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Address to the Responsible Lending and Borrowing Summit, Sydney

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Introduction

Good morning.

I would like to begin by acknowledging the Gadigal people of the Eora Nation, the traditional custodians of this land, and pay my respects to the Elders past, present and emerging.

It is a pleasure to join you here at the 6th annual Responsible Lending and Borrowing Summit.

It is my great honour to join you today as a member of the first Albanese Government ministry.

We have been preparing for this for a very long time:

- I was first elected to Parliament in 2010 and have been in the shadow ministry since 2013.
- I have worked across many areas of relevance to those of you here – in regional communications and services, across territories and local government.
- As Shadow Assistant Treasurer and Minister for Financial Services since 2019.
- And with added responsibilities for superannuation from 2019.

Now as Assistant Treasurer and Minister for Financial Services I am looking to launch a new era of cooperation and collaboration.

One with meaningful reforms to strengthen protections for Australian consumers. And a stronger, fairer framework for borrowers and lenders alike.

As professionals in this field, you are animated by strong financial markets, the best possible consumer outcomes and fair play across the board.

So is the Albanese Government.

It always struck us as bizarre that our predecessors who talked so much about economic policy knew so little about it.

They talked so much about managing the economy but did so little of it.

Any cursory understanding of markets tells us that consumer rights make them more efficient:

- Safe products are not only good for consumers – they generate productive workplaces and productive economies.
- Informed consumers create efficient markets and a stronger economy.

Microeconomic reform that levels the competitive playing field and creates strong consumer rights, especially in the lending and borrowing space, can only enhance the productivity of the economy.

So the Albanese Labor Government's approach to economic reform will have consumers at its centre.

The Australian Government is back in the game of consumer affairs because it is good for consumers, and it's at the heart of economic reform.

We've got a lot of work to do.

Today I'd like to talk to you about three key areas:

- responsible lending obligations
- Buy Now Pay Later regulation
- payday lending.

Responsible lending obligations

First to responsible lending obligations.

Labor's record as the party of consumer protection and fair competition is something we are immensely proud of.

Indeed, these are concepts that have proved central to our successful stewardship of the economy during our previous terms in government.

Many of us gathered here today remember only too well the Global Financial Crisis of 2008.

The fallout from the sub-prime mortgage meltdown on US markets threatened an existential loss of confidence in the Australian financial system.

Wayne Swan and Kevin Rudd's bold decision to guarantee bank deposits sandbagged our financial system.

This rightly got most of the media attention.

But I'd argue that their new legislation requiring loan-makers to comply with responsible lending obligations was just as important.

Public and investor concerns at the time revolved around so-called 'low and no-doc loans', which applied no due diligence to loan applications.

Labor's RLOs restored confidence in the national mortgage book, maintained the flow of credit into the economy and helped us to avoid the recession that so many had predicted.

We welcomed the fact that, some years later, the Banking Royal Commission reviewed the operation of the RLOs.

And we were not surprised that Commissioner Hayne recommended they be left as they were – intact.

For the trivia buffs out there, that was the very first recommendation in Hayne's final report.

So we were gob-smacked when the previous government went against that recommendation and attempted to lift those obligations on banks.

I am glad to say we were able to defeat those attempts in Opposition.

So we won't be revisiting RLOs in Government.

Buy Now Pay Later

Australians should be proud of our financial services industry.

It's among the most innovative in the world.

Australian consumers now have a plethora of credit products to choose from, which is a benefit to everyone confronting the current inflation spike.

And within this classification of 'credit products' I include BNPL.

This should not be controversial.

If it walks like a duck and quacks like a duck, it's a duck.

So let's have an end to the silly argument about whether BNPL is credit and get on with the next stage of growth for this emerging industry.

Soon I'll be consulting on options with key stakeholders, including industry, consumer groups and regulators on how to improve the regulation of credit in Australia.

BNPL products are unique and any future regulatory framework needs to reflect that.

Which is why we will take a careful and deliberate approach that balances the need to protect consumers with encouraging innovation in our financial services industry.

The Australian Finance Industry Association's report on The Economic Impact of Buy Now Pay Later in Australia found that:

- there are now 5.9 million active BNPL accounts
- while the average transaction is only \$151, cumulatively they account for \$11.9 billion of transactions per annum
- BNPL now represents 3.7 per cent of online consumer payments by volume, and 2.1 per cent by value.

Australians are clearly responding positively to a new and innovative credit products.

BNPL plays an important role in providing low cost and convenient credit to consumers.

However, we must be mindful of the risks that may arise from innovation and ensure our regulatory frameworks remain fit for purpose in light of evolving technologies and business practices.

We are carefully monitoring how other jurisdictions are approaching regulation.

This includes the UK, which has also announced its intention to regulate BNPL as credit products, in a tailored way.

Payday lending

The third and final topic I'd like to discuss today is payday lending and consumer leasing reform.

Safe, well-regulated consumer markets for credit products are a core element of a strong and inclusive economy.

On the flip side, less-safe, less-regulated products pose a significant risk when they are inappropriately distributed to vulnerable consumers.

I would count some lending practices by certain fringe payday lenders – or lenders of last resort – in the latter category.

Some payday loans, or small-amount credit contracts, target vulnerable consumers and can charge eye-watering fees and interest.

For some short-term loans this can equate to an equivalent annual interest rate of well over 200 per cent.

According to the most recent industry funding data from ASIC, in 2020–21 there were 143 small and medium amount credit contract providers who lent \$958 million in loans of up to \$5,000.

For over 5 years, the previous government sat on reforms recommended by its own independent panel.

This was despite publicly committing to enacting changes.

And despite legislation being drafted to make payday loans and consumer leases safer and less harmful to consumers.

The panel's recommendations aimed to increase financial inclusion and reduce risks to consumers.

It sought to introduce caps on the costs for consumer leases of household goods and small-amount credit contracts.

It also recommended amending the protected earnings amount that prevents consumers paying more than 10 per cent of their net income under a small-amount credit contract – and introducing a similar limit for consumer leases for household goods.

The improved disclosure requirements recommended by the panel would have provided consumers with more and better information when they enter a consumer lease.

The panel also recommended a range of other measures to address specific inappropriate lending practices – for example, in relation to unsolicited lending.

Proposed anti-avoidance provisions would have provided consumers with an additional layer of protection from predatory lending practices from certain fringe lenders.

The previous government knew these products target low-income Australians who don't have access to other regulated credit products, and that they disproportionately dominate the casework of financial counsellors and credit lawyers.

In Opposition, Labor pushed strongly for these reforms.

Predatory credit products take advantage of existing financial vulnerability.

That is not what Labor stands for.

Labor is committed to taking action to strengthen consumer protections.

Conclusion

To conclude, a well-functioning economy is built on the back of strong consumer protections and safe, well-regulated credit and financial products.

Our current responsible lending laws achieve an appropriate balance between facilitating access to credit and protecting consumers – particularly in the current environment of rising interest rates and costs of living.

New and innovative products have the potential to improve outcomes for consumers and businesses.

But we can't be blind to the risks they present and must act to ensure regulatory frameworks remain fit for purpose.

We need to ensure that vulnerable groups can access Australia's credit and financial product markets.

For this to occur, access to credit must go hand-in-hand with access to meaningful protections and remedies.

We will play our part by holding to our election commitment to strengthen consumer protections.

Thank you again for the invitation to speak to you today.

I look forward to working with you.