

4 June 2012

General Manager
Retail Investor Division
The Treasury
Langton Crescent
PARKES ACT 2600

Re: Strategies for reducing reliance on high cost, short term, small amount lending

National Australia Bank (NAB) would like to commend the Australian Government for releasing the discussion paper on **Strategies for reducing reliance on high cost, short term, small amount lending**. NAB supports the Government's initiative and sees the importance of improving access to fairer alternative financial services, as well as improving assistance provided to those stuck in the payday lending debt cycle.

Nearly three million Australian adults are either fully or severely excluded from accessing financial products and services, including a transaction account, a credit card and general insurance. It's a staggering statistic revealed in the second report into financial exclusion in Australia recently released by NAB and the Centre for Social Impact¹. The report explores the state of financial exclusion in Australia and investigates further some of the underlying contributing factors.

Financial inclusion has an obvious and invaluable social impact, but there is also a very strong economic case, like greater workforce participation, reduced welfare and health costs, that validate and confirm its importance. We think quality research is critical in order to identify appropriate solutions to addressing this significant social and economic issue and we are pleased to be able to contribute to this outcome. However, we also understand that research is just the first step.

NAB in partnership with both local community agencies and State and Federal Governments, has for many years been developing microfinance solutions to help address financial exclusion and to ensure all Australians have access to fair and affordable financial services.

In late April, we opened the first Good Money store in partnership with Good Shepherd Microfinance and the Victorian State Government. In a first of its kind, this retail outlet will help meet low income earners' demand for affordable credit and low cost financial services in a high street setting.

Good Money is located on the main street in Geelong and it is expected to provide more than 1000 financially excluded locals with access to microfinance products, financial counselling and other community services in a comfortable and secure retail environment. Further stores are scheduled to open in Collingwood and Dandenong before the end of 2012.

We think the hubs are a small step in the right direction in terms of addressing the increasing issue of financial exclusion. They represent a significant milestone in NAB's decade long commitment to promoting financial inclusion and our \$130 million capital commitment to microfinance. The initiative demonstrates the innovation possible through corporate community partnerships and how together we can better support our communities.

¹ Please find attached a copy of Measuring Financial Exclusion in Australia, 2012 Report

The following submission details the extent of NAB's commitment and some critical areas where we believe continued support will make a difference. We recognise that appropriate alternatives are only one part of the solution and call upon all governments, community groups and other corporates to unite and help reduce the extent of financial exclusion in Australia and reduce the reliance on high cost, short term, small amount lending.

If you have any questions, please contact Corinne Proske on 0413 995 836 or email Corinne.m.proske@nab.com.au.

Yours sincerely,

A handwritten signature in black ink that reads "Paula Benson". The signature is written in a cursive, flowing style.

Paula Benson
General Manager Corporate Responsibility
National Australia Bank

4 June 2012

Response to Treasury Discussion paper: **Strategies for reducing reliance on high-cost, short term, small amount lending.**

NAB believes in the importance of improving access to fairer alternative financial services, as well as improving assistance provided to those stuck in the payday lending debt cycle. Those that utilise the services of payday lenders are often locked out of being able to access mainstream financial services. NAB has a role to play in developing a deeper understanding of who is financially excluded and exploring innovative solutions to allow those most vulnerable to have fair and affordable alternatives.

The following is needed to underpin a strategic response to reducing the reliance on high-cost, short term, small amount lending:

- **Provision of alternatives** – Fair and affordable alternatives that provide a pathway for asset building, for those on low incomes, assists a proportion of those that are excluded from accessing mainstream financial services that would otherwise rely on payday lenders. Whilst we recognise that these safe and affordable credit alternatives are part of a considered response, they are not direct substitutes for payday lending as they cannot be used for everyday living expenses and will only go part of the way to fully address the issue.
- **Further engagement** – The issue of payday lending requires broader engagement with a range of industries including the financial services industry, utilities and telecommunications to begin with. Cross sector engagement and support for partnerships spanning community, government and the private sector will be required to have a substantial impact on the issue.
- **Continued Government support** - Ongoing support from Federal and State Governments is needed to underpin the provision of alternatives. This includes looking at the outcomes of the current Community Development Financial Institution (CDFI) pilot and exploring innovative responses such as the Good Money community finance hubs.

At NAB we have been engaged in looking at ways to address financial exclusion since 2003. The following is an outline of the initiatives and responses including NAB's Microfinance programs in partnership with community and government.

Financial Exclusion in Australia

Financial exclusion continues to have relevance in Australia as the recently released second Measuring Financial Exclusion in Australia report found that just under three million, or 17.2% of Australians, are now either fully or severely financially excluded from affordable and appropriate financial services. The study funded by NAB and conducted by the Centre for Social Impact, measures exclusion based on lack of access to appropriate and affordable financial services and products – the key services and products being a transaction account, general insurance and a moderate amount of credit.

Key findings of the research:

- **Cost:** The cost of motor vehicle and home insurance has increased at a rate higher than inflation, bringing the average premium up to \$898 (compared to \$855 last year). When combined with the annual cost of a credit card (\$808 average) and basic bank account (\$88), this represents 15% of the income for 12.7% of the country's population.
- **Demographics:** Indigenous Australians, young adult Australians, and those living in low-income outer suburban and regional areas are cited as some of the most vulnerable to financial exclusion. 43.1% of Aboriginal or Torres Straight Islanders (ATSI) are considered financially excluded. 49.2% of 18-24 year olds are now considered financially excluded.
- **Language and documents:** Communication difficulties and a lack of appropriate identification documentation were also cited as key barriers to credit. Most study respondents seeking credit did so to cover basic household necessities, such as food, rent and utility bills.

In response NAB in partnership with both local community agencies and State and Federal Governments, has been developing microfinance solutions to help address financial exclusion and to ensure all Australians have access to fair and affordable financial services.

NAB has pledged a commitment of **\$130 million** in loan capital towards our microfinance programs. Successful microfinance programs in developed economies require a whole-of-community approach, with collaboration from government, corporate and community groups to deliver the best outcome.

In 2009 the Federal Government investment of **\$18.5 million** in operational funding to Good Shepherd Microfinance and over 300 community agencies allowed the growth of three NAB supported microfinance programs over two years. This has since seen an additional commitment of **\$18 million** in 2011 which will continue to support the community agencies offering access to the NILS and StepUP loans programs.

NAB's response to financial exclusion in Australia

At NAB our approach has three key pillars:

1. World leading microfinance programs for low income earners - a partnership with Good Shepherd Microfinance, governments and more than 300 community agencies around Australia that draws on a capital commitment from NAB of \$130m and will deliver more than 20,000 loans in 2012;
2. Indigenous programs that focus on providing better access to banking services to some of the most financially disadvantaged communities in Australia,
3. Making banking more accessible, by providing basic good quality products and services; ensuring fair fees and charges; helping, guiding and advising customers; and showing compassion and support.

Underpinning these pillars is:

- An approach to build in improved financial capability and understanding.
- A program of research and advocacy, to better understand the problem, provide a voice to those excluded and gain insights into what works to address it.

NAB's Microfinance Programs

No Interest Loan Scheme (NILS®)

Developed by Good Shepherd Youth & Family Services 30 years ago, NILS is based on the concept of circular community credit.

Through NILS, low income consumers are provided with access to funds so they can purchase essential household items such as fridges, washing machines and computers. Loans are between \$800 and \$2,000 with a typical term of one to two years.

Microfinance workers play a central role in the delivery of the program. The workers not only help applicants gain access to affordable credit, but help develop the applicant's financial understanding and capability in areas such as; monthly expenditure, coming to terms with other financial problems, finding out about their credit history and providing education on how financial systems operate.

With NAB's support of Good Shepherd Microfinance the NILS programs across the country wrote 13,855 loans in the financial year ending 30 September 2011. It is expected that with the Governments continued investment loan numbers will continue to increase over the next two to three years.

Since 2003 NAB has supported the programs to write over 35,000 loans to the value of \$28 million and ongoing access to close to \$18 million in capital.

NILS Program Data

Yearly Loan Data	FY 08/09	FY 09/10	FY 10/11	FY 11/12
Volume of Loans	3,346	7,453	13,855	9,719
Value of Loans	\$2,676,685	\$5,962,572	\$11,087,691	\$7,775,245

Cumulative (EOY)	FY 08/09	FY 09/10	FY 10/11	FY 11/12
Volume of Loans	4,829	12,282	26,137	35,856
Value of Loans	\$3,863,275	\$9,825,847	\$20,913,538	\$28,688,782

*NAB Financial Year runs 1 October to 30 September, FY 11/12 is year to date to end March 2012

Step UP Loans

NAB in association with Good Shepherd Microfinance offer the Step UP Loan – a low cost credit product (currently 3.99% per annum) for financially disadvantaged Australians.

These safe, affordable, low interest loans of between \$800 and \$3,000 are for individuals or families to purchase essential personal, household and domestic goods and services.

Applicants participate in a face-to-face interview with a microfinance worker (in a similar process to NILS), who then mentors them throughout the life of the loan.

Step UP Loans sit between NILS and mainstream credit, helping low income consumers transition into mainstream products and experiences. It enables individuals to develop a credit history and improve their financial literacy and confidence, thus providing them with an informed entry into mainstream banking.

35 community organisations offer Step UP loans and have supported 5,186 loans being offered to individuals on low incomes, surpassing \$14.7 million in value. This reached a total of 1,594 loans to the value of \$4.5 million in capital for the financial year ending 30 September 2011.

StepUP Program Data

Yearly Loan Data	FY 08/09	FY 09/10	FY 10/11	FY 11/12
Volume of Loans	775	923	1,594	923
Value of Loans		\$2,671,800	\$4,599,600	\$2,666,300

Cumulative (EOY)	FY 08/09	FY 09/10	FY 10/11	FY 11/12
Volume of Loans	1,746	2,669	4,263	5,186
Value of Loans	\$4,839,600	\$7,511,400	\$12,111,000	\$14,777,300

*NAB Financial Year runs 1 October to 30 September, FY 11/12 is year to date to end March 2012

AddsUP matched savings plan

NAB in collaboration with Good Shepherd Microfinance is offering people who have successfully completed paying at least one NILS or Step UP loan the Adds UP Savings Plan.

Following a discussion with a microfinance worker about saving and setting realistic goals, the customer can ask NAB to open a NAB Concession Card account specifically for the purposes of saving. The Adds UP Savings Plan, which is available with that account, does not specify what people need to save for.

Once an individual has saved \$300, they have the opportunity to have these funds matched by NAB, once in the lifetime of the account. NAB will match amounts up to \$500. Adds UP aims to help low income Australians achieve their goals and further build on the discipline developed through repaying a loan.

Launched in 2009, this program is still in its infancy when compared to the other NAB programs but the number of participants has grown 309% year on year. To 30 September 2011, 626 accounts had been opened and 97 participants matched to the value of \$48,400.

Adds UP Program Data

Yearly Loan Data	FY 09/10	FY 10/11	FY 11/12
Volume of Accounts Opened	123	503	320
Volume of Accounts Matched	7	90	169
Value of Accounts Matched	\$3,500	\$44,900	\$83,615
Cumulative (EOY)	FY 09/10	FY 10/11	FY 11/12
Volume of Accounts Opened	123	626	946
Volume of Accounts Matched	7	97	266
Value of Accounts Matched	3,500	48,400	\$132,015

*NAB Financial Year runs 1 October to 30 September, FY 11/12 is year to date to end March 2012

NAB Microenterprise Loans

These unsecured business loans between \$500 and \$20,000 are for people who have few or no avenues to access affordable business credit. The loans are provided on a not-for-profit basis and are available to help start up or support an existing business.

NAB with its partner organisations provides loan recipients with business skills training, mentoring and advice during the first year of their business. This ensures that only those who are serious and committed enough to complete the business training are offered a Microenterprise Loan. Support in developing business acumen and networking is provided which helps to ensure a low rate of defaults for those on the program.

The loan partners are the New Enterprise Incentive Scheme (NEIS), Enterprise Network of Young Australians (ENYA), Business Enterprise Centres (BEC), Indigenous Business Australia and Small Business Incubators.

In the financial year to 30 September 2011 we supported 303 Microenterprise Loans to the value of \$4.7 million. Since the programs inception we have supported over 955 loans with \$14.6 million in capital.

NAB Microenterprise Loans Program Data

Yearly Loan Data	FY 08/09	FY 09/10	FY10/11	FY11/12
Volume of Loans	121	257	303	170
Value of Loans		\$3,804,891	\$4,773,815	\$2,695,500
Average Loan Size		\$14,805	\$15,755	\$15,856

Cumulative (EOY)	FY 08/09	FY 09/10	FY 10/11	FY 11/12
Volume of Loans	225	482	785	955
Value of Loans		\$7,228,941	\$12,002,756	\$14,698,256

*NAB Financial Year runs 1 October to 30 September, FY 11/12 is year to date to end March 2012

Community Development Financial Institution (CDFI) Pilot

NAB is supporting the Federal Government's Community Development Financial Institution (CDFI) pilot to test the potential of the community finance model to provide access to financial services and products to disadvantaged Australians. This model seeks to build on and complement the activities of mainstream financial institutions.

NAB is supporting two participants, the Fair Loans Foundation and Foresters Community Finance, with \$1 million each in loan capital at no charge. One partner is operating a shopfront and the other an online presence – both have vastly different operating models and are providing a deeper insight into the potential to further develop CDFI's in Australia.

CDFI Program Data

Yearly Loan Data	FY 10/11	FY 11/12
Volume of Loans	258	417
Value of Loans	\$465,500	\$775,055
Average Loan Size	\$1,804	\$1,859

Cumulative (EOY)	FY 10/11	FY 11/12
Volume of Loans	258	675
Value of Loans	\$465,500	\$1,240,555

*NAB Financial Year runs 1 October to 30 September, FY 11/12 is year to date to end March 2012

Good Money - Community Finance Hubs

NAB, Good Shepherd Microfinance and the Victorian Government, have embarked on a pilot to establish 'community finance hubs' to expand the distribution of specialised financial services to Victorians living on low incomes.

The hubs will be established as a shop fronts and be an alternative to payday lending with the provision of microfinance products, financial counselling and other community services for people living on low

incomes. This initiative is the first of its kind in Australia and an opportunity to further support financially disadvantaged people.

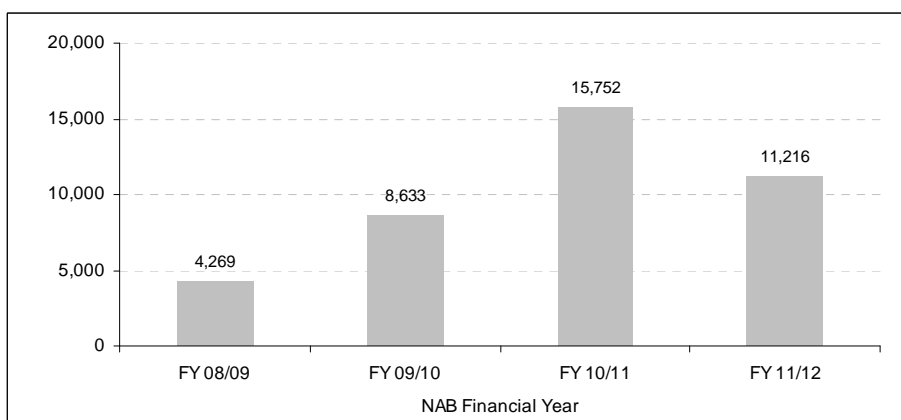
The hubs will provide:

- access to appropriate and affordable financial products such as NILS, StepUP, AddsUP;
- access and referral to relevant local support services such as Financial Counselling, Emergency Relief and Gambler’s Help; and
- Access and referral to information and programs which enhance financial understanding, including training to establish a small business.

The piloted community finance hubs will operate in three locations within the state of Victoria. The Geelong Good Money store was launched on 27 April 2012. It is estimated that over \$1 million in-kind services were provided to launch the first store. In the first week over 60 people visited the store. The vast majority was eligible for the offering and it would appear that they are a different segment than those traditionally accessing microfinance services. In particular there was evidence of more men and more ‘working poor’ presenting for services.

NAB Microfinance Program Growth

The overall number of loans supported year on year has grown more than 80% with the growth expected to continue in FY11/12 and more than 20,000 loans to be supported.



*NAB Financial Year runs 1 October to 30 September, FY 11/12 is year to date to end March 2012

Yearly Loan Data	FY 08/09	FY 09/10	FY 10/11	FY 11/12
Volume of Loans	4,269	8,633	15,752	11,216
Value of Loans		\$12,439,262	\$20,461,106	\$13,912,100

Microfinance to minorities, in particular focused on self-empowerment of women, immigrants, indigenous groups.

NAB's microfinance initiatives are focussed on providing access to financially excluded groups, the Measuring financial exclusion in Australia research has indicated that from a demographic perspective in Australia men and women are just as likely to be financially excluded and those from an Indigenous background are more than twice as likely to be excluded.

As part of NAB's Reconciliation Action Plan (RAP) we aim to create a sustainable financial future for Indigenous Australians through providing greater access to financial products and services. This includes providing greater access to microfinance products to Indigenous customers using NAB's Indigenous Money Mentor Network. This is a network of seven Indigenous Money Mentors provided assistance to more than 2,000 clients and more than 800 of these accessed a microfinance product during its second year of operation.

Indigenous Money Mentors offer face-to-face support by:

- providing ongoing financial literacy education for Aboriginal and Torres Strait Islander communities using culturally appropriate materials and education techniques.
- engaging in casework with clients to improve the clients' financial wellbeing (including assistance when in financial crisis and supporting the client to adopt preventative strategies).
- providing a supported referral service to help clients obtain assistance from other service providers to address broader issues which may be impacting on a clients' financial wellbeing (eg. consumer protection agencies, health, housing, employment and education services).
- providing access to NAB's microfinance products (No Interest Loans Scheme (NILS[®]), StepUP Loans and AddsUP Savings Program) in circumstances where the client identifies that such products will improve their financial wellbeing.

In addition, as part of NAB's aim to improve access to fair and affordable financial services in Australia, NAB is providing Traditional Credit Union Limited (TCU) with interest free loans of up to \$1 million (with no fees or charges). These funds will be used to open branches in remote locations in the Northern Territory, providing access to financial services for more than 3,250 Indigenous customers in the next five years.

Financial literacy to low income social groups.

NAB has imbedded financial literacy in all its microfinance offerings, believing that capacity building through experience makes a greater impact than financial information sessions or brochures. All the programs are underpinned by clients having a one on one interview with an experienced microfinance worker that can help them with their individual circumstances.

Workers who are involved in the NILS and Step UP loans programs are skilled by attending either:

- Annual NILS Forum, or the
- Biannual Step UP worker training

Leading Advocacy and Research

Given public awareness of financial exclusion in Australia is low, it's NAB's view that research is important to define and raise awareness of the problem and its relationship with social and economic disadvantage. We also publish reports on our microfinance programs and conduct regular awareness campaigns and government lobbying on financial exclusion issues.

As already discussed the **Measuring financial exclusion in Australia** research with the Centre for Social Impact is an annual measurement which will be publicly released each year. The second report released in May 2012 and includes a specific focus on access to credit, the experience of Indigenous consumers, and the geographic spread of financial exclusion across Australia. The report will be used to begin discussions with key stakeholders including government, community and private sector on the issue of financial exclusion and the broader impact it has on society.

On 13 March 2012, our Head of Business Bank, Joseph Healy, launched **Small is the new big: Measuring the impact of NAB's Microenterprise Loan program**. With the program now heading into its 6th year we believe it is important to understand the economic and social impacts beyond the loan volumes and amounts to truly understand the wide ranging impacts of providing finance to those who would normally be excluded. The research followed the Social Return on Investment (SROI) methodology and was conducted by the Centre for Social Impact. Findings of the research include:

- 30% of recipients indicated they had moved from unemployment to operating an enterprise.
- The enterprises have generated \$44 million in turnover and created almost 300 jobs over the past 5 years.
- For every dollar spent on the program by NAB and its partners, \$1.22 of economic benefit is generated.
- The program has supported \$7.5 million in increased tax benefits and \$7.3 million in Centrelink savings.

As part of our research and advocacy we have partnered with RMIT University, the University of Queensland and Good Shepherd Youth & Family Service to further understand the experiences of people accessing small, short-terms loans in Australia. We launched the **Caught Short Interim Report** in September 2011 which provides some initial findings for the project.