



The Safer Credit and Financial Inclusion Strategy



**MINISTRY OF SOCIAL
DEVELOPMENT**
TE MANATŪ WHAKAHIATO ORA



**MINISTRY OF BUSINESS,
INNOVATION & EMPLOYMENT**
HĪKINA WHAKATUTUKI



Te Puni Kōkiri
MINISTRY OF MĀORI DEVELOPMENT

Contents

Contents.....	03
Introduction.....	04
The challenge.....	05
Our shared vision.....	09
Our shared understandings	10
A Safer Credit and Financial Inclusion partnership	12
Appendix One: Other relevant strategies and initiatives	15
Appendix Two: Methodology.....	16
Appendix Three: Organisations who participated in the Safer Credit workshops	18

Introduction

Too many low-income New Zealanders are taking out loans that are unaffordable and unsustainable, often to meet their everyday needs. For many people and their family or whānau this creates spiralling problems of debt and hardship.

“How can people make good choices when all they have is bad options?”

The wide range of needs, and scale of debt facing low-income New Zealanders means that no single organisation or sector can resolve the problems alone.

We – as government, financial services industry and community partners – are working together so that:

“people and whānau are thriving and able to meet their needs and achieve their aspirations, free from problem debt.”

This strategy describes how we will work together through a Safer Credit and Financial Inclusion partnership to achieve this vision.

Ehara taku toa i te toa takitahi. Engari, he toa takitini.

“Success is not the work of one, but the work of many.”

(Agency and partner logos to be added here)

The challenge

People and whānau¹ are being caught in spirals of problem debt. Unmanageable debt is both a symptom and a cause of hardship, and can contribute to persistent, intergenerational poverty. Problem debt significantly impacts mental and physical health.

Where responsible lenders² decline a loan application due to a lack of affordability and/or high levels of existing debt, people will often keep looking for credit elsewhere. They may not be

aware of low-cost options through microfinance organisations – or it may be that these same issues of affordability and debt also mean they can't even afford a microfinance loan. This need is being exploited by a segment of lenders who are engaging in irresponsible and predatory behaviour – granting loans that are unaffordable, and that cause or deepen hardship – often with high fees and interest rates.



Sina's story

Sina's car is making a funny noise, and she knows it needs to go in for a service as soon as possible. Without the car, she can't get to work tomorrow or do the weekly grocery shopping the day after.

She looks around at her credit options online.

“Hmmm ... I know it will take me ages to pay this loan off – especially with those interest rates. But I don't see any other options, and at least I can get this loan fast!”

¹ Whānau' in te reo Māori, means a group bonded together, usually by kinship, and can include several generations. It is used here to include aiga and families of any ethnicity.

² The terms 'lenders' and 'financial services' refer to the spectrum of financial services lending industry including banks, credit unions and building societies, and other financial service providers, including high cost lenders.

Who is impacted?

Anyone can get into trouble with problem debt, but those most affected are people and whānau with low incomes. This group includes disproportionate numbers of Māori and Pacific whānau; migrants; sole parents; people with disabilities and/or health conditions; and those receiving a government benefit and/or living in social or rental housing³.

Those who are struggling financially can spend a lot of time meeting immediate needs and become fatigued by making constant high-stress decisions. This is often compounded by complexity in their lives, which limits choices and increases risky decision making. People go where they can get low-friction help fast – and sometimes that help is a high cost lender.

Often, people ‘go to ground’ when they are unable to keep up with loan repayments. They can feel overwhelmed and be too whakamā or ashamed to approach lenders or financial mentors to discuss relief options, or too scared to complain about unlawful practices.

By the time people and whānau seek help at financial capability or Whānau Ora services, their debt is often out of control.

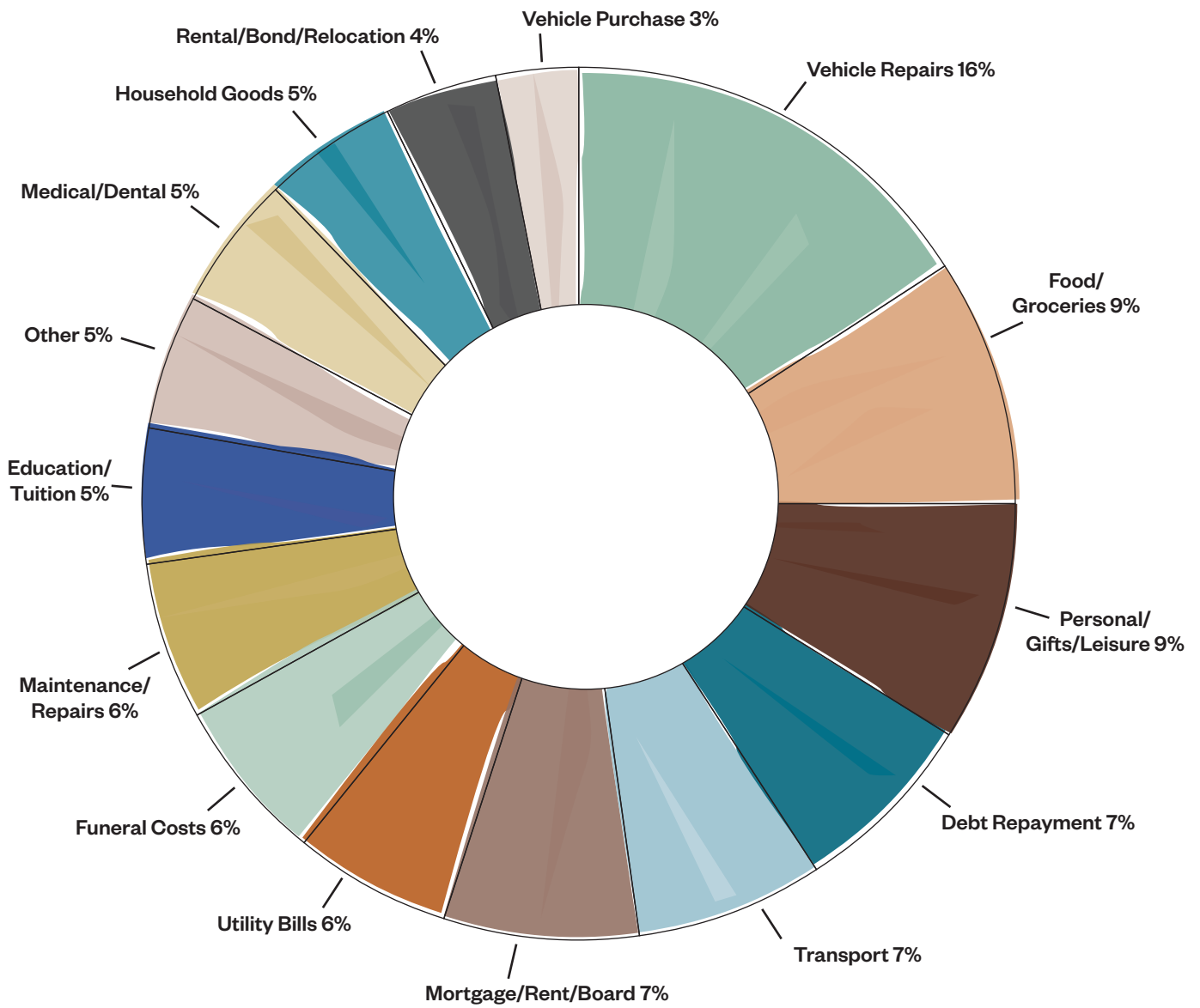
What needs are driving problem debt?

Some borrowers continue to seek out credit, even after they have been declined a loan on affordability grounds. These people and whānau are most at risk of taking out problem debt. A number of high-cost lenders shared insights on what consumers said they were borrowing for, when applying for loans that were declined. The most common purposes were:

- Vehicle repairs (16%)
- Food or groceries (9%)
- Personal items, gifts, or leisure (9%)
- Payment of debt (7%)
- Transport (7%)
- Mortgage / rent / board (7%).

³ MSD (2017). ‘Household Incomes Report’; and MSD (2017). ‘Frameworks and approaches for building the financial capability of New Zealanders experiencing hardship’

Declined loan applications: Why did borrowers need the loan?



What do people and whānau want from lenders?

People and whānau want to have a positive experience when dealing with lenders: straightforward, warm, friendly and respectful, with flexibility and privacy. They need financial products and services that are:

- accessible and available
- known about (marketed and aware of)
- appropriate (to need or cultural background, and along the lifetime of the loan)
- affordable (to those on low incomes)⁴.

Helen's story

Helen is a single mother of two children. She has permanent injuries from a violent partner. Since leaving him, she has achieved a degree and is now seeking work that fits with school hours.

Helen has been struggling to pay off some old loans which is impacting on her income, so she asks a Whānau Ora navigator about her options.

Her navigator has helped her access a microfinance loan. She is now able to repay her debts without incurring all the high interest. Additionally, a financial mentor is helping her develop a financial plan to get ahead once she is in the workforce.

People and whānau are entitled to the protections in consumer credit law, and this sometimes means that the only responsible action is to turn down a loan application. Where this is the case, lenders should provide alternatives, like referring customers on to financial mentors, or to microfinance debt solution loans, or other appropriate support.

"I'm feeling like I am all set up now - it's so great to feel on top of my finances!"



⁴ Adapted from Burkett and Sheehan 2009 quoted in TPK Microfinance Report 2018

Our shared vision

People and whānau are thriving and able to meet their needs and achieve their aspirations, free from problem debt.

Our shared goals

1. People and whānau have clear pathways to access financial and non-financial products, services and support that are affordable and appropriate.
2. Government, financial services and community sectors collaborate to develop and deliver inclusive and innovative products, services and support.
3. A responsive and accountable financial services system that understands, supports and responds to the needs and best interests of customers in hardship or vulnerable circumstances, and that operates within the law.

What success will look like

Clear pathways to access

- People and whānau have ease of access to affordable and appropriate financial and non-financial products, services and support.
- Financial services, government, and community agencies proactively refer people and whānau to appropriate products, services and support.
- People and whānau have the financial capability to manage their finances to their advantage.

Inclusive and innovative products, services and support

A range of innovative financial and non-financial products, services and other support that:

- support people and whānau to create wealth, achieve their aspirations and improve their financial wellbeing
- provide affordable, appropriate credit options and alternatives
- prevent or alleviate the use of problem debt.

A responsible and accountable financial services system

- Lenders, advocates and others work together to ensure that responsible practices are informed by the particular needs of customers on low incomes or in vulnerable circumstances.
- Building on the strengths of the services in communities where people and whānau already turn to for support.
- A financial services system that actively gathers, shares, monitors and learns from customer problems and complaints, and that ensures customers in hardship or vulnerable circumstances have the support they need.
- An inclusive financial services system recognised internationally for its positive social impact.

Our shared understandings

In February 2019, the Ministry of Social Development (MSD), Ministry of Business, Innovation and Employment (MBIE) and Te Puni Kōkiri (TPK) held a series of workshops with a broad range of stakeholders to co-create a shared strategy to increase access to safer credit with an accompanying action plan. The three government agencies recognised that this was not something that could be achieved without working together with industry and community partners.

In all, over 80 people from 45 organisations were involved in co-creating this Safer Credit and Financial Inclusion strategy, and action plan. These included: government agencies; regulators; dispute resolution schemes; financial services industry associations; banks; financial services organisations including high cost lenders; NGO umbrella groups, Whānau Ora Commissioning agencies and providers, financial capability, microfinance and other community organisations; and academics.

In co-creating the Safer Credit and Financial Inclusion strategy, we discussed and agreed what we need to do to begin to address the challenges we are facing. These shared understandings provide context for working together under the Safer Credit and Financial Inclusion Partnership, and what will be required to achieve our shared goals.

Pathways

Ease of access, familiarity, and the nature of the customer experience are key factors determining where whānau seek assistance. Barriers to access can be physical, institutional or psychological. It is essential to make products, services and support more accessible and to provide a more positive experience wherever people may go to meet their needs.

“Always give people who reach out options rather than saying no, sorry, and hanging up.”

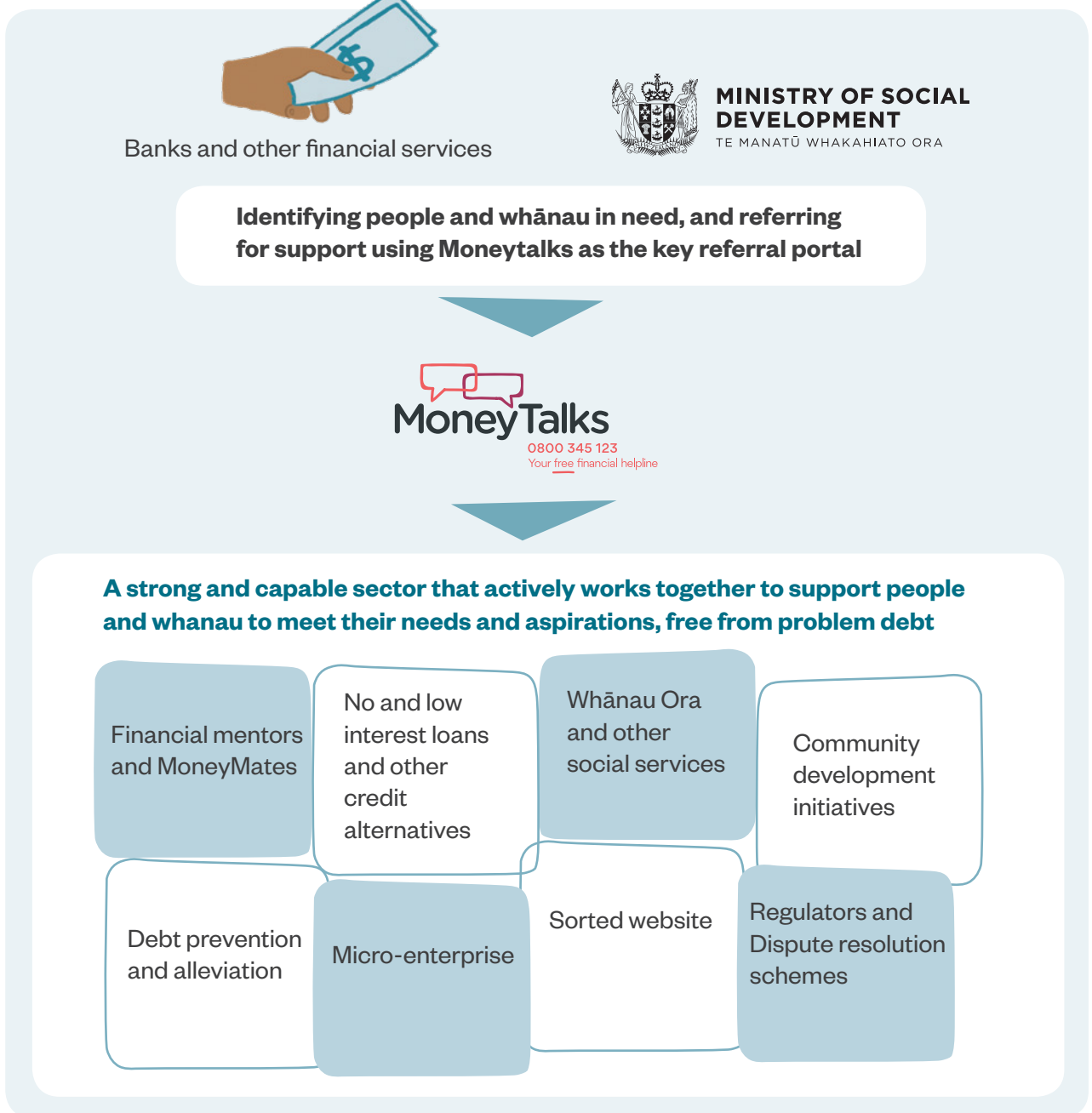
To ensure whānau can access support such as microfinance, financial capability and wraparound services, we will build coordinated and pro-active referral processes between financial services, government agencies and community organisations using portals such as the MoneyTalks helpline, as described in the diagram below.

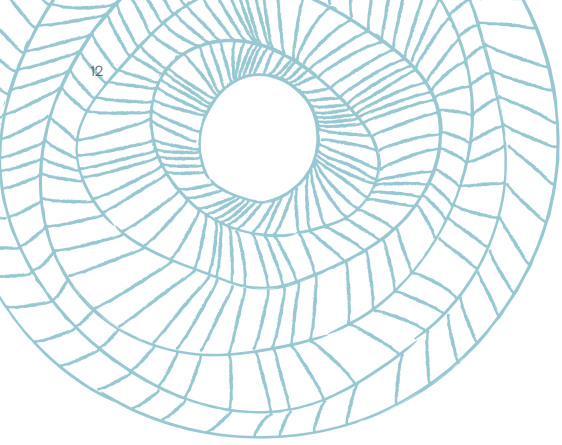
Targeted marketing and promotional campaigns for financial capability, safer credit options, and debt management are also critical to improve the visibility of positive options on offer. Government, financial services, iwi, and the community sector can all play a part in this.

And we want to ensure that there are no unnecessary barriers that prevent people from applying for a transactional bank account, suited to their needs.

Coordinated and integrated pathways to support people, whānau and communities

Ensuring that people and whānau have ease of access to the range of services and support that they need, and that each service is actively working together to support them.





Products

For people and whānau experiencing hardship, their needs and aspirations could range from buying Christmas presents or contributing towards the costs of a funeral, to buying school uniforms or taking a much-needed holiday, to buying a car to help with getting a new job or getting a deposit on a home. Presently one of the most common aspirations of low-income New Zealanders is simply to pay off debt. Sometimes people ask for credit, when what they actually want is a way to increase their income, repair their car, or reduce their debt.

Innovation and collaboration are required to expand the range of products, services and support in three broad areas of focus.

- Supporting people and whānau to create wealth, achieve their aspirations and improve their financial wellbeing.
- Provision of affordable and appropriate credit options and alternatives.
- Prevention or alleviation of problem debt.

We will work together to enhance the range of safer alternative products, services and support by strengthening and building on the current networks of financial capability, microfinance and social services.

Partnerships between government, financial services, and the community sector are a key way in which we can scale and expand this support.

“Seek out partnering opportunities across government, private sector and community/non-government organisations”

“My bank was really helpful. They have suggested some low-cost ways for me to pay off my credit card, and recommended I talk to MoneyTalks to get more advice on adjusting to living on less”



Danny's story

On advice from his doctor, Danny recently had to give up work due to health issues. Before he left work there was not enough time to pay off his large credit card debt.

With the change from a full-time wage to a benefit, Danny is making little progress in reducing his debt. He is only making the minimum required payments, which is getting him down. Fortunately, his bank has noticed his change in circumstances and called to see how he is going.

Provision

We want to work together to make sure that consumer interests are at the heart of all we do. This includes the community sector, financial services industry, and the government (including consumer protection and dispute resolution services) seeking out the perspectives of those most affected. It also means actively inviting lwi, and representatives of those most affected, to participate.

“People want to be treated fairly”

We will listen to customers on low incomes or in vulnerable circumstances to better understand their specific needs and aspirations – focusing on what is working well, and where customers are struggling.

This means a strong, pro-active system for seeking out, addressing and learning from the complaints of consumers – as well as other serious problems which they may not make formal complaints about.

“Whole of system thinking, based on the journeys that people go on”

A Safer Credit and Financial Inclusion partnership

A Safer Credit and Financial Inclusion partnership will deliver on the strategy by:

- coordinating the strategy and setting direction
- driving collaboration
- setting shared measures and monitoring progress and impact
- agreeing communications about our work and updating Ministers.

Partners will include:

- industry and government members who lead implementation of an initiative, and support the overall monitoring and delivery of the strategy
- community organisations leading or partnering on action items
- Iwi representatives
- representatives of groups most affected by problem debt and the lack of safer credit.

Both the Strategy and Partnership are intended to support collaboration in our day-to-day operations, and in our research and future thinking. They are informed by the needs and aspirations of people and whānau experiencing hardship.

The Strategy does not – and is not intended to – set or determine:

- Government policy or investment
- Business decisions about products, services and risk, or
- Community organisations' choice to support or participate in initiatives.

Rather it frames why and where we want to work together. Importantly, it will also enable us to monitor our collective impact.

We are working through a shared action plan. This is our working document – actions we have committed to, including new ideas to explore, develop and pilot. We expect that more initiatives will emerge and be added over time, and that others, once tested further, will not proceed.

Working together across sectors is new territory for all of us. We are starting where we can, building relationships and expecting to grow further from there. Collaboration will be challenging at times, given our different backgrounds and ways of working. Still, by committing to work and learn together we will maximise our resources and play to our collective strengths.

We know that our greatest successes will come from working together.

Appendix one: Other relevant strategies and initiatives

Whānau wellbeing	Te Puni Kōkiri	<ul style="list-style-type: none"> • <i>Whānau Ora</i>⁵ puts whānau and families in control of the services they need to work together, build on their strengths and achieve their aspirations. • <i>Navigator capability development</i> is a new initiative that will upskill the Whānau Ora navigator workforce to improve their financial capability knowledge and skills.
Consumer Protection	MBIE Commerce Commission	<ul style="list-style-type: none"> • Reform of CCCFA⁶ • Monitoring and enforcement of CCCFA⁷
Financial Capability	Commission for Financial Capability MSD	<ul style="list-style-type: none"> • National Strategy for Financial Capability⁸ • <i>Sorted in Schools</i> and other financial capability resources and programmes⁹ • <i>Building Financial Capability</i> programme¹⁰ is a range of services and products that help people, families and whānau to build their financial capability and resilience.
Poverty Reduction	MSD Department of Prime Minister and Cabinet	<ul style="list-style-type: none"> • <i>Welfare Expert Advisory Group</i>¹¹ report on the welfare system includes ensuring people have an adequate income and standard of living. • <i>Child and Youth Wellbeing Strategy</i>¹² and work to reduce child poverty
Financial Inclusion	Electricity Retailers Association of New Zealand Electricity Price Review Panel	<ul style="list-style-type: none"> • Work on accessible energy¹³ • <i>EnergyMate</i> pilot¹⁴ • Recommendations about ways to address consumer voice and energy hardship due mid-2019
Conduct of Financial Institutions	MBIE	<ul style="list-style-type: none"> • Discussion paper regarding regulatory options to ensure that conduct and culture in the financial sector is delivering good outcomes for all customers¹⁵.

⁵ <https://www.tpk.govt.nz/en/whakamahia/whanau-ora/about-whanau-ora>

⁶ <https://www.mbie.govt.nz/business-and-employment/consumer-protection/review-of-consumer-credit-law/review-of-consumer-credit-law-2018/>

⁷ <https://comcom.govt.nz/business/your-responsibilities-if-you-provide-credit>

⁸ <https://www.cffc.org.nz/about/national-strategy/>

⁹ <https://www.cffc.org.nz/building-wealthy-lives/what-is-financial-capability/how-we-do-financial-capability/>

¹⁰ <https://www.msd.govt.nz/what-we-can-do/providers/building-financial-capability/index.html>

¹¹ <http://weag.govt.nz/>

¹² <https://dpmc.govt.nz/our-programmes/child-and-youth-wellbeing-strategy>

¹³ <https://www.eranz.org.nz/news-and-insights/better-outcomes-for-those-struggling-to-pay-their-electricity-bills/>

¹⁴ <https://www.mbie.govt.nz/building-and-energy/energy-and-natural-resources/energy-consultations-and-reviews/electricity-price/>

¹⁵ <https://www.mbie.govt.nz/have-your-say/financial-institutions-conduct-review/>

Appendix two: Methodology

Safer Credit and Financial Inclusion Strategy methodology

In February 2019, MSD, MBIE and TPK held a series of workshops with a broad range of stakeholders to co-create a shared strategy and accompanying action plan. MSD, MBIE and TPK initiated the Safer Credit and Financial Inclusion Strategy. MSD contracted Partners in Change to facilitate workshops with government, community and financial services industry stakeholders that would support the development of a Safer Credit and Financial Inclusion Strategy and action plan.

The workshops had six specific objectives.

1. Agree our shared aspirations for Safer Credit.
2. Build a shared understanding of the needs and preferences for credit of low income New Zealanders.
3. Agree a work programme in which we each focus on the range of needs for access to safer credit, and consider any gaps where new products or services may be required.
4. Agree the collective strengths and resources that we bring to this work that will enable us to achieve our shared aspiration.
5. Consider the capabilities we need in place – including reinforcing activities, and configuration of support.
6. Consider the support systems, structures (including governance and management) and measures required to support this.

Process

Stage 1: Project Initiation

Over 100 stakeholders were identified, and 80 people from 45 organisations were subsequently engaged in workshops. This stage also saw the preparation of four context papers to build understanding of the issue and to inform thinking.

Stage 2: Workshops

A series of workshops were held with stakeholders to:

- scope the strategy with 45 ‘collaboration’ participants over one day.
- consult on the strategy with 35 ‘consult’ participants in two x three-hour workshops.
- design the strategy with the same 45 ‘collaborate’ participants over a second day.

Loomio was used as a tool for ‘collaboration’ participants to engage with each other between the workshops.

Stage 3: Strategy and Action Plan

A draft strategy was then prepared by MSD, TPK and MBIE and sent out to those who had participated in the collaboration and consultation workshops for feedback prior to finalisation. An action plan was also developed to accompany the strategy, as an evolving working document.

Appendix three: Organisations who participated in the Safer Credit workshops

Age Concern	Mercury Energy
Ākina Foundation	Ministry of Business Innovation and Employment (MBIE)
ANZ Bank	Ministry of Social Development (MSD)
ASB Bank	Moola
Beneficiaries and Unwaged Workers Trust	New Zealand Bankers Association (NZBA)
Bank of New Zealand	New Zealand Council of Christian Social Services Newtown Budgeting and Advocacy Service
Banking Ombudsman Scheme (BOS)	Ngā Tangata Microfinance
Cash Converters	Pasifika Futures
Commerce Commission (ComCom)	Save My Bacon
Commission for Financial Capability (CFFC)	SBS Bank
Coop Money	Te Pou Matakana
Corstorphine Community Hub	Te Puni Kōkiri (TPK)
Department of Prime Minister and Cabinet (DPMC)	Te Pūtahitanga o Te Waipounamu
Financial Markets Authority	Te Rūnanga o Ngā Maata Waka
Financial Services Federation (FSF)	Te Tihi o Ruahine Whānau Ora Alliance
FinCap	The Salvation Army
Good Shepherd New Zealand	TSB Bank
Hagley College	Wellington City Mission
He Whānau Manaaki o Tararua	Wesley Community Action
Heartland Bank	Westpac New Zealand
Insurance & Financial Services Ombudsman	Westpac Massey Fin-Ed Centre (Fin-Ed)
Kiwibank	Whānau Smart, Whānau Wise
Māori Women's Development Inc	

