OPINION PIECE

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Shadow Cabinet Secretary Jenny McAllister is right (Canberra Times, 4th February 2020). The start of the school year is an immensely challenging time for families who are only just getting over the expense of Christmas and school holidays.

But these families need to be supported not disparaged at such a financially sensitive time by the miss-the-mark policies that will create further financial exclusion rather than protection.

Having a go at nasty pay day lenders looks good as a mission statement. Unfortunately, this kind of shadowboxing at scary monsters will only pull the plug on short-term credit for families who need help to get over a cash crisis in the short term.

Labor is only scaring people with this kind of posturing.

Ironically, the party fixed many of the problems inherent in the short-term credit sector when they were in office in 2009 and then added further amendments to legislation in 2013.

Their plans to further tighten regulation on a sector that is now working well is insensitive to the needs of people who are helped by short-term loans.

Labor instead should be targeting unregulated lenders, credit card providers and buy-now pay-later schemes who will swoop if these proposed changes go through.

Under the existing regulations Small Amount Credit Contract (SACC) providers, the so-called payday lenders, are heavily regulated in order protect consumers. The loans they provide are for a limited time and are not ongoing like a credit card. They also don't charge the kinds of interest rates that credit cards do.

Typically, SACC loans last for five and a half months. Once you pay off a SACC loan you must reapply if you want to re-borrow, unlike a credit card.

Under a SACC loan, it's also a lot easier to understand how much you need to pay off your debt compared to the confusing monthly statements and fees of credit cards.

The legislation introduced to protect consumers who access SACC loans is working well.

What is not working is the fact that the current laws do not cover lenders such as Cigno or continuing credit providers such as the ASX-listed Credit Corp Pty Ltd subsidiary Wallet Wizard.

These lenders are often referred to payday lenders. However, they operate outside the legislation governing payday lenders and currently there are no moves to bring them within this protective safety net.

Tightening regulations on an already regulated sector rather than focusing on where the real problems are will only force more regulated lenders to leave the market.

This will leave large numbers of consumers exposed with few options apart from non-regulated finance or a credit card.

The last thing we need is a section of the community with fewer options, larger loans, more credit cards, longer repayment terms or more entries into the market from un-regulated overseas lenders.

Some people have argued the government needs to step in and become lender of last resort, adding another $1 billion to its welfare bill.

This is not going to happen. Widening the existing good laws to bring in all lenders into the same responsible lending obligations that SACC providers work under is the answer.

While they are at it, legislators should also ban the use of third-party service agreements which allow unscrupulous companies to get away with charging their exorbitant fees.

We need to be realistic. Up to three million people face short-term debt problems. Existing legislation protecting consumers needs to be expanded to all lenders, rather than further tightened to stop them accessing help when they need it.

Michael Rudd, Chairman of the National Credit Providers Association