

## **What's in a name? – Lots, actually...**

**A speech presented at the National No Interest Loan Scheme Forum  
Sydney – 11 May 2006**

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The No Interest Loan network has come a long way in a relatively short period of time. At least that is how it would look to an observer that was new to the area, or to someone reviewing the last 4 to 5 years of activity around Australia. For agencies like Good Shepherd Youth and Family Services, that have been such a driving force in the development process, the reality is somewhat different. The recent boom period in the growth of no interest loans represents the culmination of many years of hard work.

A surge in growth and service activity can bring other pressures. For example, it can act to increase expectations from a variety of stakeholders in ways that are not automatically matched to the reasons for providing the services in the first place. The pressure to maintain growth can become the focus and not meeting the same or increased growth targets can be categorised as failures. Described another way this type of scenario can reflect an inappropriate migration of “competitive market” thinking into not-for-profit community service provision.

In short, growth can provide tremendous opportunities - and for the borrowers of NILS we all know how vital those opportunities can be. But growth for the sake of growth can distance service providers from the clients they are seeking to assist and that can be anything but positive.

With the preceding comments as a scene setter, I would like today to briefly explore several issues that at one level might be described as questions of semantics. Getting language right can however be very important. There is a genuine risk that not expressing things correctly, or failing to take sufficient care to build ideas properly can undo many years of planning and development.

There are three areas of focus I have chosen for today:

- the adoption of community terminology by for-profit and fringe credit providers;
- the care that must be taken in partnership design if the integrity of community service provision is to be assured; and
- exactly what national NILS networking might mean and the point at which utility is overtaken by the challenges faced in any large bureaucracy.

All of these issues represent current or emerging concerns that NILS providers are likely to have to grapple with, if they are not already.

### **The language of alternative finance:**

The National Australia Bank (NAB) has been a staunch supporter of the development of NILS and affordable, alternative finance in Australia. I will say some more about the nature of the partnerships that activity of this type has encouraged under the next heading.

Recently the NAB announced a series of initiatives backed by some serious resourcing, to increase the availability of alternative finance for low income and disadvantaged consumers. The initiatives have quite correctly drawn positive comments from financial counsellors and consumer advocates generally. Information material that accompanied the media releases was entitled “Backing People – Not Just Banking Them”<sup>1</sup>. It contained a definition or summary of micro-finance; a term that has gained considerable currency in public discussions:

*Micro-finance refers to a range of financial services and products designed to assist people who are largely excluded from mainstream financial services.*

*This typically involves:*

- *Access to affordable, small and unsecured personal or business loans either on a no interest or low interest basis;*
- *Products that provide a safe transition to mainstream financial services;*
- *Building a customer’s financial capability such as budgeting and savings skills, small business skills and a credit history;*
- *Insurance.*<sup>2</sup>

The NAB’s working definition of micro-finance mirrors accepted community sector usage of the language<sup>3</sup>. Even better that the use of the term and such a fulsome commitment to the development of alternative finance for low income consumers is coming from one of the largest corporations in the country, setting a challenge to the entire financial services industry and most governments in the process. The problem is that there is no ownership of the language and it is not only in the genuine efforts of corporations that seek to expand the benefits of corporate social responsibility where we see an increasing interest in the terminology of micro-finance.

Earlier this year I attended the Financial Counselling Association of Queensland annual conference in Brisbane. Part of the program included a panel discussion of the implications of interest rate caps. I joined that panel with an academic from Griffith University and a representative of the Micro-lenders Association of Australia, himself a micro-lender<sup>4</sup>. The argument put by the micro-lender was that one should view the pricing of credit in the same way as the pricing of a cup of coffee. There is a premium charged on the cost of providing the service that in the case of a cup of coffee with production costs of 20 cents and a sale cost of \$3 would produce a profit on a single transaction, expressed as an interest rate, of 1400%. Annualised, the “interest rate” the coffee consumer was paying, according to the micro-lender, was 511,000%. All of

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<sup>1</sup> National Australia Bank, *Backing People – Not Just Banking Them (Background briefing to accompany micro-finance initiatives media release)*, Melbourne 26 April 2006

<sup>2</sup> NAB, *ibid* page 1

<sup>3</sup> See for example The Good Shepherd and Brotherhood of St Laurence, *Submission to Consumer Affairs Victoria Credit Review*, Melbourne September 2005

<sup>4</sup> Rob Legat – Micro-lenders’ Associations of Australia, *Interest Rate Caps (Powerpoint presentation)*, Financial Counsellors’ Association of Queensland Conference, Brisbane 14 March 2006.

this meant that the modest ‘micro-lender’ example rate of 20% per month, or 240% per annum was reasonable. An interest rate cap, with a requirement to include all fees and charges in producing the rate, would put operations like the one run by the Micro-lenders’ Association representative out of business. In his view that was a poor outcome, forcing consumers to borrow from loan sharks.

A link to the power-point presentation detailing this stunning feat of arithmetical gymnastics is provided in the notes to this paper<sup>5</sup>. It was the single most compelling argument I have ever heard for the introduction of all-inclusive interest rate caps. Perhaps if such a presentation were to be provided to the Ministerial Council on Consumer Affairs some of the reluctance to intervene in markets to prevent absurd and unfair services from evolving would disappear. Or would it? It would seem that at least some are listening to and accepting the views the high cost micro-lenders express in support of lighter forms of regulation. For example, when the NSW Parliament was debating its Maximum Annual Percentage Rate Bill, the Reverend Fred Nile noted:

*I received a deputation from the micro-lending industry, which informed me that no State Fair Trading officer has received any complaint or initiated any regulatory punitive action as a result of any complaint by a borrower. Complaints have been made about loan sharks and the credit card rates of banks.*<sup>6</sup>

The other major concern in the context of this forum is that the portability of language to other forms of service provision can at best potentially confuse and at worst mislead vulnerable consumers.

Micro-credit as a descriptor has been used in Australia across a broad spectrum. At one end is the community sector view, reflected in the NAB definition quoted earlier. At the other extreme is the re-badging of forms of credit provision that financial counsellors and community workers would be more comfortable calling fringe or exploitative credit. In other countries, most notably South Africa, micro-credit of an exploitative type has required detailed policy and regulatory responses.

There may be no solution to this dilemma, other than to be clear in distinguishing between small value lending that could be broadly categorised as a social good and that which simply seeks to exploit the needs of vulnerable consumers. It is however a reminder that there may be added benefit in distinguishing between NILS advances and credit for which fees and charges are levied, no matter how large those fees and charges are. At this same conference two years ago, I suggested it was important to clearly separate the promotion of NILS from other forms of fee generating activity<sup>7</sup>. My view is the same today but I would suggest that the increasing adoption of the

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<sup>5</sup> Note 4 provides a reference for Mr Legat’s paper. It can be accessed on the web-site of the Centre for Credit and Consumer Law, Griffith University ([www.griffith.edu.au/centre/cccl](http://www.griffith.edu.au/centre/cccl))

<sup>6</sup> Reverend the Hon. Fred Nile, NSW Legislative Council Hansard, *Consumer Credit (New South Wales) Amendment (Maximum Annual Percentage Rate) Bill Second Reading*, 9 November 2005 from page 19455

<sup>7</sup> With due apology for quoting myself, the paper was entitled “Micro-credit partnerships – Recognising the potential and the limitations”. It was presented in a Panel session at the NILS Forum in Melbourne on 20 May 2004.

language of micro-credit at the high cost end of the market makes the case for appropriate separation even more compelling.

### **Designing appropriate partnerships**

Industry/community partnerships in the financial services sector are increasing in number, scale and sophistication. More importantly, they are also increasing in quality and sensitivity, especially in relation to issues surrounding the needs of vulnerable and disadvantaged consumers.

It is important to acknowledge the shifts in industry thinking that have made these partnerships possible. It is not so long ago for example that the banking industry determinedly and repeatedly argued that it had no social responsibilities, beyond of course being strong and profitable<sup>8</sup>. Banks are still strong and profitable but the days of denying social responsibility seem to be well behind us and that is a good thing. In recent years, banks have driven or underwritten some of the most innovative thinking regarding safe, fair financial services inclusion in Australia. That thinking and resourcing has in many cases outstripped the commitment of governments to the same questions over the same period of time. Whether that is a good outcome is a much harder judgment to weigh.

There will always be limitations to the issues that industry/community partnerships can seek to tackle. The examples that I am most familiar with unsurprisingly occur in the financial counselling sector. There are situations that deliver very clear conflicts and Australian financial counsellors have been straightforward and robust in their rejection of overseas models directly linking the provision of credit and debt support services to the collection of debts. It is heartening to see more formal recognition of the value of such clear lines of demarcation, through the relief that ASIC has provided financial counsellors under the Financial Services Reform Act framework and more recently in the Report of the Consumer Credit Review in Victoria.<sup>9</sup>

There are other forms of conflict that are less obvious but still require attention and are unlikely to be solved by disclosure alone. Remaining in the area of service delivery I am most familiar with, financial counselling could be a worthwhile adjunct to some of the lateral capacity building programs being developed and funded by major banks like the NAB and the ANZ. But how interconnected should the programs be? For example:

- Is it appropriate to make engagement with a financial counsellor a condition of accessing the service?
- Should financial counselling services accept money for service delivery, tied to the provision of a specific financial service or product?
- Extending the previous question further, would accepting direct resourcing of financial counselling from the provider of a tied financial service or product breach the relief that ASIC has granted from licensing under the Financial Services Reform Act?

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<sup>8</sup> See Chris Connolly and Khaldoun Hajaj, *Financial Services and Social Exclusion*, Financial Services Consumer Policy Centre University of New South Wales and the Chifley Research Centre, March 2001 (in particular page 40).

<sup>9</sup> Consumer Affairs Victoria, *The Report of the Consumer Credit Review*, Melbourne 2006, page 239.

If the preceding questions are not challenging enough, none address the most compelling issue – the potential impacts on clients. If services like financial counselling are too closely intermingled with direct industry funded programs, no matter how thoughtful the design of those programs, the potential exists to undermine the confidence that the financial counsellor is able to act in the interests of their client alone. Like other community agencies, financial counselling services have worked hard to build trust with their clients and maintaining that trust requires an investment that goes beyond just money issues.

I would certainly not want create the impression that these comments detract from or criticise financial services providers that are prepared to tackle issues of structural disadvantage and exclusion. As I have already made direct mention of two major corporations, the NAB and the ANZ, it is important to emphasise neither of those banks has to my knowledge sought to take over, exert undue influence on the roles that community partners are playing or engaged in inappropriate marketing of their various financial literacy and inclusion activities. On the contrary, these corporations and a number of others active in similar areas appear to want a genuine, two-way exchange of knowledge and expertise – partnerships built on mutual respect.

Respectful partners must be honest with each other. That includes allowing partners to remain clear about and committed to their guiding principles.

Before ending this section, it is important to make at least a brief reference to the role that governments can and should play. There is an increasing sense that governments are abrogating responsibilities to the most vulnerable members of society. At a Commonwealth level a considerable amount of policy energy and attention is focused on making the disadvantaged responsible for solving that disadvantage. Failure, even refusal to engage, can result in financial penalty and the inevitable further marginalisation of those people. Industry funded programs are starting to fill gaps in spaces vacated by government. There is a desperate need for a more informed debate in Australia about whether this departure by governments is appropriate or sustainable. Oddly enough the most effective element of community/industry partnerships may still be ahead of us. Exerting industry muscle could be of great assistance in ensuring that governments care about and respond to the needs of the marginalised and excluded.

It is not all doom and gloom and there are some positive moves in the appropriate engagement of governments. For example, the Victorian Government is actively considering the needs of vulnerable consumers through its current Consumer Credit Review. At the Commonwealth level, the Centrelink decision to underwrite the costs of NILS access to the Centrepay system is significant well beyond the actual sum that support represents. And as an example of more lateral partnerships, the ASIC brokered Commonwealth Bank sponsorship of a Northern Territory financial counselling position initially for a period of 3 years and administered through the Commonwealth Financial Counselling Program is a fascinating development<sup>10</sup>.

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<sup>10</sup> Information on the background to this arrangement can be found through ASIC's web-site ([www.asic.gov.au](http://www.asic.gov.au)) and in particular in Media Release number 06-010, *CBA agrees to change lending practices in remote indigenous communities*, 19 January 2006.

### **A national NILS network – utility versus bureaucracy and control**

This afternoon's discussions include presentations under the heading "Lessons to be Learnt from Centrally Administered Models of NILS". I am sorry that I will be missing those presentations. I am sure none of you will be sorry to learn that focus in the program already will make this section of my paper mercifully shorter.

My employer Care Inc Financial Counselling Service hosts one of the smaller NILS. Piloted in 1997, the ACT NILS commenced with lending capital of \$20,000. A further \$15,000 was added in 2001 and a donation of \$1000 was added last year – to a total of \$36,000 lending capital. At the end of March 2006, Care's NILS had made 281 loans to a total of \$167,782.54. The program costs about \$10,000 a year to run, with that administrative cost covered by ACT Government<sup>11</sup>.

The numbers I have just shared with you are dwarfed by many of the NILS represented at this Forum. They do however represent a resource of considerable importance and benefit to the ACT community. I am also pleased to indicate that plans for another NILS to open in the ACT are well advanced. Both Care and Good Shepherd have provided support to the community group going through that set-up phase. We look forward to working with another agency to meet more needs in the national capital.

Smaller schemes like the one that Care operates receive enormous benefits from being involved with the national NILS network. The development of that network and the collective voice, energy and focus that it brings to all of our work has been a huge success. Having a newsletter, a trademark protected title and logo, National Forums for developing writing and research – are all invaluable assets.

The success and effectiveness of the national NILS network does not alone prove a case in favour of centralised management of NILS. A considerable amount of resourcing will potential will always be local. So too will the structure, design and delivery mechanisms always need a local focus and interface. Although Care's view is dictated in no small part by the agency's experience in the Canberra community – that is not necessarily a weakness; indeed it might more appropriately be recognised as a strength. Local programs should always stay well connected to their communities. I doubt it ever would, but the utility of national networking should not seek to usurp NILS providers' connections with and responsibilities to their local communities.

### **Conclusion**

We are a long way from oversupply in the provision of no interest loans. I doubt that there would be a representative from a community agency in this room who could not find useful things to do with more or better targeted resources. In fact, if we polled the people attending this conference who work in or administer no interest loan schemes,

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<sup>11</sup> Summary details of Care's NILS program can be found in the agency's annual reports, accessible on the web-site [www.carefcs.org](http://www.carefcs.org).

I bet every single one would be able to think of loans that were not made in the last year because of a lack of resources, be it in lending capital or capacity.

The community sector manages an inability to meet all of the legitimate demands made on its various services every day. NCLS are no different in that respect and I am not sure that aiming to have a no interest loan available for everyone that wants or needs it at the very moment they present is an achievable goal. That said, I have no doubt at all that accessibility to NCLS resources across Australia today is better than it has ever been before.

With the growth in NCLS and social good micro-credit there has also been a cross-fertilisation in consumer networks generally that has been hugely beneficial. Credit advocates have benefited from learning more about the advantages of safe, affordable credit. NCLS and micro-credit workers have had the opportunity to learn more about the structure and regulation of the credit market. As a direct beneficiary of that interaction, I hope it continues to grow and develop further.

Finally, on behalf of one of the smallest NCLS in Australia, I would like to pass on our thanks and gratitude to the hardworking people at Good Shepherd Youth and Family Services and to this network more broadly. Whilst the community sector has traditionally been a forum for the open exchange of information of benefit to the clients we serve, it has never been more important to acknowledge quality assistance freely given.

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