



AUSTRALIAN  
AUTOMOTIVE  
DEALER  
ASSOCIATION

## **SUBMISSION: CONSUMER CREDIT REFORMS**

19 NOVEMBER 2020



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## FOREWORD

The AADA welcomes the opportunity to provide comment on the proposed Consumer Credit Act reforms, announced by the Federal Treasurer on 25 September 2020.

The AADA represents the interests of franchised new car Dealers all over Australia. Australian new car Dealers own and operate over 3,000 Dealerships, directly employing more than 55,000 people and contribute \$12.76 billion to the economy.

In a normal year, Dealers sell in the vicinity of 1,000,000 vehicles. The 2018 Banking, Superannuation and Financial Services Royal Commission reported that approximately 90% of all car sales are financed, 39% of which is arranged through car Dealers.

New car Dealers therefore play a vitally important role in the provision of credit to consumers and as also found by the Royal Commission, have done so with low levels of delinquency, evident over many years.

The AADA agrees with the intent of the proposed reforms, which seek to place more responsibility on borrowers to provide honest and accurate information to lenders and their approved intermediaries. The Treasurer noted in his announcement of 25 September 2020 that placing the burden of proof almost entirely on lenders has created unnecessary red tape, administrative overheads, lengthy and inefficient lending processes and ultimately a restriction on lending and the provision of credit. This has certainly been the case in the automotive industry, with many Dealers reporting that restrictions on consumer credit are adversely affecting car sales.

The AADA supports plans to amend the Responsible Lending Obligations (RLO's) and move from a one size fits all approach to "lending with a risk-based regime that allows lenders the flexibility to make decisions based on the characteristics of the borrower and the type of credit." (CCR Fact Sheet)

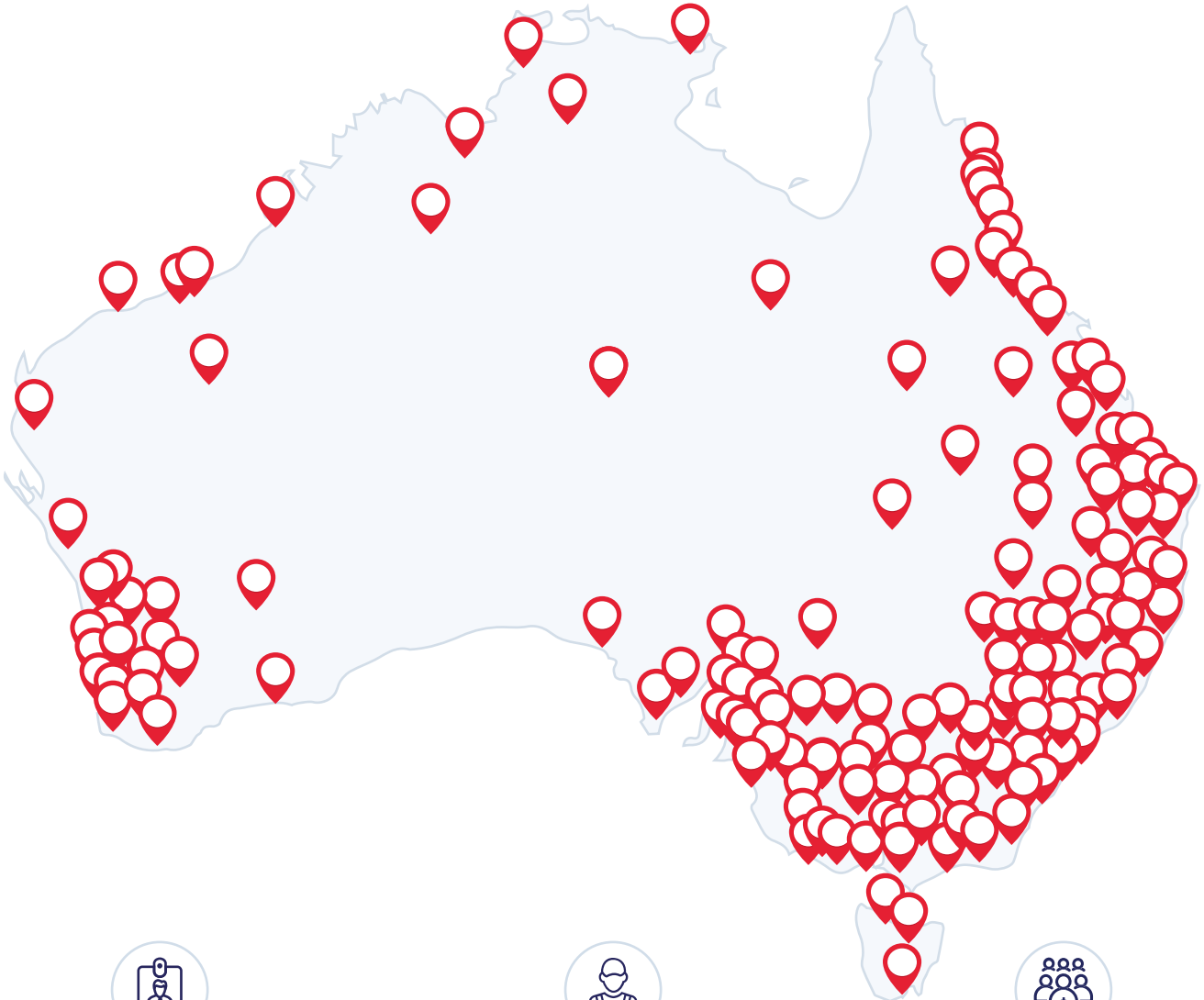


**James Voortman**  
Chief Executive Officer



# Australia

## 3,135 Dealerships



**55,815**

Dealer Employees



**4,463**

Dealer Apprentices



**\$14.82 million**

Community Donations



**\$5.10 billion**

Dealer Wages



**\$2.07 billion**

Tax Contribution



**\$12.76 billion**

Total Economic Contribution

# CURRENT DEALER LENDING ARRANGEMENTS

Dealers generally offer finance as an intermediary between consumers and credit providers and as such are regulated by ASIC in one of three ways:

1. As holders of an ACL
2. As authorised credit representatives of an ACL holder or
3. Most commonly, as per Regulation 23 of the NCCP Regulations 2010 under an exemption as suppliers of goods and services. Under this exemption, the ACL holder is responsible for ensuring Dealers are compliant with the National Consumer Credit Protection Act 2009.

Irrespective of the circumstances, Dealer lending conduct is diligently controlled, and credit provided through them will continue to provide consumers with competitive loans with the added convenience of being available at the point of sale.

While we note changes introduced through the reforms, Dealers also acknowledge that there remains an obligation to adhere to responsible lending practices. Under the exemption Dealers make reasonable inquiries and take reasonable steps to verify the income and indebtedness of consumer applicants. This also includes making inquiries of the consumers foreseeable expenses with respect to their specific circumstances. The proposed reforms also place responsibility on Dealers regarding their conduct and by only supplying loans that serve the best interests of the customer and are deemed suitable by the licensee, based on information provided by the borrower.

# COMMENTS ON THE NATIONAL CONSUMER CREDIT PROTECTION AMENDMENT BILL 2020 (excluding SACCs)

The AADA notes the Responsible Lending Obligations (RLOs) are designed to ensure licensees do not place consumers into credit agreements unsuitable for them. This is done through an assessment of the applicants' financial circumstances and commitments, based on information provided through reasonable inquiries.

The AADA agrees that the RLOs have become burdensome and inefficient for all parties and recognise that there are more responsive and effective ways of ensuring responsible lending occurs while still maintaining the appropriate and necessary consumer protections.

Removing the RLOs and replacing them with lending standards which more accurately account for the specific circumstances of the borrower will provide an opportunity to establish less formulaic lending processes and procedures which more accurately account for the specific circumstances of the borrower. The alignment of these standards with the best interest obligations due to come into effect next year for mortgage brokers, will work to the mutual advantage of both the borrower, financier and intermediary, where one exists. The AADA agrees with and supports the obligation for credit assistance which considers consumer interests first and foremost, though we await further detail about the obligation and how it will relate to our industry.

Equally, the AADA also supports the provision of Ministerial intervention using legislative instrument to implement standards of lending conduct.

Additional obligations in the standards for licensees concerning the development of systems, policies and processes, as well as appropriate record keeping, provides an important trail of accountability in the event of any dispute or investigation. The industry will however require a transition period of sufficient time to allow for the smooth introduction of changes, which will include training and the production of new materials and documentation.

# CONCLUSION

The AADA understands the need for reform of the Consumer Credit Act and amendments to the RLOs and looks forward to receiving further advice regarding the development of systems, policies and processes at the earliest opportunity. Credit availability has become a serious impediment to new car sales for Dealers in Australia and the existing regulatory arrangements surrounding the provision of credit only serve to stifle economic activity. Consumers benefit from having convenient, competitive credit available to them at the point of sale and the changes outlined in the reform package will significantly reduce the barriers confronting borrowers, lenders and lending representatives.

Please do not hesitate to contact us should you wish to discuss further or to clarify any of the issues raised.

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