Gregory Mowle
Faculty of Business, Government & Law | University of Canberra, ACT 2617
P: +61 488138430
E: gregory.mowle@canberra.edu.au

My name is Gregory Mowle and I have obtained the following qualifications:

- Advanced Diploma of Accounting from Canberra Institute of Technology in 1998;
- Degree in Business from Queensland University of Technology in 2002;
- Master of Commerce majoring in professional accounting from University of New England in 2005; and
- Diploma of Financial counselling from TAFE SA in 2003.

I worked in the finance and insurance sector from 1983 to 1998. In 1998, I joined Lifeline Brisbane as a financial counsellor. In this role, I assisted individuals who were in financial hardship or financial stress. Common situations were individuals presenting with debts that they were unable to manage. In my role, I presented the individuals with their options, from budgeting to bankruptcy. I also dealt with underlying and associated issues such as addictions or relationship issues. I became Lifeline's Manager of financial counselling around 2002 where I trained, supervised and mentored financial counselling staff.

I held the position of President of the Financial Counsellors' Association of Queensland from 2001-2004. In this role, I set the strategic direction of the Association, established accreditation and training standards and represented members in discussions with stakeholders such as creditors and government.

In 2004 I joined The Smith Family to be their National Program Manager for financial literacy. In this role, I managed a series of financial literacy initiatives including "Saver Plus", "Money Minded" and developed an accredited financial literacy qualification.

In 2009 I joined the Australian Securities and Investments Commission (ASIC) as a Senior Consumer Credit Educator. With the looming introduction of the National Consumer Credit Protection Act (Act) my initial task was to train consumer advocates in how the new Act would impact on their work and their clients. Other tasks and projects included assisting with the content on Money Smart on debt and credit topics, creating national standards on the regulation of financial counsellors as well as education programs on topics such as mortgage stress.

In 2014 I commenced a PhD at the University of Canberra on the link between financial literacy and behaviours. As part of my research, I conducted interviews of two consumer groups. One group included undischarged bankrupts. The other group included clients of a large short term small amount lender "Large SACC lender". With both groups, I had one-on-one conversations exploring their circumstances and the reasons why they made their choices to go bankrupt and borrow from a short term small amount lender, respectively.

In this report, I use data collected from my unpublished thesis, particularly data collected from the clients of the Large SACC lender.

The principal reasons that consumers seek to access credit through small amount short term ("SACC") providers are varied. In summary, they include:

- Mainstream lenders no longer provide small amount, short term loans;
- Customers often experience financial exclusion from other forms of credit (e.g. credit cards);
- A SACC loan provides customers with the credit they require in a relatively quick timeframe;
- Clear repayment dates (often short term, meaning the customer is freed from debt quicker than other forms of credit); and,
- A reluctance of customers to seek assistance from charitable organisations.

To assume that low income earners are less financially literate than the general population is to make the mistake of confusing circumstances with behaviour and knowledge. By way of example, to label a single parent who is receiving no, or minimal child support, who is unable to work full time as they need to be available for parenting duties, is paying market rent as they do not qualify for public housing as "not financial literate" because they have little savings and are borrowing from a small amount short term lender is an incorrect assumption.

The single parent outlined here may have sufficient financial literacy knowledge and skills but they are unable to apply them. For example, they may know how to save. That is, they know a good technique is to put aside 10% of your income for savings. However, their income is barely sufficient to meet their living expenses so that 10% must be used for essential household bills.

Similarly, they may know that they can try to obtain a loan at a low rate from a mainstream lender. However, they are not working and only require $500. Mainstream lenders will unlikely approve this loan or two main reasons. First, the single parent is not in employment and so will not meet the bank's own guidelines. Second, the mainstream lender will not provide a short term small amount loan because this is not a product on offer. Therefore, the single parent has no option but to approach a short term small amount lender. That is, circumstances drive the borrower to a short term small amount lender rather than a lack of financial literacy.

Based on the author's research with clients of the Large SACC lender, customers are exercising financial literacy in approaching short term small amount lenders. They value the strong benefit of a "finishing line" to their debt as opposed to the "revolving credit" of credit cards or line of credit products.

They also value the fast assessing and approval times for their urgent need for money. They appreciate if they require say $500 they will receive $500, not "available credit" of say $2,000. And they are grateful for a set repayment schedule based on immediate deductions from their income.

Based on my work experience as a financial counsellor and as a financial literacy expert, my view is that individuals choose to access SACCs as a conscious and preferred choice and in some circumstances, they may feel like a SACC is the only option available for their current circumstances. They tend to shun not-for-profits as accessing a charity or free service that makes them feel excluded from society.

In my opinion based on my research with SACC borrowers, participating in a financial transaction that includes fees and charges makes them feel part of, or included in, society. There is a sense that paying off their loans on time builds up a credit rating. Having a finishing line to their debts is extremely important. Many participants in my research of the Large SACC lender clients stated that even if they were able to access a mainstream credit card, they did not want one as they were “dangerous”.

Further questioning elicited that they did not like the temptation of available credit as well as the lack of a finishing line. Having a clear schedule of fees and repayments from a SACC gave them certainty as well as the repayments being deducted from their source.

A common argument against SACC lenders raised by stakeholders such as consumer advocates and various levels of government is that vulnerable consumers are unnecessarily accessing small amount short term loans whereas other forms of assistance are available to them. These options include the following and will be discussed in turn below:

1. An advance of funds through a No Interest Loan Scheme (NILS) provider;
2. Borrowing funds from family or friends;
3. Seeking financial counselling.
4. Financial Hardship repayment options

The first, and most common, option raised as an alternative to SACC loans is a loan from a NILS provider. A NILS loan is an advance of funds with literally no interest being charged. Loans are for amounts of up to $1,500 and there are criteria for what the loans can be used for. The loans can be used to purchase household goods such as fridges and washing machines, pay for some medical and dental services, and some educational expenses. Other costs will be considered on a case by case basis[1].

NILS providers are a range of not for profit organisations with the leading provider being Good Shepherd Microfinance[2]. To qualify for a NILS loan, applicants must have a health care card or a pension card [or earn less than $45,000 a year after tax. To qualify for a health care card or a pension card you must meet strict income and asset requirements.

Holders of these cards will be from lower income brackets. Applicants are assessed by staff at the Provider on their capacity to repay the loan as well as their “willingness” to repay. On the surface, it would appear that individuals requiring a small amount short term loan would eagerly embrace a NILS loan in preference to a SACC Loan. However, there are two main reasons why the take up of NILS is low and in many cases individuals shun them in preference for SACC Loans.

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[1] Good Shepherd Microfinance, *The no interest loan scheme* (goodshepherdmicrofinance.org), 3 <http://nils.com.au/#use>.
[2] See Good Shepherd Microfinance, <http://goodshepherdmicrofinance.org.au/>.

The first reason is that most Australian consumers do not want to access a Charity. This observation comes from my work experience at Lifeline and the Smith Family as well as strong connections to many workers at Charities. There is great reluctance to seek assistance from a charity such as Lifeline, Good Shepherd or St Vincent de Paul. Most people do not see themselves as “charity cases”. They view people who access charities for assistance as “down and out” and so to seek assistance from a charity would equate them with the least fortunate members of society. Secondly, accessing a charity makes them feel more excluded from Society. By accessing a for-profit organisation such as Cash Converters it empowers them and generates a sense of inclusion. Thirdly, there is still great shame and stigma perceived by Australians in needing the services of a charity.

Additionally, the conditions and process of a NILS loan are restrictive and not applicant-friendly. As previously mentioned, NILS Loans can only be used for certain purposes and the reasons why applicants require a small amount short term loan fall outside of these criteria. These reasons could be the payment of a household bill or car repairs. The following table from my research with the Large SACC lender clients on the purpose of their loan application.

Purpose of their current loan for interviewed Large SACC lender customers		
PURPOSE	**NUMBER**	**%**
Everyday living	20	40
Emergency car repairs	10	20
Funeral costs	4	8
Child's birthday	3	6
Purchase a car	2	4
Send to family overseas	2	4
Car registration	1	2
Clothes	1	2
Flight back home	1	2
Holiday	1	2
Non-accredited training	1	2
Own birthday party	1	2
Pay utility bill	1	2
Purchase a car for son	1	2
Washing machine	1	2

COMMENTS:

The purpose of the loan was self-reported by participants but was corroborated in some cases from paperwork voluntarily supplied by the participant to me as well as overhearing what the participant stated to Large SACC lender staff when they were applying for the loan.

“Everyday Living” means that the participant stated that they were “short of funds”, or words to that effect, and needed money for basic needs such as groceries or petrol due to other unexpected expenses arising causing them to be needing access to a short term loan

“Emergency car repairs” means that the participant stated an item such as tyres or clutch needed to be repaired or replaced immediately so they could continue driving their car to fulfil necessary needs such as getting to work or taking children to school.

“Funeral costs” were stated by participants from a Pacific Islands heritage who stated their culture required that they contribute to funeral costs for a family member back in their native country. “Send to family overseas” had the same explanation

The results provide insight into the reasons why consumers sought a loan from the Large SACC lender. In my research, a common situation was the need for applicants from a Pacific Island culture, such as Tonga, to send money back home to assist with Funeral Expenses for a family member. They stated it was part of their culture that they were expected to contribute money and money was required in a hurry. They would not have qualified for a NILS loan as NILS does not fund funeral expenses. This is because funeral services do not fall within ‘essential goods or services’.

In addition to the restrictive criteria, most NILS providers have a lengthy loan application and approval process. While a thorough application process is required to ensure that the applicants are “credit” worthy and have the capacity to repay, loan applicants, especially small amount short term loan applicants, normally require funds quickly. Many NILS providers have an approval process where the decision to approve the loan is put to a management committee and this committee may not meet to discuss the applications on a regular basis. I am aware of one major NILS provider, a large faith-based charity, in the western suburbs of Sydney, where the management committee meets just once a week to consider loan applications. If an application just misses the deadline for the Committee to meet, they will have to wait over 6 days to hear if their application to be approved. While this may be suitable for some applicants who may not be in a hurry to pay for a white good, for individuals who require funds urgently such as for car repairs, this timeframe is unacceptable and unsuitable. SACC lenders recognise this and prominently promise fast approval.

I have conducted an analysis of which of the participants in my research on clients of the Large SACC lender would have qualified for a NILS loan (and whether the timeframe for a NILS loan would be appropriate). In my view, only 1 out of the 50 research participants would have qualified for a NILS loan (that client whose purpose of the loan was for a ‘washing machine’). Set out below is my analysis.

Would the interviewed Large SACC lender customers qualify for a NILS Loan?		
RESULT	**NUMBER**	**%**
Yes	1	2
No	49	98
COMMENTS: This interpretation is based on a number of factors. First, based on criteria at: http://nils.com.au the purpose of the loan, outlined in the earlier Table, would not meet the NILS criteria. This is obvious for items such as “Child’s birthday” or “Funeral costs”. Second, even for items that the NILS program may fund such as car repairs, the participants required the funds urgently and could not wait the required 3-7 working days that a NILS provider may take to approve the loan as they needed a vehicle to get to work and/or drive children around to events such as school. Lastly, for the most common category of “Everyday living” the NILS provider would prefer the customer to undertake financial counselling and/or emergency relief assistance as it does not fall under “essential services”.		

The second option raised as an alternative to SACC loans is to borrow from family and friends. Over 15% of Australians state this is who they would turn to if they lost income for a period of time or required funds urgently. In my opinion, based on my financial counselling work experience and recent research with SACC customers and undischarged bankrupts, this is also what the respondents would do in the situation of having missed a debt repayment. This option pushes the debt burden onto family and friends and does not necessarily solve any underlying issues such as a lack of cash flow for a period of time greater than 90 days.

There is no data available on where the family member and/or friend obtains the requested money from. Perhaps they need to borrow the funds. Perhaps they need to defer the payment of their own essential household bills and expenses. Borrowing from family and friends has a cost beyond any repayments, interest or fees. In my opinion, based on my financial counselling work experience, there is an emotional cost to being in debt to a family member or friend. The state of a relationship changes forever with dynamics changing from say: “brother/brother” to: “Creditor/Debtor” In my opinion, based on my financial counselling work experience as well as talking to my network of financial counsellors from the Financial Counsellors Association of Queensland borrowing from family and/or friends is not a viable option to SACC loans. It has so many gaps in its usefulness it cannot even be a safety net.

The third option raised as an alternative to SACC loans is to use the services of a financial counsellor. Financial counselling services are delivered by community and local government organisations to help people in personal financial difficulty to address their financial problems, managing the debt and make informed choices about their money in the future. These services are voluntary, free and confidential.[3] Consumers are encouraged to see a financial counsellor when they are in debt and not sure what to do or how to negotiate with creditors, when they need information about financial matters, when they want to look through their budget and see where the money is going or want to talk through the stresses of living on a low or restricted income.[4]

There is strong evidence that financial counsellors do assist with issues such as creditor negotiation and provide a holistic service and dealing with any underlying issues the client may have (such as addictions or relationship issues). Financial counselling is not, however, a substitute for a SACC loan. They cannot provide loans or grants. They can refer to a NILS provider but generally the issues clients present to a financial counsellor with are complex (multiple debts) and cannot be solved though a small amount loan.

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[3] Department of Social Services, *Commonwealth Financial Counselling* (7 December 2016), 1 https://www.dss.gov.au/our-responsibilities/communities-and-vulnerable-people/programs-services/commonwealth-financial-counselling-cfc

[4] Care inc., *Financial Counselling Service* (2012) http://www.carefcs.org/financial-counselling-service.html

The following is a Table from my research with the Large SACC lender clients on whether they had heard of financial counsellors.

Had the interviewed Large SACC lender customers heard of financial counsellors?		
RESULT	**NUMBER**	**%**
Yes	10	20
No	38	76
Unable to determine	2	4
COMMENTS: The "unable to determine" result is from the two participants either not being directly asked by the researcher or they were vague or evasive in their response to the question. The high rate of the "No" response is surprising considering the high rate that are on Centrelink income only and should be aware of such services. Stakeholders such as Centrelink or Public Housing departments should be making this group aware of the services.		

Further, the same issue of a reluctance to go to a charity, explored in the discussion on NILS providers, also reduces the effectiveness, and scope, of financial counselling services. In my opinion, based on my financial counselling work experience, the term "Counselling" has a negative connotation in Australia "You need to go to counselling" is not a positive intervention but used as a pejorative. Financial counselling services are mainly delivered by the same group of well-known charities that provide NILS loans.[5]

[5] Depending on the region, financial counselling is also provided by small and independent community organisations such as a Neighbourhood Centre.