



AUSTRALIAN COLLECTORS &  
DEBT BUYERS ASSOCIATION

9 November 2018

The Secretary  
Senate Standing Committees on Economics  
PO Box 6100  
Parliament House  
Canberra ACT 2600

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Dear Sir/Madam,

### **Credit and financial services targeted at Australians at risk of financial hardship**

The Australian Collectors & Debt Buyers Association (ACDBA) appreciates the opportunity to make this Submission to the current Inquiry of the Senate Economics References Committee.

In February 2016 representatives from consumer advocacy organisations, industry associations, ombudsman schemes, government agencies and regulators met to discuss the society and industry impacts of businesses that provide quasi-financial service 'solutions' to consumers with debt problems or who have concerns about their credit worthiness – the communiqué subsequently issued by the participants of that Roundtable Meeting is included as Annexure A.

Debt management firms promise to help consumers in financial hardship or with listings on their credit reports, claiming to assist through debt negotiation, 'repairing' credit reports, advising and arranging debt agreements, and developing and managing budgets - where the promises of those firms do not meet expectations, this can cause harm to consumers and sometimes leave them worse off.

The Roundtable Meeting unanimously supported consumer protection and regulatory reforms for debt management firms to bring them into line with other financial service providers in Australia, including credit providers, finance brokers, debt buyers and financial advisers who hold a licence from ASIC and are required to abide by a range of consumer protections and regulatory obligations.

We submit a regulatory framework for debt management firms similar to the framework applicable for businesses holding an ACL would be appropriate, being based upon principles including:

- Applicants being fit and proper for the licensed activities to engage efficiently, honestly and fairly
- Applicants having Internal Dispute Resolution processes and membership of Australian Financial Complaints Authority
- Regulatory oversight by ASIC.

Yours faithfully,

**AUSTRALIAN COLLECTORS & DEBT BUYERS ASSOCIATION**

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## Annexure A

# Debt Management Firms – regulatory reform

Around forty representatives from consumer advocacy organisations, industry associations, ombudsman schemes, government agencies and regulators met in Melbourne on 18 February 2016 to discuss the social and industry impacts of businesses that provide quasi-financial service “solutions” to consumers with debt problems or who have concerns about their credit worthiness.

The Roundtable followed the release of a report in January 2016 by the Australian Securities and Investments Commission (ASIC), *Paying to get out of debt or clear your record: The promise of debt management firms*.

Debt management firms promise to help consumers in financial hardship or with listings on their credit reports, claiming to assist through debt negotiation, ‘repairing’ credit reports, advising and arranging debt agreements, and developing and managing budgets.

Consumer advocates have significant concerns about the conduct of debt management firms, including the charging of high up-front fees for services of little value, poor or inappropriate services that can leave consumers worse off, and misleading and predatory behaviour affecting consumers in financial hardship.

Industry and ombudsman schemes have concerns about the implications of debt management firms for their businesses, including the significant costs incurred dealing with debt management firms pursuing complaints that may not be meritorious or in the interests of the consumers they claim to represent.

Where the promises of debt management firms do not meet expectations, this can cause harm to consumers and sometimes leave them worse off. The cost is often shifted to taxpayers, when consumers are, or become reliant on government support services and welfare.

Professional and independent financial counsellors and some financial institutions, including banks, mutual banks, credit unions, building societies and debt collectors, provide information and support to people in financial difficulty for free. Ombudsman services provide a free dispute resolution channel for consumers.

“Where the promises of debt management firms do not meet expectations, this can cause harm to consumers”

## ***Working together—consumer protection and regulatory reforms***

“A new regulatory framework would bring these businesses into line with other financial services in Australia”

Improved standards of conduct by debt management firms, protection of consumer interests, the enhancement of consumer outcomes and a reduction in industry costs could be achieved with the introduction of a regulatory framework for debt management firms. This framework could include licensing as well as rules to regulate business behaviour. Similar measures have been implemented in the US and UK to successfully deal with the problems associated with debt management firms.

A new regulatory framework would bring these businesses into line with other financial services in Australia, including credit providers, finance brokers, debt buyers and financial advisers, which currently need to obtain a licence from ASIC and abide by a range of consumer protections and regulatory obligations.

Requiring membership of an Ombudsman scheme would give aggrieved consumers access to free and timely complaint handling about debt management firms. Further conduct standards, for example requirements to act in the best interests of clients and to have a reasonable basis for claims lodged with industry participants and ombudsman schemes, should be considered as part of the consultation on any new regime.

Action is needed now to tackle the exploitation of financially stressed consumers, and to mitigate the unnecessary cost to business caused by the gaps in our financial services regulatory framework.

*This communiqué reflects a consensus view of individuals and organisations which are listed below that participated in the Roundtable on 18 February 2016, but is not intended to be a formal policy position of the organisations to which those experts are affiliated.*

Australian Bankers' Association  
Australian Collectors and Debt Buyers Association  
Australian Retail Credit Association  
Consumer Action Law Centre  
Credit and Investments Ombudsman  
Customer Owned Banking Association  
Energy and Water Ombudsman New South Wales  
Energy and Water Ombudsman Victoria

Financial Counselling Australia  
Financial Ombudsman Service  
National Legal Aid  
Financial Rights Legal Centre  
Telecommunications Industry Ombudsman  
Gill North, Monash University  
Lucinda O'Brien, Melbourne University  
Ian Ramsay, Melbourne University