

SACC Review Secretariat
Financial System and Services Division
Markets Group
The Treasury
Langton Crescent
PARKES ACT 2600

Reply to the Review of the Small Amount Credit Contract Laws Interim Report December 2015

Submission submitted by:

Kenneth French
CEO
Local Appliance Rentals Pty Ltd
Email: ken@localappliance rentals.com
Ph: 07 3393 5696
Mobile: 0404069525
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Introduction

It was with growing disbelief that I read through the Interim report December 2015.

My original understanding of the process was that it was to be a comprehensive and independent review by Treasury that would fully consider the submissions of all stakeholders. I felt that as a provider of Consumer Leases our business would, at the very least, get a fair hearing.

I was also confident that the Review members would carefully consider cold hard facts and not get caught up with the many assertions made without any supporting evidence put forward by various parties, most notably ASIC.

I was therefore shocked to read through page after page of the review, only to find it filled with just such assumptions. There is little or no supporting evidence.

The wording and findings of the Interim Report are startlingly similar to the various arguments put forward by both ASIC and Consumer Advocate Groups. After dealing with both these groups many times over many years, we know how they think, we know what they think and we know their views.

The Interim Report reads exactly as if it was a “cut and paste” exercise from various ASIC and Consumer Advocate Report documents.

I am sure that ASIC will be delighted with the Interim Report. It is certainly “singing from their hymn book”.

The only conclusion that could possibly be drawn from the language used throughout the Report was that any hope that we had, as a major industry participant, of getting an unbiased hearing of the issues at hand was pure wishful thinking.

Assumptions not Facts

The entire Interim Report, and Chapter 4 – Consumer Leases in particular, contains many assumptions that are not backed up by any facts whatsoever. Here are a handful of examples:

In *CHAPTER 4 - CONSUMER LEASES*

Page 20 paragraph 2

The second paragraph immediately asserts as a foregone conclusion that the

“consumer base for SACCs and regulated consumer leases are similar”

This overriding assumption is a pure construct that has been perpetrated by ASIC to make the case that Consumer Leases should be treated in the same manner as SACCs. As previously argued, this is not the case. However, the differences outlined in our initial submission have been summarily dismissed as inconsequential.

Page 22 paragraph 2

The wording is as follows.

“It appears that a subset of the customer base for consumer leases is similar to that of SACCs....” (The emphasis is mine)

The wording “It appears that...” indicates that this is simply an assumption NOT FACT.

Page 22 paragraph 3

Again on the same page

“.....appears to be causing consumers financial harm”

This is an assumption, not a fact

Page 22 paragraph 4

Again on the same page:

“... similar financial harm to SACCs ”

Page 22 paragraph 7

Again on the same page

“Evidence suggests that the costs of consumer leases are high...”

The so called “evidence” is one consumer who paid \$3,552 for a TV which supposedly retailed for \$599. In another example, a consumer paid \$2,950 in lease repayments for a “standard mobile phone”.

There is no such thing as a “standard mobile phone” and there was no cost put forward of the product but yet it is introduced as evidence that the “cost of consumer leases are high”.

Page 22 final paragraph

States that in several submissions

“consumer leases may be a relatively affordable option.”

Page 23 paragraph 5

This is probably the most telling comment in the whole Interim Report, but one that is very quickly glossed over.

“The extent to which high prices and price discrimination is occurring is unknown.”

This is a clear admission that the extent of high prices and price discrimination is unknown. Despite this, the summary in the last paragraph concludes that:

Page 23 final paragraph

“evidence suggests that some lessors are charging lease repayments that are very high and that low-income consumers are paying more in some instances”

Page 24 paragraph 1

“Evidence also suggests that some lessors may engage in price discrimination”

Absolutely no evidence of this assertion is provided but simply an example of the same product purportedly advertised for different repayment amounts.

And so it goes on....

Page 24 paragraph3

Lease repayments

“may foster financial exclusion”

This is then followed by a whole page of justification of this assertion.

An example is used of a person on Newstart paying \$100 per fortnight for goods. Yet again, there is absolutely NO research to prove that this is happening. Very few Newstart customers qualify for a product that would have repayments of \$100 per fortnight.

The only evidence advanced is that of a pensioner paying for four basic household items repayments of \$16,000. No mention of the amount of repayments or the cost of the goods but a bizarre justification of the fact that this was more than the pensioner had been able to save during his lifetime.

This is similar to saying that the final costs of a thirty year mortgage for a housing loan was more than the average person could save in a lifetime.

These are just the start of a list that would take pages and pages to rebut. However, the real concern with the language of this interim report is the extraordinary bias of the conclusions of this report. It is obvious to anyone with any knowledge of the rental industry that the submissions to the review have been manipulated to get the result that the writer of this report desires irrespective of the evidence.

Where are OUR Facts?

Unlike ASIC and the Consumer Advocate Groups, we DID provide facts and statistics in our submission. We provided data from specific, real life Consumer Leases.

Most importantly of all, we provided independent statistics that showed the absolutely miniscule percentage of customer complaints in the Consumer Lease industry.

Given the Interim Report has totally ignored these figures, here they are again:

FOS – Financial Ombudsman Service

2012-13

Total Number of Disputes to FOS re: Consumer Credit	32,307
Of those, the number relating to Hire Purchase /Leases	496
% of Disputes relating to Hire Purchase/Leases	1.53%

2013-14

Total Number of Disputes to FOS re: Consumer Credit	31,680
Of those, the number relating to Hire Purchase /Leases	559
% of Disputes relating to Hire Purchase/Leases	1.76%

COSL – Credit Ombudsman Service

2012-13

Total Number of Disputes to FOS re: Consumer Credit	3,763
Of those, the number relating to Consumer Retail Finance (which includes Loans, Leases or Rental Agreements to Consumers for household goods)	144
% of Disputes relating to Consumer Retail Finance	3.8%

2013-14

Total Number of Disputes to FOS re: Consumer Credit	4,513
Of those, the number relating to Hire Purchase /Leases (which includes Loans, Leases or Rental Agreements to Consumers for household goods)	257
% of Disputes relating to Consumer Retail Finance	5.7%

We know from reading the submissions from other businesses providing Consumer Leases, as well as the Submissions made by the industry in general, that many cold hard, verifiable figures have been provided to the Treasury Review Panel.

Yet is any of this data mentioned in the Interim Report? The answer is NO. Not once in the entire Interim Report is any of this evidence mentioned.

It appears to me that all the Submissions from businesses and Industry Groups have been completely disregarded.

Cap on Charges

It is obvious that ASIC is pushing hard for a cap on costs. However, their preferred option of implementation of a 48% cap on consumer leases would make the rental industry totally unviable.

My submission is that a fair and reasonable cap on consumer leases would remove the occasional rogue operator from the industry but that for the existing operators who operate their businesses in an ethical manner would still allow them to make a reasonable profit from their businesses.

Local Appliance Rentals Pty Ltd has over 100 Franchisees operating around Australia and our predominant lease is a 2 year Lease.

Over a two year period the total repayments of a lease for a product worth \$500 retail is calculated at \$1,820 which calculates to a multiple of 3.6 times the retail price of the goods.

My submission is therefore that if any cap were to be introduced, then to maintain a viable rental industry then this multiple would need to be achieved for a business to remain in business.

In support of my submission I am backing my assertion with solid, verifiable evidence from a selection of my Franchisees Profit and Loss statements for the 2014-2015 tax year.

These figures have not been doctored or manipulated but are an accurate insight to the real costs of operating a consumer leasing business.

ASIC and Consumer Advocate groups continually attempt to portray the Rental Industry as price gouging, overcharging cowboys taking advantage of low income consumers. However, the reality is standard small businesses which can be profitable if operated correctly but also a business that requires substantial capital investment and a profit margin not dissimilar to other small businesses.

The average profit for the six businesses that we have provided accounts for show a net profit margin before tax of between 15-20%.

In these figures we have allowed a basic wage for the operator of \$60,000 per year.

This profit is consistent with two other well-known businesses that we have personal knowledge of.

The first being a well-known Juice Franchise and the other being an established Pool Service Franchise. Both of which have similar profit outcomes for their respective businesses.

It is obvious from these accounts that these operators are not making the massive profits that ASIC , Consumer Advocates and Not for Profit organisations continually attempt to portray. These are verifiable taxation accounts as opposed to standardized percentages that have been included in other submissions.

Below is a cross section of P&L's from the franchise group, the selected group that these P&L's were chosen from have –

1. Been in the franchise system for over two years
2. Have a minimum turnover of \$400,000
3. Have provided Accountant prepared P&L's
4. Are both a cross section of mobile and retail operators
5. Are both owner operator and managed operations

These franchises give a true indication of the financial outcomes of the rental industry in particular those of Local Appliance Rentals.

LOCAL APPLIANCE RENTALS PROFIT & LOSS**Branch xxxxx**

Sales	\$	566,824
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Less: Operating Expenses		
Accounting Fees	\$	1,100
Advertising & Promotion	\$	955
Amortisation expense	\$	215,201
Bank Fees	\$	239
Delivery	\$	479
Electricity	\$	5,774
Ezi Debit Fees	\$	6,534
Franchise Service Fees	\$	38,105
Insurance - General/Motor vehicle	\$	3,046
Interest	\$	59,365
Motor Vehicle Expenses	\$	3,850
Owners Drawings	\$	90,000
Postage & Freight	\$	173
Printing & Stationery	\$	1,205
Referral Fees	\$	8,816
Refunds	\$	1,145
Rent & Outgoings	\$	28,523
Repairs & Maintenance	\$	12,070
SAFR Fees	\$	4,129
Subscriptions	\$	1,190
Sundry	\$	2,690
Telephone - Landlines	\$	4,878
Travel and Accommodation	\$	1,200
Total Expenses	\$	490,667
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Net Operating Profit	\$	76,157
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Net Operating Profit As A Percentage		13%

LOCAL APPLIANCE RENTALS PROFIT & LOSS**Branch xxxxx**

Sales	\$	495,984
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Less: Operating Expenses		
Accounting Fees	\$	4,092
Advertising & Promotion	\$	12,302
Amortisation expense	\$	152,438
Bad Debts	\$	16,565
Bank Fees	\$	193
Borrowing Costs	\$	186
Depreciation	\$	9,351
Entertainment	\$	487
Ezi Debit Fees	\$	5,369
Fees & Charges other	\$	310
Franchise Service Fees	\$	48,478
Insurance - General/Motor vehicle	\$	867
Interest	\$	21,887
Internet	\$	1,740
IT	\$	700
Motor Vehicle Expenses	\$	10,608
Owners Drawings	\$	120,000
Postage & Freight	\$	352
Printing & Stationery	\$	1,506
Referral Fees	\$	3,630
Rent & Outgoings	\$	350
Repairs & Maintenance	\$	3,634
Replacements	\$	5,401
Telephone - Mobile	\$	2,755
Travel and Accommodation	\$	1,479
Veda Fees	\$	3,596
Total Expenses	\$	428,276
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Net Operating Profit	\$	67,708
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Net Operating Profit As A Percentage		14%

LOCAL APPLIANCE RENTALS PROFIT & LOSS

Branch xxxxx

Sales	\$	549,405
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Less: Operating Expenses		
Accounting Fees	\$	1,560
Advertising & Promotion	\$	14,455
Amortisation expense	\$	193,998
Bank Fees	\$	50
Conference Fees	\$	968
Depreciation	\$	8,430
Electricity	\$	758
Fees & Charges other	\$	13,078
Franchise Service Fees	\$	38,458
Insurance - General/Motor vehicle	\$	743
Insurance - Work cover	\$	1,138
Interest	\$	14,186
Internet	\$	883
Motor Vehicle Expenses	\$	10,220
Owners Drawings	\$	60,000
Referral Fees	\$	10,230
Rent & Outgoings	\$	7,130
Repairs & Maintenance	\$	564
Salary & Wages - Staff	\$	58,985
Staff Amenities	\$	8,353
Subscriptions	\$	51
Superannuation	\$	3,403
Sundry	\$	28
Telephone - Landlines	\$	2,124
Travel and Accommodation	\$	5,240
Total Expenses	\$	455,033
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Net Operating Profit	\$	94,372
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Net Operating Profit As A Percentage		17%

LOCAL APPLIANCE RENTALS PROFIT & LOSS

Branch xxxxx

Sales	\$	509,675
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Less: Operating Expenses		
Advertising & Promotion	\$	389
Amortisation expense	\$	238,200
Bank Fees	\$	77
Conference Fees	\$	1,106
Credit Checking Fees	\$	1,215
Delivery	\$	169
Depreciation	\$	1,006
Ezi Debit Fees	\$	4,836
Franchise Service Fees	\$	35,676
Interest	\$	39,058
Motor Vehicle Expenses	\$	11,381
Owners Drawings	\$	75,000
Printing & Stationery	\$	913
Referral Fees	\$	6,944
Refunds	\$	175
Rent & Outgoings	\$	8,467
Repairs & Maint	\$	6,640
SAFR Fees	\$	4,245
Salary & Wages - Staff	\$	336
Sundry	\$	678
Telephone - Landlines	\$	14,199
Travel and Accom	\$	656
Total Expenses	\$	451,366
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Net Operating Profit	\$	58,309
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Net Operating Profit As A Percentage		11%

LOCAL APPLIANCE RENTALS PROFIT & LOSS**Branch xxxxx**

Sales	\$	448,364
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Less: Operating Expenses		
Accounting Fees	\$	5,402
Advertising & Promotion	\$	12,111
Amortisation expense	\$	142,462
Bank Fees	\$	7,083
Borrowing Costs	\$	881
Conference Fees	\$	1,232
Contractors	\$	5,140
Delivery	\$	905
Fees & Charges other	\$	787
Franchise Service Fees	\$	31,739
Interest	\$	39,092
Motor Vehicle Expenses	\$	4,848
Owners Drawings	\$	60,000
Rent & Outgoings	\$	5,400
Repairs & Maintenance	\$	1,495
Salary & Wages - Staff	\$	12,658
Staff Amenities	\$	9,998
Subscriptions	\$	1,941
Superannuation	\$	1,203
Sundry	\$	435
Telephone - Landlines	\$	3,972
Travel and Accommodation	\$	1,383
Uniforms	\$	105
Total Expenses	\$	350,272
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Net Operating Profit	\$	98,092
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Net Operating Profit As A Percentage		22%

LOCAL APPLIANCE RENTALS PROFIT & LOSS

Branch xxxxx

Sales	\$	873,077
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Less: Operating Expenses		
Accounting Fees	\$	20,227
Advertising & Promotion	\$	56,366
Amortisation expense	\$	268,592
Bank Fees	\$	976
Borrowing Costs	\$	290
Conference Fees	\$	3,546
Delivery	\$	1,062
Donations	\$	46,751
Electricity	\$	3,900
Franchise Service Fees	\$	67,005
Insurance - Work cover	\$	3,621
Interest	\$	16,721
Internet	\$	1,618
IT	\$	820
Motor Vehicle Expenses	\$	14,983
Postage & Freight	\$	410
Printing & Stationery	\$	5,184
Rent & Outgoings	\$	28,450
Repairs & Maintenance	\$	8,678
SAFR Fees	\$	4,255
Salary & Wages - Staff	\$	177,373
Staff Amenities	\$	515
Subscriptions	\$	45
Sundry	\$	2,027
Telephone - Landlines	\$	5,966
Uniforms	\$	335
Veda Fees	\$	3,344
Total Expenses	\$	743,060
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Net Operating Profit	\$	130,017
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Net Operating Profit As A Percentage		15%

Conclusion

In this submission I have not attempted to answer every question posed in the Interim Report. I believe that most of these questions have been answered in minute detail in our original submission as well as in the various industry submissions to which our business has had input.

What I have attempted to do is show, by the production of verifiable figures, the level of cap that would be required to maintain a viable rental industry.

One of the stated aims of the review of consumer leasing was not to increase the burden and costs of compliance in the Rental Industry.

The burden of regulation in the Industry is already excessive. It is our submission that there is not enough solid evidence of consumer harm to justify a further regressive regime.

It is also our contention that neither ASIC, any Consumer Advocate nor Not for Profit Organisation has suggested any viable alternative as to where our current customers will source their Rental Goods if the Industry is capped out of existence.

The only alternative would be for Government Intervention on a massive scale which would be upwards of \$500 million dollars.

In conclusion, we do not believe that this was the Government's intention when commissioning this review. We would strongly urge the Review Panel to give due consideration to the facts that have been presented in this submission as opposed to simply relying on views and opinions that are not backed up by solid data.