

Legislative Council

Wednesday, 8 April 2009, Page 1936

CONSUMER CREDIT (SOUTH AUSTRALIA) (PAY DAY LENDING) AMENDMENT BILL

The Hon. A. BRESSINGTON (17:37): I rise today to indicate my strong support for this bill, and I congratulate the Hon. Dennis Hood for bringing this very important issue back into the parliament's focus. I also wish to acknowledge the member for Flinders for the work she did in this area—in particular, her private member's bill of 2006, which also proposed a 48 per cent cap but which, unfortunately, was not passed.

Payday lenders charge mind-boggling effective interest rates for fast, no-questions-asked loans—anywhere from \$300 at a whopping 1,900 per cent. They are not covered by the consumer credit code as the loans are for under 62 days. Customers are usually charged a flat fee rather than an interest rate, but over just two weeks a loan as small as \$100 can work out to an equivalent interest rate of about 650 per cent.

I find it extremely disturbing that virtually anyone, including unemployed persons, can easily access these kinds of loans. Of particular concern to me is the apparent link between fringe credit and substance abuse. There are about 20 payday lenders operating in Adelaide, and just about all of them are located in lower socioeconomic areas in the north and south. Many are located within close proximity to gambling facilities, and social welfare groups have advised my office that they have heard many reports of people using these loans to gamble or buy drugs and alcohol.

In his second reading explanation the Hon. Dennis Hood said that Jeremy Brown, the director of Marion Life Community Services and state chair of Emergency Relief Services, indicated that he was aware of bikies and other groups involved in criminal activity that were in this industry. Other feedback from around town seems to collaborate this. A spokesperson for another social welfare group (who wishes to remain anonymous) told my office that a man who had taken out a loan, and who was physically assaulted by bikies over an unpaid debt, had visited them on a number of occasions seeking help.

Karen Grogan, the Executive Director of the South Australian Council of Social Services and a long-time critic of payday lenders, told my office that, although she was unaware of any link between bikies and payday lenders, she was concerned that there was a large concentration of payday lending around Hanson Road, Arndale, an area which she says is notorious for drugs and prostitution.

It is said that society should be judged by how it treats its most vulnerable, and as a social justice person I completely agree. These loans are targeted at low income earners who are unable to access mainstream credit, and payday lenders cold heartedly exploit their desperation and helplessness. As long as these predatory lending vultures are allowed to feast on struggling South Australians, we should hang our head in shame. As representatives of the people, it is our duty to act in their best interests.

We are in a global recession because of dangerous and highly risky and poorly regulated credit practices. Obviously, the issues this bill seeks to address are on a much smaller scale to the ones that have wreaked havoc on global financial markets, but the basic consequences for everyday people are the same: default expenses and bank charges are causing them be

trapped in an inescapable cycle of poverty and debt. Has what has happened over the past few years taught us anything at all?

Before I progress any further, I put on the record that it is certainly not my intention to destroy this industry. There is a place for these types of loans, most notably in cases of emergency, such as when a person's car breaks down or when an essential household item, such as a refrigerator, needs replacing. However, they need to be properly regulated. I believe the limit proposed by the Hon. Dennis Hood of 48 per cent will not prevent this industry from being financial viable.

In his second reading explanation, the Hon. Dennis Hood noted that Victoria, New South Wales and the ACT already cap the interest rate of their lenders at 48 per cent. Indeed, it was the aim of the member for Flinders to bring South Australia into line with these states. In October 2006, the then minister for consumer affairs announced that the government intended to reform the industry, and a discussion paper was released. This was largely in response to criticism in the media, and, the minister was, of course, well aware of the member for Flinders' intention to better regulate the industry.

Welfare and community groups that had spoken out about these loans, such as the South Australian Council of Social Services and the Central Community Legal Service, seemed to have good reason to finally believe that something would be done. Well, here we are 2½ years down the track, and what has the government actually done? As the Hon. Dennis Hood said, the Rann government put out a press release on 21 October 2007 promising to crack down on payday lenders and impose a maximum interest rate but, to the best of my knowledge, to this day the government has not introduced any legislation.

I am bemused that the government has apparently backflipped on this very important policy. I could not believe my ears when the Hon. Dennis Hood said that, on 25 November 2007, the member for Mawson presented a petition to the House of Assembly, signed by 4,562 South Australians, urging the government to abandon its proposal to cap interest rates in order to ensure greater choice in the marketplace for financial solutions. It is hard to believe that so many South Australians did not want some kind of regulation of these payday lender cowboys, who are currently 'acting in a legal no mans land', as the Hon. Dennis Hood put it.

Remember that it is not being proposed to get rid of this industry but merely to cap effective interest rates, which is a very important distinction. In fact, I really have to wonder whether those signing the petition were sure about what they were signing. However, even harder to believe is that the member for Mawson apparently rolled his own cabinet minister's policy of capping interest rates to protect those in desperate financial circumstances from these predatory payday lenders.

I think it is particularly damning that a discussion paper on this subject, which was released in August 2003 by the Ministerial Council on Consumer Affairs, was a key factor in other states passing legislation that capped effective interest rates at 48 per cent. This government has had the opportunity to do the same and originally seemed to be doing this, but it has lacked the political will to follow it through.

On this note, I again want to place on the record my complete frustration with the government's spin over substance and media management strategy. We hear all the time that politics is apparently all about perceptions, that as long as the government is seen to be doing something that is all that counts when it comes to staying in power.

One thing I have noticed since being in this place is that, in the climate of politics, memory is often very short. Today's issue is swept under the carpet so that it is forgotten about tomorrow. Problems seem to be serious to this government only when they blow up in the

media, and they are quickly forgotten once the spotlight shifts onto something else. But, what happens to the people who are suffering? Their plight is forgotten and ignored.

This issue is a particularly good example of that. Is it any wonder that so many people are apathetic when it comes to politics, and becoming increasingly more so. Karen Grogan told my office that a key problem is that many of these consumers get themselves into trouble because they simply are not aware of the extreme charges for these loans when they sign up for them. It is important to understand that many of these people do not have high levels of education, or the desperateness of their situation clouds their judgment.

I believe the words of Ms Margaret Davies from the Salvation Army Community Support Service, which the Hon. Dennis Hood cited in his second reading speech, to be extremely consistent with the feedback my office has received. She states:

Anxieties around the urgency of the debt means that they do not fully research the product they are being offered.

I mentioned earlier that my office has been informed by social welfare groups that people are accessing these loans to gamble to buy drugs and alcohol. This government needs to understand that people who are addicts often do not make rational decisions when it comes to getting their next hit.

Returning to the substance of the bill, one notable difference between this bill and the one introduced by the member for Flinders is that it also limits other fees and charges so that this cap of 48 per cent cannot be exceeded as has occurred interstate. The Hon. Dennis Hood asserted that this would give South Australian families the highest level of protection within Australia. As for the effect of the rate proposed—48 per cent—I believe that it is reasonable. I do not believe it needs to be any higher. That rate is already much higher than what is paid on credit cards.

With unemployment forecast to rise as a result of the global financial crisis, it is reasonable to assume that more South Australians will be tempted to access these loans and get caught up in this net. We cannot afford to wait any longer.

I have said most of what I want to say on this bill but, finally, I also wish to note that the federal government has been looking into the new legal structure to cover all consumer credit, including personal loans, credit cards, payday lending and micro-loans. In researching this bill, I came across an article from July last year on *Adelaidenow*, entitled 'New rules to protect borrowers'. This article stated that, at the Council of Australian Governments meeting on 3 July, regulation responsibilities changed hands and that the practices of payday lenders, in particular, would come under intense scrutiny. However, at this time there are yet to be any significant developments. With that in mind, I say, 'Let's just get it done.' If, in future, this legislation is superseded by that of federal governments, that is fine, but we cannot afford to wait.

In summary, I once again congratulate the Hon. Dennis Hood on introducing this bill. Legislation to strengthen consumer protection in this area is long overdue, and I strongly encourage members to support his bill.

Debate adjourned on motion of Hon. J.M. Gazzola.