, low income credit card users were more likely to pay interest and tended to have higher amounts of credit card debt relative to their income than other credit card holders. The Treasury submission also noted that their survey evidence showed that low income households using credit cards were more likely to be subject to fees for failing to make minimum repayments. In other words, people on lower incomes are paying more for credit than others.

Our experience in financial counselling has shown us that when people are in crisis they will do whatever they need to do to survive. People need to find a way to pay the rent so they don't get evicted. They need to find a way to pay the car loan to stop repossession. They need to find a way to pay the bigger than expected electricity bill to keep the lights on. They need to find a way to repair the car to get to work. They will access whatever finance they can to get through that week. So their financial hole gets deeper and financial service providers continue to profit from it.

The recent research by The Salvation Army also found that the incidence of people with predatory debt (pay day loans and consumer leases) increased significantly, particularly for people aged 18-24 years. The proportion of people with this debt more than doubled from 6% in 2008/09 to 13% in 2017/18 and tripled in real value to $1,383 compared to 10 years ago.

The Government commissioned a review of Small Amount Credit Contracts (pay day loans and consumer leases) in August 2015 and in April 2016 a report was released making 24 recommendations for reform. The Government released a response to the report in November 2016 and supported the vast majority of the recommendations, in part or in full. In February 2018 legislation was introduced into Parliament but since then - very little progress has been made. Meanwhile, on a daily basis people are falling into deeper hardship because of the practices of these organisations.

The Salvation Army looks forward to genuine reform of the lending practices of financial institutions, particularly the practices of credit providers in regard to credit cards, payday loans and consumer leases that are directed towards low-income earners and disadvantaged groups in Australia.

> The Salvation Army calls on the Federal Government to implement the recommendations from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (as and when released) as soon as possible and to pass the National Consumer Protection Amendment (Small Amount Credit Contract and Consumer Lease Reforms) Bill 2018, introduced into the Parliament in February 2018.

Further recommendations are made below in sections 6 and 7 of this submission in regard to the other key matters included in the terms of reference of this Senate Inquiry.

2. About The Salvation Army Moneycare

Moneycare is The Salvation Army's financial wellbeing and capability service, that has been operating for over 28 years in Australia, delivering a range of free and confidential services such as financial counselling, financial capability work, financial literacy/capability workshops and microfinance. The services seek to help people in financial hardship by addressing their immediate crisis situation and to build their long-term capability and resilience in managing financial hardship.

With The Salvation Army's mission and values as the foundation, Moneycare services are delivered with empathy and dignity, and the team at Moneycare invests highly in building trusting relationships with people who are accessing their services. Since 1990, Moneycare has helped thousands of people in vulnerable and disadvantaged circumstances who were at risk of, or experiencing, financial and social exclusion.

The value of Moneycare services is evidenced by two key pieces of research. Firstly, the 2012 research by the Swinburne University of Technology found that The Salvation Army's financial counselling services had a positive impact across the domains of debt resolution, wellbeing, financial capability and advocacy, with 94% of those surveyed wishing that that they had sought help sooner (Brackertz, 2012).

Secondly, the development of the Moneycare outcomes measurement tools, piloted in ACT, NSW and QLD in the 2017/18 financial year, measured the changes in the first three months of a person's journey with Moneycare financial counselling and capability services. The findings demonstrated that Moneycare has helped community members in addressing their financial hardships, building financial resilience, improving their mental health, and their overall wellbeing and spirituality. Seventy-nine percent of respondents reported improvement in their financial resilience and 67% reported improvement in their mental health within the first three months of connection with Moneycare (Misra & Susanto, 2018).

Moneycare's client feedback on casework services also reaffirms the impact of its service delivery. Out of 2,207 responses received in 2017/18, 95.2% respondents claimed to have increased their money management knowledge or skills, 96.1% had an improved ability to handle their own financial situations, and 93% had their financial difficulties resolved or mostly resolved.

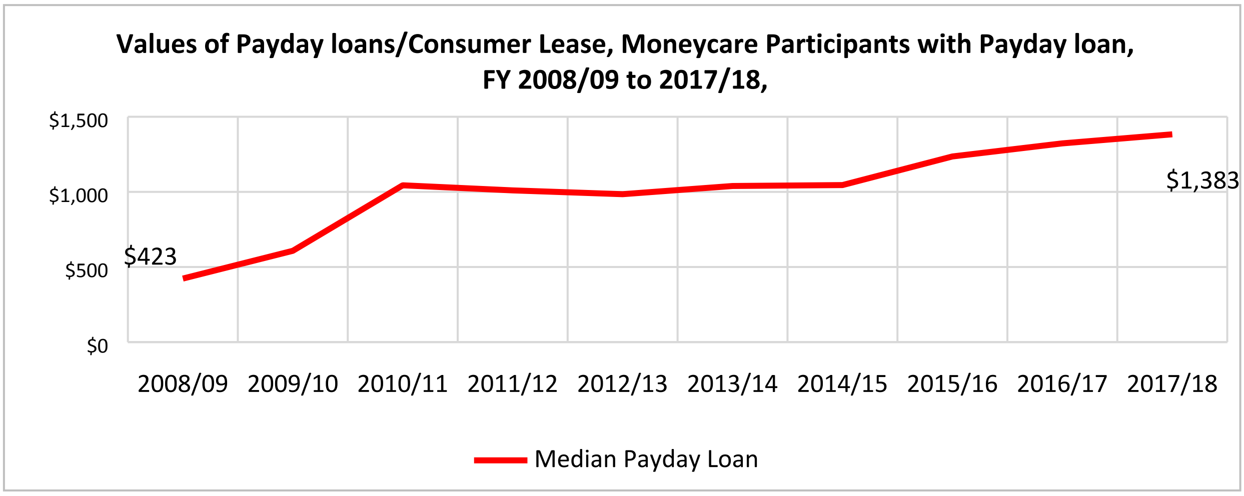
3. The impact on individuals, communities, and the broader financial system of the operations of payday lenders and consumer lease providers

The Salvation Army regularly sees people in marginalized and vulnerable situations with this type of debt. It is one of the most rapidly growing debt types that our community members present with, see below.

Types of Debt, Moneycare Participants with Debt, FY 2008/09 to 2017/18

	Participants' Outstanding Debt Per Household Median
Mortgage	$ 246,000
Car loan	$ 16,950
Personal Loan	$ 15,600
Credit card	$ 9,789
Fines	$ 1,000
Payday loan/ consumer lease	$ 1,383
Electricity	$ 1,046
Phone	$ 1,002
Centrelink	$ 950

The proportion of community members presenting to our services with payday loans or consumer leases has steadily increased over the years, more than doubling in size from 6% in 2008/09 to 13% in 2017/18. The median values (after adjusting for inflation) trebled from $423 in 2008/09 to $1,383 in 2017/18.



Those coming to our services aged 18-24 years tended to have payday loans or consumer leases, with more than 2 in 10 in this age group in 2017/18 having such debt, compared to other age groups. People using our services with debt that lived in social housing, and/or had other forms of unsecured debt (such as electricity, fines, phones, or Centrelink debt), also tend to have payday loans/consumer leases.

Groups who were more likely to have Payday Loans/Consumer Leases, Moneycare Participants with Debt, FY 2017/18

Our casework experience indicates that pay day loans and consumer leases are far too easy to access (digital access has grown rapidly) with few barriers to qualify. They put people already in hardship into worse positions. People take them out as they are easy to obtain and view them as a way to deal with a financial issue immediately.

Behavioral science tells us that people in crisis experience cognitive overload, which impacts their decision making and focus. Their focus is on meeting their pressing need and their decisions in times of crisis can and often does put them in a worse financial position in the longer term – this industry takes advantage of that.

Our experience in financial counselling has shown us that when people are in crisis they will do whatever they need to do to survive. People need to find a way to pay the rent so they don’t get evicted. They need to find a way to pay the car loan to stop repossession. They need to find a way to pay the bigger than expected electricity bill to keep the lights on. They need to find a way to repair the car to get to work. They will access whatever finance they can to get through that week. So their financial hole gets deeper and financial service providers continue to profit from it

By contrast, there are a number of better alternatives to accessing this type of debt, for example:

- Speak to a free financial counsellor (providing options and advocacy – a loan may not be the answer)
- Emergency relief provided via community organisations (food, utilities, rent etc)

- No interest loans provided via community organisations (white goods, car repairs etc)
- Contacting who you owe money to (e.g. utility and telco companies, landlords) and negotiating affordable repayment arrangements (financial counsellors can help with this)
- Centrelink advances up to $1,000 (depending on Centrelink payment type)
- Saving prior to purchase.

Another key issue in regard to consumer leases is that consumer lease providers have access to the Centrepay system. This appears contrary to the original principles of Centrepay, which we understand were to help people on low incomes with money management. In our experience a consumer lease payment is more likely to cause money management issues.

Case study 1 - Consumer leases

A community member presented with an outstanding debt with a consumer lease operator of several thousand dollars. Most of the rental products were home appliances and devices. Our community member had escaped family violence, and some of the goods were damaged. She continued to make payments when she could and eventually gained a permanent home where she could safely store the goods.

Our community member stated that she wanted to keep the goods, however she couldn't pay what the lease company were asking. Moneycare rang the local franchise to request hardship assistance, however the owner wasn't available. They took all the details to contact us, together with the hardship request.

A day after this request was placed the consumer lease operator sent a truck to the house to retrieve the goods, and we still hadn't had a response to the hardship request. The man in the truck knocked on her door two days in a row, however she didn't answer. He was a large burly man, who insisted while outside the door that she open and hand over the goods.

A few days later, she answered the door when this tactic was tried again. Her children were terrified and so was she. Having just escaped family violence, this was very difficult for her. She stated that she wouldn't be handing the goods over and shut the door, with the man still banging loudly on the door.

She then reported the incidence to Moneycare. We spoke with the franchise operator, however he stated that she had to either pay or return the goods. He did not accept our hardship request.

We contacted the head office who then spoke to the franchise owner and an arrangement was arrived at. However, the arrangement still required a return of some of the goods as the franchise owner stated that he has a business to run. Eventually, after further advocacy by Moneycare, a suitable arrangement was finally made.

Case study 2 - Consumer lease and pay day loan

A young Aboriginal woman who lives outside a small country town in NSW contacted us for a no interest loan to be able to pay for car repairs. She had a disability and received a disability support pension. She needed her car repaired to be able to get into town for shopping, medical appointments and to assist her parents. She led a modest lifestyle. A loan was subsequently approved for $1,200.

During the course of preparing her application for a loan it was found that she had two current small amount credit contracts.

One was with a pay day lender where she was paying $85 per fortnight, and another was with a consumer lease/rental agreement operator where she was paying $61 per fortnight. The total payment per fortnight was about 16% of her income. This was more than any other single item in her budget apart from food.

The rental agreement was taken out some months earlier and was to acquire a Samsung S7 32GB mobile phone and accessories. The payments of $61 per fortnight for 2 years, totalled $3,172. A subsequent internet search by Moneycare revealed that a Samsung S7 32GB could be purchased from another retailer for $599, or about 20% of the cost our community member paid (or about 5 times cheaper).

Case study 3 - Pay day loan

Our community member is an Aboriginal man from country NSW. He came to us seeking a no interest loan for car repairs and car registration. He had a disability and lived in Government Housing. His loan was subsequently approved, however during the course of the application process it was revealed that he had a loan from a pay day loan provider.

He was paying $177 per fortnight or 19% of his income to repay the loan. Apart from rent, that was the highest cost of anything else in his budget. He was provided with $3,000 under the loan and was required to repay $4,236.

4. The impact on individuals, communities, and the broader financial system of the operations of unlicensed financial service providers including 'buy now, pay later' providers and short term credit providers

Buy now/pay later is not a new concept however the digitisation of it is still relatively new. At this stage we do not have extensive casework experience in regard to the digital era of buy now/pay later, as our casework services tend to be crisis services and it can take some period of time for this to impact. However the increasing rate we see is causing concern and it does appear to be an emerging issue. It is estimated that about 5% of people coming to our services have these facilities, some areas up to 20%, and some community members have multiple facilities of 8-10 accounts. We generally see younger women with these facilities.

Particularly from a financial literacy/capability perspective, it is clearly a very concerning issue and we make the following observations:

- The sign up process facilitates impulsive decisions. It is a very easy sign up process, not requiring any detailed consideration by people, adding to impulsive, spur of the moment decision making. According to community lawyer, Richard Brading, "Afterpay/ZipPay enable you to buy now and pay later, creating the perfect recipe for impulse buying"[ii]
- The nature and design of the product encourages over spending and spending beyond one's means. It is very appealing to people who cannot afford something at the time and may entice them into a transaction that they would not normally enter into. According to Mozo research " .. most concerningly, 64% of respondents said that being able to make smaller, spaced out payments was actually influencing them to make purchases they wouldn't have normally made had they been upfront single transactions[iii]"
- Although there is a fee free period for buy now/pay later payments, installments can be set up on a credit card thereby potentially increasing the debt load of that person and their credit obligations, without there being any credit assessment process.
- Late payment fees apply, which could be construed as effectively being the cost of the credit provided.
- A person's credit rating can be potentially impacted.
- People in vulnerable or disadvantaged circumstances are particularly vulnerable to this type of product. According to UK research, "people experiencing mental health problems are substantially more likely to use and fall into difficulty with point of sale credit products[iv].
- There appears to be irresponsible and direct targeting of younger people, encouraging purchases that are not affordable (see example below). Afterpay themselves state that "Millennials comprise 75% of Afterpay's customer base".

5. The impact on individuals, communities, and the broader financial system of the operations of debt management firms, debt negotiators, credit repair agencies and personal budgeting services

5.1 Debt management firms and debt negotiators.

Our casework experience indicates that:

- People often don't fully understand what a debt agreement is, particularly for people from CALD backgrounds.
- People are not aware that a debt agreement is an act of bankruptcy. Often the word bankruptcy is not mentioned at all.
- People often believe it is a consolidation loan.
- Other debt reduction options have not been mentioned to people, particularly where there is likely to be a better alternative.
- People are not being advised the effect a debt agreement has on their personal credit file and listing on the National Personal Insolvency Index.
- Debt agreement administrators are submitting debt agreements that are not sustainable i.e. the budget is far too tight.
- High up front set-up fees are charged even if the debt agreement does not get accepted e.g. in one case an applicant was charged a $1600 set-up fee that only had one debt.
- Assessing someone's suitability for a debt agreement involves completing a statement of financial position with the applicant. In most cases, this would only take between 1-2 hours. It is difficult to justify some of these high fees as the assessment and application process does not appear complex.

- People are put into a debt agreement when their only source of income is from Centrelink e.g. a Carers pension. Centrelink income covers basic living expenses only and is not a suitable option for this group of people.
- People are not being referred to or advised of financial counselling services.
- Debt agreement providers appear to submit offers that creditors are likely to accept rather than what debtors can realistically afford.

People in financial stress will often grab on to the first debt reduction option suggested. They are in extremely vulnerable circumstances and can make hasty decisions. Highly anxious people can be easily persuaded, and the client/debt administrator relationship is not equal.

Many debt agreement contracts are now over a 5-year term, whereas 10 years ago they were for 3 years. People need to get out of debt within a reasonable period of time. Having a financial goal of paying down debt is admirable but it isn't easy no matter how much a person wants to. A debt agreement is more likely to fall over the longer the time frame because of the likelihood of unexpected life events happening in that period. Debt agreement administrators appear to prefer the longer term as it supports a higher return to creditors, and is more likely be accepted. The client likes it initially because payments appear lower, but in reality they are often still too high, and the time frame too long to sustain.

Case study 1 - Debt Agreement Service

An elderly couple presented to Moneycare stating they had both entered into a debt agreement in March 2017. They advised when talking to the debt agreement service, no other debt reduction options had been mentioned.

The husband worked casually and his wife was on a low income. At the time the debt agreement was entered into, they had $20,000 arrears on their mortgage. Previous to the debt agreement the husband had been out of work for a long time due to an accident. During this time, he had accessed all his superannuation under hardship to pay down debt - over $80,000. The house was repossessed in December 2017, and when sold in August 2018 left them with a shortfall of $90,000.

On assessment, it was clear the debt agreement was not a suitable option because they were servicing a secured home loan that was in arrears. Not being able to keep a secured loan up-to-date is a warning of likely entrenched financial hardship. The debt agreement was not sustainable as the joint income was neither sufficient nor reliable. Being in a debt agreement further exacerbated this couples stress and anxiety as it did not fully resolve their financial problems and the transition to bankruptcy was not something they were expecting.

Case Study 2- Debt Agreement Service

The community member (CM) is a single mother with two dependent children who presented to Moneycare. She works and studies part-time. She stated she separated from her partner in 2014 and receives little to nil child support from him.

She entered into a debt agreement in 2015, with no other debt reduction options being suggested as possibly more suitable. The debt agreement service received 21% of the $400 per fortnight negotiated return to creditors. The client made sincere attempts to keep-up-to-date with payments but this became more and more difficult as time went on, resulting in her defaulting many times.

On discussing her situation with Moneycare, it was clear the debt agreement was not a suitable option for getting out of debt. When Moneycare compiled a true and workable budget, it showed a deficit of $175 per fortnight. The debt agreement would not have resolved her financial situation for the long term, and in fact has kept her in financial hardship resulting in increased anxiety and stress.

Bankruptcy is the option the CM has decided to proceed with. She is happy with that decision and feels if it had been mentioned at the onset, she would not have entered into a debt agreement. All the payments made to the debt agreement could have been used for basic living expenses, such as groceries, medical, and essential items for her growing children.

Case study 3 - Debt Agreement Service

The community member (CM) stated at the time he contacted the debt agreement service, he had just left a long term relationship and his life was complicated and stressful. He went into a debt agreement quickly as he felt that was the only option available to him to pay off debts that had accumulated throughout the relationship. He was desperate to get some control back over his life. The debt agreement was over five years and was two tiered, meaning that when his car loan was paid off in 2.5 years, the monthly debt agreement payments would increase.

The CM was struggling and behind a couple of payments at the 2.5-year mark, and when he approached Moneycare for assistance. The CM had no capacity to increase payments as he was already finding it difficult to catch up arrears. On assessment the financial counsellor identified the debt agreement repayments were likely unachievable from the start. He had been forgoing purchasing essential items and his budget did not allow for unexpected expenses that would be a normal expectation over a 2-3-year period.

The CM was very upset, even though he genuinely wanted to try and repay his debts; he felt he had wasted his money, particularly paying high fees to enter in to the debt agreement that was likely never going to work. He felt his mental health had deteriorated throughout the process and this was affecting his ability to work.

The financial counsellor was able to assess his whole situation, and offer referrals to other support services for his personal and emotional wellbeing. The financial counsellor and community member are still working together, and at a pace more appropriate for his current state of mind. Together they will consider a more suitable plan to resolve his financial situation.

5.2 Credit repair agencies.

Our casework experience indicates that:

- Applying to a credit repair agency for assistance is often done online and advertised as a quick fix process. Many people have clicked 'yes' and are in a binding agreement within a few minutes before fully understanding the details and obligations of the contract.
- Financial counselling services trying to assist people after an agreement is entered into, can struggle to get copies of the agreed terms and conditions from the agency, if at all.
- People do not realise they would have to pay a fee to the credit repair agency for each activity they provide i.e. when each debt is removed.
- Many people entering into a credit repair agreements incorrectly believe the notation on their credit file will be removed entirely.
- Some people think engaging with a credit repair agency means creditors will stop contacting them in relation to money owed.
- Many of the credit repair agencies suggest a 'quick fix', which draws people in thinking they will get a quick result. The process can take quite some time.
- People in vulnerable circumstances often do not have the capacity, at that time, to understand the terminology and structure of the terms and conditions.

Case study - Credit Repair Service

The community member (CM) enlisted the services of a credit repair agency to help clear notations on his credit file. He had six default listings, all for pay day loans. He wanted to fix his personal credit history in order to obtain a car loan for when he started work again.

The credit repair service advised they could assist him and quickly provided information over the phone. An agreement was made, but no contract was signed. A $50 establishment fee was charged as well as an ongoing service fee of $250 per fortnight. The CM advised he is not sure when that fee will end.

The credit repair service contacted the CM to advise they were successful in getting one of the lenders to agree to remove a default listing. However, for this to happen, he must immediately pay what is owed - $244 in 30 days. They then advised there would be an additional charge of $1,000 for this successful result. The CM advised he could not afford to pay $1,000 and that he would likely struggle to pay the $250 per fortnight charges. They offered to split the $1,000 into two payments but the CM said he did not have capacity either way. The CM was unaware additional fees would be charged over and above the $250 per fortnight.

He advised he was open and honest about his statement of financial position, but that the credit repair service did not ask to view any supporting documents. The case is ongoing, and being managed by Moneycare.

5.3 Personal Budgeting Services

Our casework experience indicates that:

- Advertising is often not clear and people responding think that they will solve all financial issues.
- They target areas where many people in vulnerable circumstances connect e.g. Churches.
- Financial literacy education workshops are often their primary tool to link people into their 2nd stage service of payment arrangements.
- Services often fully manage debts for people and take over responsibility, as opposed to financial counselling services that empower, educate and coach people to change behaviours and learn new skills to become self-reliant (see also 7.2 below, "The nature of financial counselling services").
- They charge ongoing fees to people in financial hardship. Agreements can be tricky to fully understand e.g. people have to give four weeks' notice in writing before the service will stop paying their bills.
- Services appear to provide plenty of assistance to get into an agreement, but little to no assistance to get out of it.
- Payment arrangements often don't get people out of debt in a timely manner.
- When a budget is reviewed by a financial counselling service, they identify that in reality there is little to no capacity for a payment arrangement.
- Contracts and plans are often negotiated over the phone by the service rather than face to face. This method can make it more confusing for people to understand the details of the agreement and their obligations.

Case study - 1 Personal Budgeting Service

The community member (CM) phoned a personal budgeting service in 2015. She was having difficulty with compounding interest on her overdue credit card. She receives Centrelink as her only source of income. Prior to the appointment, the budgeting service sent her a booklet to complete and insisted the representative visited her at her home. A former client who had been through the program also came with the representative to the appointment.

The budget was very tight with only $9.45 surplus per fortnight spare to put towards debts. She asked the budgeting service if they would contact a bank to see if they would negotiate on the interest rate. They responded, ‘we don’t do it that way’. The CM felt they were very pushy in wanting her to sign paperwork on the spot.

The CM also had a car loan with another lender. She had previously contacted the lender and negotiated a mutually acceptable hardship payment arrangement. She said the budget service were quite insistent she sell her car and that they would also take this debt on as part of their program. The CM refused to sell her car. The CM received a letter from the budgeting service saying that the arrangement would be $9.45 per fortnight over 20 years. She did not proceed to enter into an agreement.

Case study 2 - Personal Budgeting Service

The community member (CM) had been in financial hardship for quite some time before engaging with the budgeting service. She had been living in an abusive relationship and life had been challenging with little family support. Her relationship breakdown contributed to her financial situation. The budgeting service agreed to assist her in overcoming her financial challenges.

After being engaged with the budgeting service for three to four months, she noticed her money plan was becoming very tight. She only had $34.00 surplus per fortnight for unexpected expenses for herself and her two young children and this was proving difficult to manage. Unfortunately her car broke down and mechanical expenses became due. She contacted the budgeting service to discuss her changed situation but had to wait two weeks for the staff member handling her case to return from leave.

The community member was quite distressed by the time she came to Moneycare. She wanted another opinion on her situation and to discuss all options of getting out of debt. She felt the fee structure and details of what the budgeting service could provide had not been fully explained to her. Moneycare was able to explain all debt reduction options to her so she could choose a plan that better suited her situation.

6. Whether current regulation of these service providers meets community standards and expectations and whether reform is needed to address harm being caused to consumers

The Salvation Army is of the view that current legislation of the service providers who are the subject of this inquiry does not meet community standards and expectations and that reform is needed to address harm being caused.

In regard to pay day lenders and consumer lease providers, it is recommended that;

6.1 The National Consumer Credit Protection Amendment (Small Amount Credit Contract and Consumer Lease Reforms) Bill 2018 is passed into legislation as soon as possible.

6.2 Consumer lease providers are no longer able to access Centrepay.

In regard to unlicensed financial service providers including 'buy now, pay later' providers and short term credit providers, it is recommended that;

6.3 They become subject to the same responsible lending laws as for credit cards and personal loan providers and be regulated under existing laws. This is stated with the hope that existing credit laws will be strengthened following recommendations from the final report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

In regard to debt management firms and debt negotiators it is recommended that;

6.4 They become subject to a comprehensive regulatory framework designed in collaboration with community based financial counsellors and lawyers, with features such as, but not limited to;

- Government licensing or authorisation.
- External dispute resolution review
- Robust industry entry standards
- No up-front fees
- Clear reviewable and enforceable requirements to act in the best interests of clients in advising of options and in assessing a person's financial situation.
- A requirement to advise of the role and contact details of free and confidential community based financial counsellors, in every case.

In regard to credit repair agencies it is recommended that;

6.5 Legislation is put in place to ensure that any potential harm that this industry can cause is eliminated and that a mechanism is put in place to ensure early referral to financial counsellors. That community lawyers and financial counsellors are involved in the design of the legislation.

In regard to personal budgeting services, it is recommended that;

6.6 Legislation is put in place to ensure that any potential harm that this industry can cause is eliminated and that a mechanism is put in place to ensure early referral to financial counsellors. That community lawyers and financial counsellors are involved in the design of the legislation. Further that they are barred from being able to work with people at risk of financial hardship e.g. anyone at imminent risk of not being able to pay a debt or pay for basic cost of living expenses (rent, food, utilities, clothing etc).

7. The present capacity and capability of the financial counselling sector to provide financial counselling services to financially stressed and distressed members of the community

7.1 Demand for financial counselling services

The financial counselling sector has for decades struggled to handle the demand for services. Over the last decade, for example, Moneycare appointments at most locations have been out to 2 to 4 weeks. We try to limit waiting periods for appointments to two weeks however this often becomes impossible.

Unmet demand is very difficult to determine. In 2017/18 Moneycare received 22,861 initial contacts and inquiries. In the same period we were able to assist 8,475 new clients with casework services. The gap between initial contacts/inquires and new clients would not be the unmet demand but it would be an indication of a proportion of it.

We do not normally promote our services in fear of overwhelming our services. Many people coming to see us comment that they had not previously been aware of financial counsellors or what they do. Referrals to our services are usually from former clients, or their family/friends, or from established referral pathways who are aware of what we do e.g. community organisations, other Salvation Army services, credit providers and Centrelink.

Our experience from developing services over the years is that if we are able to establish or add a service at any location the demand for that service is taken up quickly, once traditional referral sources are aware of the service.
Our experience is that demand can be high in all locations; city, regional and remote.

7.2 The nature of financial counselling services

It is noted that the role of a financial counsellor is unique and is now part of a well-developed profession with high standards and accountability. There are specific initial training and ongoing professional development requirements as well as ongoing casework supervision requirements.

Financial counsellors are not only skilled in all the technical aspects of the role, e.g. credit law, bankruptcy law, the legal debt recovery process and Centrelink requirements, but are also have a relational approach to their work through an understanding of counselling skills and taking on the underlying ethical practice framework of the financial counselling sector and organisations they work for.

Financial counsellors work within a holistic, relational, capability building model of practice which not only seeks to address the presenting issues but works closely with community members to understand the underlying issues to their financial hardship, e.g. unemployment, relationship breakdown, addictions, domestic and family violence and illness.

Financial counsellors need to have skills, attitudes and approaches that allow them to work effectively with people who can be highly stressed and anxious. It has been reported that financial issues are the number one cause of relationship breakdown. Unfortunately it is not uncommon for community members seeking help to have had suicidal ideation. Many people coming to our services have mental health conditions.

As part of an outcomes measurement process conducted for Moneycare in 2017/18 a "Kessler 6" (acknowledged psychological distress scale) survey was conducted with Moneycare community members. A Kessler score over 18 is considered to indicate a person with a possible serious mental health condition. In the surveys conducted in our Moneycare services in western Sydney, for example, it revealed an average Kessler score of 17.91, with 40% of community members with a score over 18. After one month of connection with Moneycare this score decreased to 15.63% (12.7% decrease) and with only 29% of community members with a score over 18.

Clearly the capability of financial counsellors is just not in regard to financial matters. The broad value and impact of financial counselling can be shown from research by the Swinburne University of Technology which found that the Salvation Army's financial counselling services had a positive impact across the domains of debt resolution, wellbeing, financial capability and advocacy, with 94% of those surveyed wishing that that they had sought help sooner (Brackertz, 2012). See chart below, from the research, showing positive impacts on matters such as; feeling more positive about the future, relationships improving and being better able to save.

Because of the approach of financial counsellors and the way they work they can touch the people they work with at a very deep level and have a profound impact on their lives, as is evidenced by an example of feedback from our community members in regard to our Moneycare service, as follows;

- *Without you I was alone and devastated, didn't know what to do. I really appreciate your support and assistance to get me out of my financial stress. The information provided was clear, simple and understandable. I am very happy with the outcomes.*
- *I was in a very overwhelming situation. Thank you for helping and guiding me through this difficult time. I was in a very bad place until I came to Moneycare Salvation Army, as I was so worried about my financial circumstances. I couldn't eat or sleep as I was worried all the time. Now that everything has been sorted with your help I am able to manage my payments.*
- *I have appreciated speaking with your caseworker, who understood my difficulties around mental health and how that affects everything I do.*
- *The service helped me solve a scam issue with my recently purchased solar panels. This was a great relief. The caseworker did a lot of work for me and*

I feel much better now. I have spread the word around the aboriginal people who I mix with, that The Salvation Army provide good support.

- *Thank you the information, it has been extremely helpful. I feel confident to speak with creditors now.*
- *The service was extremely helpful during the period I needed it.*
  I honestly donot know how I would have coped otherwise. The Moneycare financial counsellor provided an outstanding service and I would definitely refer friends or family needing help with their financial needs.
- *The caseworker is a good bloke. He understood my needs and helped me through a bad time. My remote living causes high costs for food and fuel. I have recommended this service to two other people from Mungindi and we car pool to Moree to split cost and get help.*
- *You guys did a great job by listening and understanding what I was worried about. You did such a good job in supporting and guiding me. Thanks for the valuable assistance provided to me.*
- *The financial counsellor was very understanding & compassionate while being thorough and honest. She asked the right questions to understand the situation. I have never seen a financial counsellor before, but this experience was so positive that if needed in the future I would attend and will definitely recommend.*

Please see also below the case studes of Jack and Raj that highlight the impact of financial counselling services

7.3 Current and Emerging issues

The Salvation Army recently conducted a 10-year data analysis of people who accessed Moneycare services in the ACT, NSW and QLD. The project sought to examine the profiles and challenges experienced by community members who accessed Moneycare from the period of 2008/09 to 2017/18 financial year. The sample for this study was derived from the Salvation Army's information system, SAMIS (Service and Mission Information System), which stores client information.

The study revealed these key findings:

- When adjusted for inflation, participants' median income remained similar over the 10-year period. In 2017/18, participants' median disposable income was $576 per week, which was below Australia's household poverty line.
- Participants spent less on basic necessities compared to Australian households (ABS, 2017b), specifically on food, transport and health. This is likely to reflect a prioritisation on payments for housing and utilities,

resulting in participants not being able to afford things that average Australians normally enjoy.
- Participants' expenditure on housing remained stable over the 10-year period (after adjusting for inflation).
- Nevertheless, with participants' low and stagnant incomes, housing costs were a source of continuous struggle throughout the 10-year study period. Of total expenditure, participants generally spent 35% on housing, compared to 20% among Australian households (ABS, 2017b).
- The incidence of housing stress was also significantly high among participants, with 64% experiencing housing stress in 2017/18.
- Participants in private rental market were at most risk of housing stress. In 2017/18, 74% of participants in private rental experienced housing stress, compared to other housing types: owners with mortgage (61%), social housing (42%), and rooming/boarding house (68%).
- Among participants in private rental, single parents, lone person households and participants aged over 55 years were found to be at most risk of housing stress.
- Of particular concern was the significant increase of participants aged over 55 years who were in private rental, from 27% in 2008/09 to 42% in 2017/18.
- Participants living in Sydney who were in private rental, or home owners with a mortgage, were also found to be at most risk of housing stress compared to other areas in NSW and QLD.
- Among participants with debt, the most common form of debt was credit card debt at 49%, followed by personal loans at 30%, and electricity debt at 25%.
- The value of credit card debt increased significantly in the 10-year period. After adjusting for inflation, the real value of credit card debt increased by 38%, from $7,070 in 2008/09 to $9,789 in 2017/18.
- The incidence of participants with pay day loans and consumer leases increased significantly, particularly for participants aged 18-24 years old. The proportion of participants with this debt more than doubled from 6% in 2008/09 to 13% in 2017/18 and tripled in real values to $1,383 compared to 10 years ago. Younger participants, aged 18-24, were more likely to have payday loans than other age groups.
- The incidence of participants in severe debt remained the same over the years. Among participants with debt in 2017/18, over one-in-10 participants had debt that was six times or more than their annual disposable income. Most participants who were in severe debt also had mortgage debt.

These findings highlight the variety and extent of financial difficulties that many people experienced. Low and stagnant income, housing stress and a rising level of debt were only some of the issues that were revealed in this study. See related Infographic below.

7.4 Recommendations in regard to the present capacity and capability of the financial counselling sector to provide financial counselling services to financially stressed and distressed members of the community

It is recommended the number of financial counsellors in Australia be urgently increased. Our estimation, based on our experience, is that the number of services needs to be doubled to have any real impact on meeting the needs of financially stressed and distressed members of the community.
Our understanding is that there are approximately 500 FTE financial counsellors across Australia. It is recommended that this number is increased to 1000FTE.

Currently services are funded mainly through Federal Government funding (DSS Financial Wellbeing and Capability Program) and various state financial counselling and financial resilience programs. Additionally there is some limited corporate funding and some agencies, such as the Salvation Army provide additional funding for services from internally generated funds.

It is recommended that a financial industry levy be put in place to fund the needed increase in services for financial counselling. Such a model exists in the United Kingdom and there is already an industry levy in Australia to fund the Australian Securities and Investments Commission. This levy would only need to be increased a small portion.

Case Study 1 - The value of financial counselling services

Jack will never forget the 30th March, 2017. A massive flood ripped through his Brisbane suburb, the result of Cyclone Debbie, and he and his partner were forced onto the roof of their home for five hours until they were rescued, with flood waters inching higher and higher.

"I had to wake the neighbours up and got them up onto our roof as well because the water was coming up so fast. The neighbours across the road were screaming because it was up over the gutters of their house," he remembers.

He and his partner lost everything. Their home, cars, small business – all destroyed by the floodwaters. Not all of it was insured, and some items that were insured weren't covered anyway due to a technicality.

"We were pretty much in dire straits," Jack says. "I had lots of business debt as well as personal debt like a car loan and machinery repayments to make, credit cards… We just had no idea what we were going to do because we couldn't service the loans, we couldn't survive, we couldn't do anything." He was in disbelief. Jack had been financially secure his whole life, having been manager and director of several businesses. Now, he had nothing.

After receiving some initial disaster assistance, Jack says his case got "lost in the system" and more than six months went by without any support. He and his partner were staying at friend's places and with family, but that was wearing thin and Jack's outlook became more and more bleak.

"It crippled me. I couldn't get out of the house for weeks. I couldn't do anything. I was always tired. My partner and I were having arguments over crazy little things. It just about broke me," he says. "We couldn't eat properly. We had cut down to two meals a day. We couldn't buy food or anything at that stage."

In September this year (2018), The Salvation Army's Moneycare Financial Counsellor, Lisa Simpson, was introduced to Jack by his DOCCS caseworker. He says if they hadn't made contact with him at that point, he was probably just two to three weeks away from taking his own life.

"If I hadn't met Lisa and the other lady at that time, I was that close I think. Another week or two and that would have been it."

Lisa immediately supplied Jack and his partner with a supermarket voucher and helped Jack to get his entire financial situation down on paper so that they could make a plan to move forward. At that stage, Jack says he didn't have much hope. "I was a little bit scared actually when it was all put on paper. She assured me that we'll just do one thing at a time and that's basically what we did. We just started to have a little win here, or there, and we worked our way right through."

Lisa also accompanied Jack to the local government housing office where he had been trying to secure a home. "It made a big difference to have someone there that could speak the same sort of language that they're used to, it made a big difference." She also negotiated with his telecommunications company (who he had been trying to speak to without success) and his bank to get his hardship provision extended.

"I had no idea that the Salvos could actually do [all of this] to help the situation," he says. "To give us the hope and the feeling that there was someone there for us was enormous. I wasn't aware of the time that it takes to get back up on your feet. It is overwhelming. It's taken so long to get going again."

And Moneycare's Lisa has been there, every step of the way, working with Jack and his partner to sort through every debt, negotiate payment plans, access housing and much more. Perhaps the thing that saved Jack's life, was the fact that Moneycare's Lisa recognised that he was struggling with his mental health, and she and his community service worker called Queensland Health on his behalf.

"Lisa had actually rang up the guys from mental health in QLD to check on me," Jack says. "My partner kept on telling me that I should speak to someone or do something about it but I was like, 'No I'm ok,' but they saw things that I couldn't see.

"I got a phone call first and then I got a visit by two nurses… I felt so much better once I started to talk. I was happy right from the start that they had actually taken the time to think of my welfare. I was very humbled by that. Lisa is not just the Moneycare person for us, she has become a really good friend."

One of the things that really blew Jack and his partner away was the attention to detail and time that Moneycare's Lisa put into their case. She made sure she called Jack to let him know how various negotiations were going, and get his feedback on how she planned to approach every obstacle. Being part of The Salvation Army, Lisa was also able to access supermarket vouchers, fuel vouchers, a voucher for a new phone (theirs was damaged in the floods) and even Christmas presents for Jack's son when the festive season rolled around.

"We just feel so humbled and blessed and it's just like we were given a guardian angel." Jack now has hope. He is working with his doctor and psychologist and is ready to start applying for jobs again. He says he can't put into words how grateful he is to Lisa from Moneycare and to The Salvation Army for its assistance in his time of need.

"To have someone there for you, is just, it's the most important piece of the puzzle," he says.

Case Study 2 - The value of financial counselling services

2007 was going to be a big year for Raj and his family. He was turning 50, and just about to retire after a successful career and good investment choices. His son was turning 21, his daughter 18 and he and his wife were looking forward to celebrating 25 years of marriage.

Life was good. But the year didn't turn out as they had hoped or planned.

Raj's wife was diagnosed with a malignant brain tumor. Her health very quickly deteriorated and she needed constant care. Devastated, Raj closed his self-managed I.T companies to remain by her side and did his best to care for their traumatised children. Within a year she had passed away.

In 2008 the Global Financial Crisis shocked the world, and rocked an already grieving Raj. His investments were wiped out, he was over 50 and couldn't find work in the I.T sector and was forced to sell not only his investment property in Queensland but also the family home in Sydney to survive. Raj was trying to hold himself together for the kids, but his debts were mounting and internally, he was crumbling.

"Not in my wildest dreams I never would have thought that I'd been on Centrelink benefits or be in a situation where I would need a financial counsellor," he says.

After submitting hundreds of applications, Raj secured a job at The Salvation Army's Employment Plus. But with his creditors still breathing down his neck, he was ready to declare bankruptcy. He believes it was fate that, through his job at the Salvos, he found out about The Salvation Army's free Moneycare Financial Counselling Service.

"I don't know how I would have survived without the likes of The Salvation Army."

His Moneycare financial counsellor presented Raj with options he didn't even know he had, giving him hope for a debt-free, stress-free future. "From the first meeting onwards it was as if the weight was lifted off my shoulders… The work that they did to really basically support me and screen me from the creditors was just enormous. I could focus on getting myself back on my feet and get a stable employment - it was a great help."

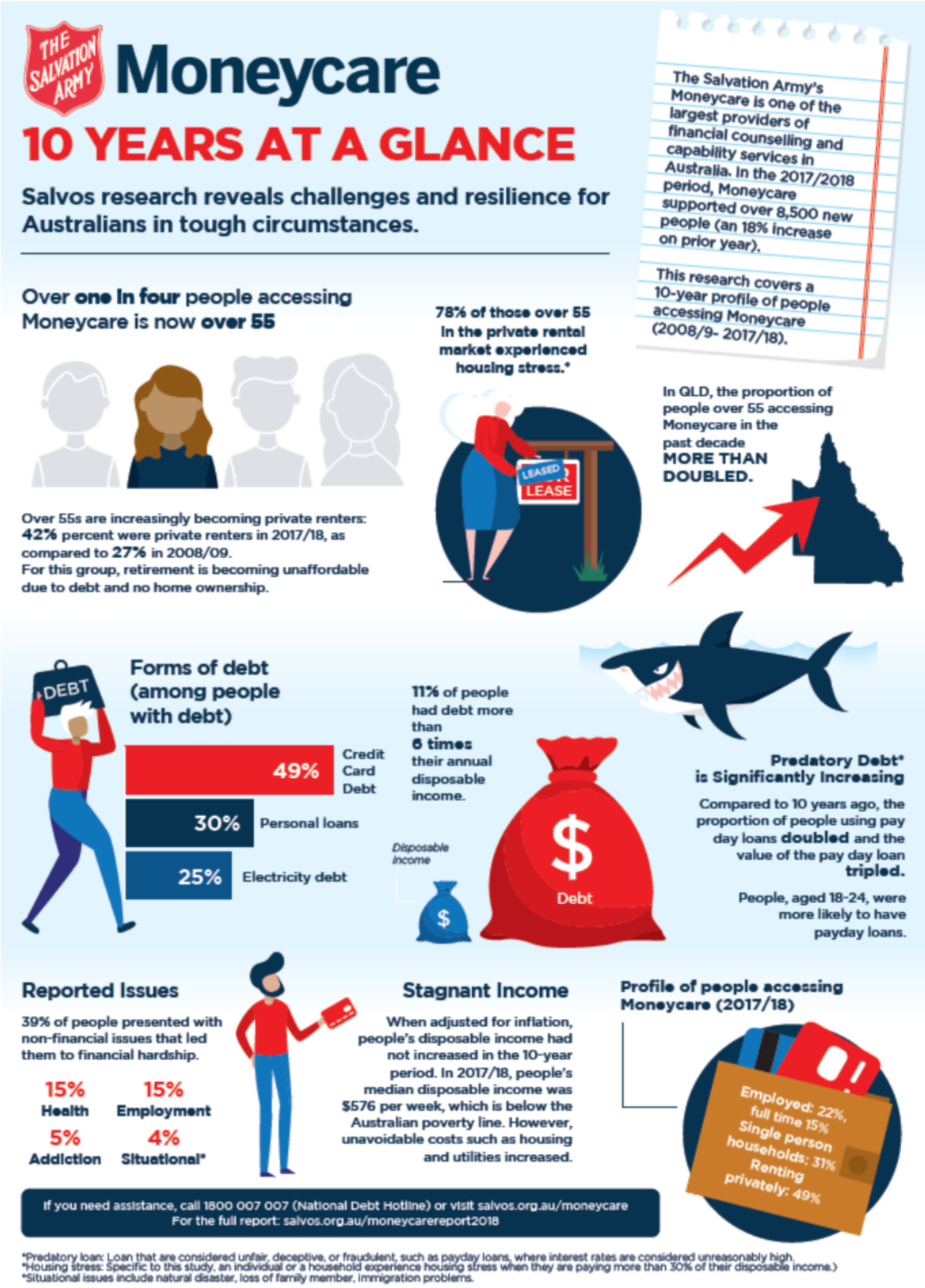
Vispi helped Raj to renegotiate his debt due to the intense and unexpected hardship Raj and his family had suffered. "It's such a valuable service for people whose circumstances have changed – not through their own fault - but just like myself."

In 2016 Raj made his final debt repayment. Since coming into contact with The Salvation Army's Moneycare Service he has written and published a book, retrained as a counsellor, has stable employment in a fulfilling job and has recently started his own small business.

He's lost so much – his wife, the future he had envisaged, his savings, superannuation and his home – but he chooses to dwell on his gains.

"I can't thank them [The Salvation Army] enough. Without their help I wouldn't be in this situation where I'm working in my dream job, fulfilling my life ambition, my vision, which is that I'm doing the job that I was meant to be doing. I've found my purpose.

"My life's purpose is to help others. I've been there, done it, I really don't seek any material things anymore. I want to see my children settled and then I just want to actually devote my life to help others."


Moneycare
10 YEARS AT A GLANCE
Salvos research reveals challenges and resilience for Australians in tough circumstances.
The Salvation Army's Moneycare is one of the largest providers of financial counselling and capability services in Australia. In the 2017/2018 period, Moneycare supported over 8,500 new people (an 18% increase on prior year).
This research covers a 10-year profile of people accessing Moneycare (2008/9- 2017/18).
Over one in four people accessing Moneycare is now over 55
78% of those over 55 in the private rental market experienced housing stress.*
LEASED
LEASE
In QLD, the proportion of people over 55 accessing Moneycare in the past decade MORE THAN DOUBLED.
Over 55s are increasingly becoming private renters: 42% percent were private renters in 2017/18, as compared to 27% in 2008/09.
For this group, retirement is becoming unaffordable due to debt and no home ownership.
DEBT
Forms of debt (among people with debt)
49% Credit Card Debt
30% Personal loans
25% Electricity debt
11% of people had debt more than 6 times their annual disposable income.
Disposable income
$
$
Debt
Predatory Debt* is Significantly Increasing
Compared to 10 years ago, the proportion of people using pay day loans doubled and the value of the pay day loan tripled.
People, aged 18-24, were more likely to have payday loans.
Reported Issues
39% of people presented with non-financial issues that led them to financial hardship.
15% Health
15% Employment
5% Addiction
4% Situational*
Stagnant Income
When adjusted for inflation, people's disposable income had not increased in the 10-year period. In 2017/18, people's median disposable income was $576 per week, which is below the Australian poverty line. However, unavoidable costs such as housing and utilities increased.
Profile of people accessing Moneycare (2017/18)
Employed: 22%, full time 15%
Single person households: 31%
Renting privately: 49%
If you need assistance, call 1800 007 007 (National Debt Hotline) or visit salvos.org.au/moneycare
For the full report: salvos.org.au/moneycarereport2018
*Predatory loan: Loan that are considered unfair, deceptive, or fraudulent, such as payday loans, where interest rates are considered unreasonably high.
*Housing stress: Specific to this study, an individual or a household experience housing stress when they are paying more than 30% of their disposable income.)
*Situational issues include natural disaster, loss of family member, immigration problems.

End Notes

[i] https://salvos.org.au/scribe/sites/auesalvos/files/about-us/TSA-moneycare-10-year-analysis-report.pdf
[ii] Richard Brading, Solicitor, Sharkwatch The Financial Counselling Journal, Vol. 16, Issue 2, September 2017
[iii] https://mozo.com.au/credit-cards/guides/australia-s-afterpay-obsession-a-report-into-the-features-buying-habits-and-traps-of-the-modern-day-layby
[iv] Money and Mental Health Policy Institute, Policy Note No. 10, May 2017