



# Cash Converters submission in response to the inquiry into credit and financial services targeted at Australians at risk of financial hardship.

*The terms of reference for the inquiry:*

- (a) the impact on individuals, communities, and the broader financial system of the operations of
  - (i) payday lenders and consumer lease providers,**
- (b) whether current regulation of these service providers meets community standards and expectations and whether reform is needed to address harm being caused to consumer*

**Cash Converters has been helping every day Australians get on with their lives for 34 years.**

## **Introduction**

Established in 1984, Cash Converters International Limited has been listed on the Australian stock exchange for the past 21 years. With an international presence in the second-hand retail, pawnbroking and personal finance sectors, we are headquartered in Perth, Western Australia, operating over 150 stores throughout Australia, including 69 corporate stores, 83 franchise stores and collectively employing more than 1,500 people.

We have helped over 2.8 million unique customers<sup>1</sup> get on with their lives. With a loyal customer base, we recognise the importance of the role we play in the community. Our core purpose is built on the belief that all Australians have the right to assistance when in financial need and we consider the needs and wellbeing of our customers in everything that we do.

The importance of providing services to ensure our customers have access to credit should not be underestimated. Our customers cannot obtain finance from the major banks and we provide a solution that enables access to credit for this otherwise excluded segment. Accordingly, we facilitate financial inclusion for a significant customer base and we do this in a socially inclusive, responsible and transparent way.

Cash Converters has not been immune to scrutiny and we have accepted our legacy issues. These issues include the Enforceable Undertaking (EU) closed out with the Australian Securities and Investments Commission (ASIC) in February 2018 and three class actions relating to personal lending prior to the National Consumer Credit reforms. The seriousness of these issues has acted as a catalyst to transform the business with a sustained focus on a culture of continuous improvement in relation to responsible lending, governance, risk and compliance.

We have invested heavily in a robust risk and compliance framework and formed strong and collaborative working relationships with the industry regulator. We welcome the opportunity to make a submission in response to the inquiry into credit and financial services targeted at Australians at risk of financial hardship.

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<sup>1</sup> Single Customer View aggregation tool pooling all customer data and interactions from main Cash Converters systems (2018)

**Key Themes:**

1. We take responsibility in helping our customers get on with their lives in times of financial need. They feel respected and listened to, which is evident from this [video capturing their thoughts](#).
2. As the industry leader, Cash Converters recognises the importance of meeting its responsible lending obligations.
3. We have created a meaningful risk and compliance culture, by investing in proprietary technology, continuously improving our assessing procedures, conducting ongoing staff training and implementing a consequence management framework.
4. We are continuously improving our hardship practices.
5. We support the Government's ongoing monitoring and improvement of industry standards.

**(a) [the impact on individuals, communities, and the broader financial system of the operations of:](#)**  
**(i) [payday lenders and consumer lease providers](#)**

**Cash Converters help our customers get on with their lives**

Cash Converters plays an important role in the economy and fills a gap that neither the major banks nor Government currently fill. According to Good Shepherd Microfinance, *"17% of adults in Australia experience financial exclusion.<sup>2</sup> That's 3 million people unable to access a small amount of credit, a transaction account or general insurance. This places them and their families at risk of poverty and poor social, emotional and health outcomes"*.

Most of our loans are for one-off expenditure and our customers need for credit often relates to the criticality of a medical emergency, a car repair that enables them to get to work or a family emergency. Lending responsibly and respectfully to our customers is an intrinsic component of the Cash Converters culture and will remain an ongoing focus.

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<sup>2</sup> [www.goodshepherdmicrofinance.org.au/about-us/](http://www.goodshepherdmicrofinance.org.au/about-us/)

In 2018, Cash Converters commissioned an independent survey of 700 customers<sup>3</sup>. 72% of customers stated that their most recent loan was needed for an emergency. With the top-rated reason for their most recent loan being to pay for unexpected bills (53%), followed by major purchases e.g. essential household items (17%).

### **We respect our customers**

We are committed to meeting the needs of our customers in a transparent and respectful manner that ensures they are in control of their financial decisions. Customers appreciate the fact that our lending policies are fully explained and that they are never judged.

The key themes of our customers' feedback through our voice of customer programme relate to the high quality of service, our staff and their professionalism, the process and thoroughness of the assessment and the acknowledgement of their needs, to ensure they are being responsibly lent to (e.g. making reasonable enquiries and validating their reason for loan) and treated respectfully in the process.

In the past 12 months, over 55,000 customers have provided feedback through our voice of customer programme about their experience applying for, completing or interacting with our contact centre<sup>4</sup>. Of the 55,000 survey responses, over 40,000 provided extremely positive feedback giving a 9 or 10 (on a scale of 0 to 10) when asked how likely they would be to recommend Cash Converters to their friends or family. The Net Promoter Score (NPS) is the world's leading metric for measuring customer satisfaction and loyalty. For Cash Converters Personal Finance, our average NPS from the past 12 months is 66.5% indicating a high degree of advocacy from customers across all touchpoints and channels<sup>4</sup>. It is worth noting that the major banks currently have negative NPS scores.

*"Cash Converters have been extremely helpful in assisting me with finding emergency credit which was still within my financial means for repayment, the staff are very courteous and were always polite. Cash Converters has had a bad reputation in the past for so-called predatory lending, but I disagree, as they have never pushed credit onto me that I could not repay. I am very pleased with how they have helped me and do in fact recommend them to all my family and friends."* – **Personal Finance Customer, WA**<sup>5</sup>

Cash Converters commissioned an independent survey of customers<sup>3</sup> and 74% agreed that short-term lenders provide a valuable service, while 71% agree that short-term lenders help people get on with life.

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<sup>3</sup> Hyde, B. (2018), *Cash Converters Short Term Lending and Personal Finance Customer Research, Topline Findings*. Brad Hyde Market Research Agency. Unpublished

<sup>4</sup> Voice of Customer Programme (GEM) (2018)

<sup>5</sup> Customer likelihood to recommend comment, Voice of Customer Programme (GEM) (2018)

[In a video capturing the thoughts of Cash Converters customers](#), they talked about what having access to a loan means to them, why they need the loan and the role of Cash Converters not just in their lives, but in the broader community.

The survey found that<sup>3</sup>:

1. 92% believe that we treat them with respect
2. 76% believe that we play a valuable role in the community
3. 92% consider that we are a credible way to get cash
4. 78% believe that there are enough Government rules and legislation in place
5. 94% say that people should take full responsibility for their own decisions regarding their personal finances
6. 86% believe that we are a trusted and credible organisation
7. 76% believe that we provide customers with good value for money

**(b) Whether current regulation of these service providers meets community standard and expectations and whether reform is needed to address harm being caused to the consumer.**

**As the industry leader, Cash Converters is a responsible lender with responsible lending practices.**

We are a responsible lender governed by a high degree of regulatory and legislative conditions with ASIC oversight in relation to consumer lending. The Small Amount Credit Contract (SACC) industry and Cash Converters has changed, as detailed in the National Credit Providers Association (NCPA) submission to the inquiry.

According to the NCPA *“the number of payday loans approved has dropped significantly, the demand for small loans remains strong but they are more difficult to obtain following the tighter regulatory framework that commenced with the NCCP Act.”*<sup>6</sup>

An important consideration is whether the ‘buy now, pay later’, providers should be subject to a similar regulatory regime that credit providers such as Cash Converters operate under. It is important to note that over 33% of our customers have at least one ‘buy now, pay later’ transaction in the 90 days prior to applying for a loan<sup>7</sup>. This is of concern if the transactions are in relation to discretionary expenditure, as opposed to expenditure on essential items. At present, our view is that it is not a consistent regulatory playing field.

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<sup>6</sup> 2018 NCPA Submission to the Senate Economic References Committee

<sup>7</sup> Summerville, M. (2018), Buy Now Pay Later Analysis Summary. Internal Report Cash Converters. Unpublished.

**As the industry leader, Cash Converters recognises the importance of meeting its responsible lending obligations**

Cash Converters supports responsible lending and we have a focus to become Australia's most trusted personal finance provider.

In February 2018, Cash Converters successfully completed all commitments made to ASIC as part of its Enforceable Undertaking (EU) relating to concerns over historic lending assessment practices. This was achieved by rebuilding our loan assessing platform, removing any reference to benchmarks and loading bank statement transactions to ensure accurate assessment of affordability for every applicant.

With the approval of ASIC, an independent expert (Deloitte) was engaged to conduct a thorough review of Cash Converters' current responsible lending practices and its obligations under its Australian Credit License. This assessment did not identify any deficiencies or result in recommended actions for Cash Converters to achieve compliance. It did identify several better practice enhancements which Cash Converters has since implemented fully.

We effectively achieved a clean bill of health with respect to our current day responsible lending practices and we are a compliant lender facilitating our customers to live their lives without the stress of financial uncertainty.

**We have invested in data and technology**

In January 2017, we introduced a new Income & Expenditure (I&E) platform. This new I&E platform has changed and improved the way that our customers' income and expenditure is assessed.

The I&E electronically assesses a customer's bank statements and categorises income and expenditure into an expanded set of categories such as creditors, accommodation and rent, groceries, communications, transport and more.

This proprietary and purpose-built platform provides a robust and detailed process of ensuring that we have accurate bank statement information to responsibly assess the loan application, in conjunction with input from our customers.

With an enhanced assessing platform and Cash Converters' commitment to risk and compliance – the business continues to be at the forefront of driving positive change in the industry. Our objective is to be the market leader in compliance and meet our responsible lending obligations, whilst providing an exceptional customer experience.

### **We are continuously improving our hardship practices**

In December 2016, as part of the improved risk and compliance structure, we engaged Collection House, a third-party collections agent to manage our debt collection, repayment and hardship management. They have a dedicated team to manage applications of hardship from Cash Converters customers with staff trained to recognise conversations where hardship should be triggered. The acceptance of hardship applications is an integral part of responsible lending practices and we work with customers in genuine hardship as they navigate through challenging financial circumstances.

### **We support the government's ongoing monitoring and improvement of industry standards**

As the largest SACC provider with the longest history, we support the government's ongoing monitoring and improvement of industry standards. Ultimately, Cash Converters wishes to operate in a responsible and viable industry and is supportive of the need for regulation which promotes this and ensures financial inclusion for all.

We operate in a regulatory compliant manner with an operating model based around customer service and financial sensitivity that creates a commercially viable and sustainable business. As a publicly listed company with institutional and retail shareholders, it needs to be recognised that our business has a commercial objective. The business has been operating sustainably for over 30 years because there is real need from a customer segment that would otherwise suffer from financial exclusion.

Our customers are the lifeblood of our business and if reputable providers such as Cash Converters do not provide these services, who will fill the void?