



Committee Secretary
Parliamentary Joint Committee on Corporations and Financial Services
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

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By email: corporations.joint@aph.gov.au

Dear Committee Secretary

Re: Inquiry into the Consumer Credit and Corporations Legislation Amendment (Enhancements) Bill 2011 – Supplementary Submission

We thank you for the opportunity to attend and speak at the inquiry hearing held on 24 October 2011 on the *Consumer Credit and Corporations Legislation Amendment (Enhancements) Bill 2011* (the “Hearing”). This supplementary submission specifically addresses the question put to us on notice¹. We have also taken this opportunity to address some of the key points that were discussed during the Hearing to further assist the Committee with formulating its recommendations to Parliament. The key points we wish to re-address are:

- Who are the recipients of payday loans?
- Striking a balance: Protecting the customers who need help – and those who do not.
- “Re-jigging the formula” – How to make these reforms work for all consumer types.

Who are the recipients of “payday” loans?

The consumer movement have stated that:

“the typical payday lending customer is a low-income consumer.”²,

and that this data derives from the consumer movement’s own internal “disputes” research. The Committee are correct in suggesting that the consumer movement are

¹ To submit an analysis of the days of the week Cash Doctors customers apply for an advance, per Ms. Hanson-Young, Committee Hansard (Proof Copy), Parliamentary Joint Committee On Corporations And Financial Services, Inquiry into the Consumer Credit and Corporations Legislation Amendment (Enhancements) Bill 2011, Monday 24 October 2011, Page 23.

² Ibid, Ms. Lowe, page 36





not “seeing a representative sample”, that they are only seeing dissatisfied customers and not those “who have a successful experience”.³

To put this into context, in the 2010-2011 financial year we received complaints from 60 customers out of 11,877 customers (0.5% of our customer base). Of these 60, 7 were escalated to our EDR COSL⁴, with 2 being referred back to us for internal resolution, 2 settled to the customer’s satisfaction, 1 closed due to the customer not pursuing the dispute, and 2 disputes are currently pending. This means that to date (and indeed this extends to the last 6 years that Cash Doctors has been operating) no customer dispute has been formally determined by COSL.

To address the statement by Ms. Uhr of National Legal Aid:

“[Cash Doctors] have not been in the market a very long time. As I said, there is usually a one-to-two-year lag before we see real problems arise. I heard what they said; as I said, I have just never seen anyone [come to our office for representation in a dispute] who was on much more than Centrelink income.”⁵

Cash Doctors has in fact been in business since 2005 however Ms. Uhr is correct that she has not seen any complaints in relation to Cash Doctors. We submit she is unlikely to see any future complaints about Cash Doctors, because the disputes that do arise are of such a small number and are always resolved to the customer’s satisfaction.

The consumer movement have also quoted an RMIT study which indicates that 78% of recipients of payday loans are of a lower income/centrelink demographic, and that this sample is “a representative sample of borrowers” because the data set was gathered by way of interviewing customers walking out of shopfronts of payday lenders, as opposed to customers of financial counsellors who are already in financial difficulty⁶.

This data glaringly ignores our entire customer base as it fails to take into account that recipients of these loans can apply for an advance online (or, in our case, even via their mobile handset). Therefore it cannot be said that the consumer movement has truly representative figures of the recipients of these loans, and the Committee is correct in questioning the evidence presented by them that “every user of the services of short-term lenders is a vulnerable and disadvantaged consumer”⁷. Senator Griffin correctly states that there is a:

³ Ibid, Mr. Fletcher, page 38

⁴ Ibid, page 31 - The Credit Ombudsman stated that he has received 114 disputes in relation short term lenders in the last financial year – this would mean that disputes in relation to Cash Doctors advances make up 6.14% of this class of disputes with COSL.

⁵ Ibid, Ms. Uhr, page 48

⁶ Ibid, Ms Lowe, page 38

⁷ Ibid, Ms. Fletcher, page 37





“complete disconnect between what industry is saying and, to be blunt, what the consumer movement is saying.”⁸

These “forgotten customers”, as we have stated in our earlier written and oral submissions, are:

- **fully PAYG employed with average *net* annual income of \$40,000 (44% of clients earn between \$35,000-\$50,000 and 18% between \$50,000-\$75,000); and**
- **almost 65% of our customers have clear credit records. This customer demographic have mainstream financial options available to them, yet freely choose chose our product over all of the traditional lending options; and**
- **take out an average advance of \$421, paid over 21 days over a series of repayment dates; and**
- **to address the question put on notice, these customers typically seek to borrow on Thursdays and Fridays (for more data, including the times of the day that customers seek to borrow, please see Annexure A); and**
- **to illustrate that mobile phone lending is an emerging market practice, approximately 19% of our customers apply for a Cash Doctors cash advance via their mobile phone (as opposed to 81% of applicants who apply via the website). Of those 19% of applications, almost 60% are approved, whereas applications via the website have a lower approval rate of approximately 40%⁹. With higher approval rates for mobile applicants, it is clear that the Cash Doctors mobile phone application is targeting the correct Cash Doctors customer base and that this emerging demographic cannot be ignored.**

These fully employed, IT savvy, and financially literate customers therefore need to be considered in the debate.

To address the comment by Senator Griffin:

“[I]t has been suggested by the consumer movement that in fact there is no sensible reason why anyone would access this sort of loan facility, given the

⁸ Ibid, Ms. Griffin, page 69

⁹ From “organically” generated visits from search engines.





*other choices that are available, and therefore people are making bad choices*¹⁰,

we submit that the “choices” that are being referred to here – the advances on Centrelink payments, no or low interest loans, or hardship relief programs with utility providers - are generally NOT available to our customer. We submit that customers choosing to use our product are not making a “bad choice”, they are making an informed choice about a financial product that is suitable to their needs.

We reiterate that our customers do not want to be tempted by taking up the available credit on a credit card, giving them more credit than they require, which they believe will perpetuate long term debt. Cash Doctors customers are telling us that they do not want to be tied into a long term financial product, and that they do not need or want to take on more credit. Rather they like to use a small amount of credit and have a short term commitment to solve a problem then move on with their lives. This customer group exists in the market, must be listened to, and their needs catered for.

We do agree however that these alternate “choices” are available to, and are suitable for, the lower income/centrelink recipient, who we can accept (although we do not like to discriminate) is typically desperate and vulnerable. We therefore support these options in the marketplace for this particular customer group.

So in summary of the first point, to answer the question raised by the Chairman:

*“Should there be a separation between those who are working and can make a choice and those who are not and should not get that choice? Is there a distinction? Should there be a distinction, because clearly if people are on welfare they may be looked at in a different light from people who are in gainful employment, whether at the low end of the market or not?”*¹¹

The answer is yes to all.

Striking a balance: Protecting the customers who need help – and those who do not.

The role for Government now is to strike an appropriate balance between the customers whom are desperate and vulnerable, and those customers, such as ours, whom are able to make informed financial decisions about their loan product.

Our customers already have the protection of having us carry out a rigorous and responsible assessment of their financial capacity to repay a loan.

¹⁰ Committee Hansard (Proof Copy), Parliamentary Joint Committee On Corporations And Financial Services, Inquiry into the Consumer Credit and Corporations Legislation Amendment (Enhancements) Bill 2011, Monday 24 October 2011, Mr. Griffin, page 65

¹¹ Ibid, Chairman, page 48





We strongly disagree with the testimony of one witness that in the online lending industry, focus is on speed and “not about how thorough the application process is”.¹² The online approval technology we are continually investing in is far more rigorous and sophisticated than the traditional shop-front/face-to-face approach, or the approach of any of our online competitors. Our team of mathematicians predict the ability to repay by recording and interpreting behaviour of the applicant while they are on our site (for example, mouse tracking, page visits, time on page), using data supplied by the applicant and data from publicly available sources (including information disclosed in a credit check), and continually testing a large number of variables.

This is far more assessment than is carried out by the operators of the NILS loans, who, themselves gave testimony at the Hearing that a credit check is not normally carried out and that information as to the customer’s dependents is not considered in the customer’s loan application¹³. You would expect these questions and checks would be routine, and further, (we suggest) legally required by the responsible lending provisions of the credit legislation.

In contrast, we believe our technologically-advanced approach will transcend the traditional finance industry that do not use such sophisticated measures as those employed by the Cash Doctors online model. This is because we are listening to our customers. Offering a loan product online is exactly what our customers are telling us is their preferred approach. Customers can log on to their PCs or mobile handsets and apply for a Cash Doctors cash advance any time of the day, any day of the week, in the privacy of their own homes, or from a moving train at 3am on Sunday! Transparency of fees and required documentation is not compromised by our innovative online model, and the customer has all the relevant information upfront in order to make an informed decision about accepting a Cash Doctors cash advance.

Further, as we rely on economies of scale (we only make a small profit of \$4.50 per advance); we like our customers to promote our business by conveying their own product satisfaction. In the new online economy, unethical customer experiences spread very fast via online blogs and social media which forces extreme accountability and receptiveness to customer needs. Hence we differentiate ourselves by maximising positive outcomes, do not permit rollovers, and we cap overdue charges after 45 days.

We submit that Cash Doctors customers already have the protection they need to make an informed decision about the loan product they want; they have control over how and when they apply for a Cash Doctors cash advance; and they receive an advance that is an appropriate amount with an appropriate repayment schedule for their individual financial situation and purpose.

¹² Ibid, Ms. Lowe, page 40

¹³ Ibid, Ms Corrie, Page 66





Re-jigging the formula – How to make these reforms work for all consumer types.

“Obviously, this legislation is not about banning any of these loans; it is just about trying to re-jig, if you like, a formula.”¹⁴

The Chairman is correct that the formula needs to be “re-jigged” in order to strike the right balance between providing adequate protection to those customers that need it, whilst maintaining freedom of choice for the remaining market segment.

We believe that the suggested changes outlined in our written submission strikes the appropriate balance, and we ask that you revisit those in your consideration of recommendations to Parliament. To reiterate, we seek:

- **Inclusion of a new “income” type criterion to ensure that those who are able to access cash advances are a permanent employee and not, for example, reliant on Centrelink payments;**
- **Rollovers prohibited;**
- **An increase in the proposed permitted establishment fee to 27.5% (allowing industry to continue to operate with some viability).**

Should you need to contact us, please do so on the following details:

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Please note, typographical corrections to the Hearing transcript have been sent under separate letter.

Yours sincerely

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¹⁴ Ibid, Chairman, page 42





Annexure A

The following data is based on customer applications between 1st April 2011 and 30th September 2011.

