Vehicle Finance

Lifting the bonnet on unethical practices

christians against poverty

CAP

Contents

Executive Summary

Unmanageable debt is a significant contributor to hardship and poverty in Aotearoa. For more than one in two families that come to CAP for debt help, a car loan makes up their most significant debt – absorbing a substantial percentage of their weekly income.

This situation arises because a vehicle in Aotearoa is necessary for daily living. In many areas, individuals find it difficult to get to work, shop for supplies and transport children without one. Those who cannot pay for a good, reliable car with cash may need to take out a loan with a finance company to buy one.

In many cases, vehicle finance loans can become overwhelming and expensive, as they are often the largest debt for vulnerable borrowers and a significant contributor to their unmanageable debt situation. This is largely due to compounding high-interest rates, high default interest rates, exorbitant fees, vehicle immobilisers, and poor value insurance add-ons – luring vulnerable borrowers into financial arrangements that will necessitate repayment of more than double the car sticker price.

As we will explore in our case studies, the pressure of debt means that vehicle repayments are commonly prioritised over essential living costs. For vulnerable New Zealanders, this significantly impedes their ability to provide for their household.

This report lifts the bonnet on how high-cost vehicle finance loans are impacting vulnerable people in Aotearoa. It examines how unconscionable lending practices and poor affordability assessments perpetuate financial hardship and poverty, highlighting the need for regulatory changes. To explore this, the report draws on CAP's experience in assisting people in overwhelming financial hardship, alongside data from its frontline delivery teams.

The report is divided into four sections. First, we examine the impact of vehicle dependency on those in financial hardship. This section also examines issues with vehicle finance and the Credit Contracts and Consumer Finance Act (CCCFA), spotlighting key concerns. Second, we assess how vehicle finance perpetuates hardship and the attendant impact on vulnerable people. In the third section, the report provides the three case studies of Lia, Casey, and Rachel to demonstrate the real-life impact of predatory car loans. In the final section, key recommendations are made to the government, regulatory agencies, and creditors.

The report concludes by recommending the following:

- Establish an inquiry into the vehicle finance sector
- Provide explicit guidance on appropriate establishment fees
- Prohibit the practices of earning commissions from flex interest and insurance products
- Review vehicle finance with total cost of credit cap
- Introduce a deferred sales model for add-on insurance products
- Ban immobiliser activation as a method of leveraging loan repayment
- Increase enforcement action to curb unethical vehicle finance practices
- Scrap referral fees and cost recovery fees.

Vehicle Dependence and the Legislation in Aotearoa

Aotearoa is a car-dependent society and currently ranks fourth highest in the world for car ownership per capita.

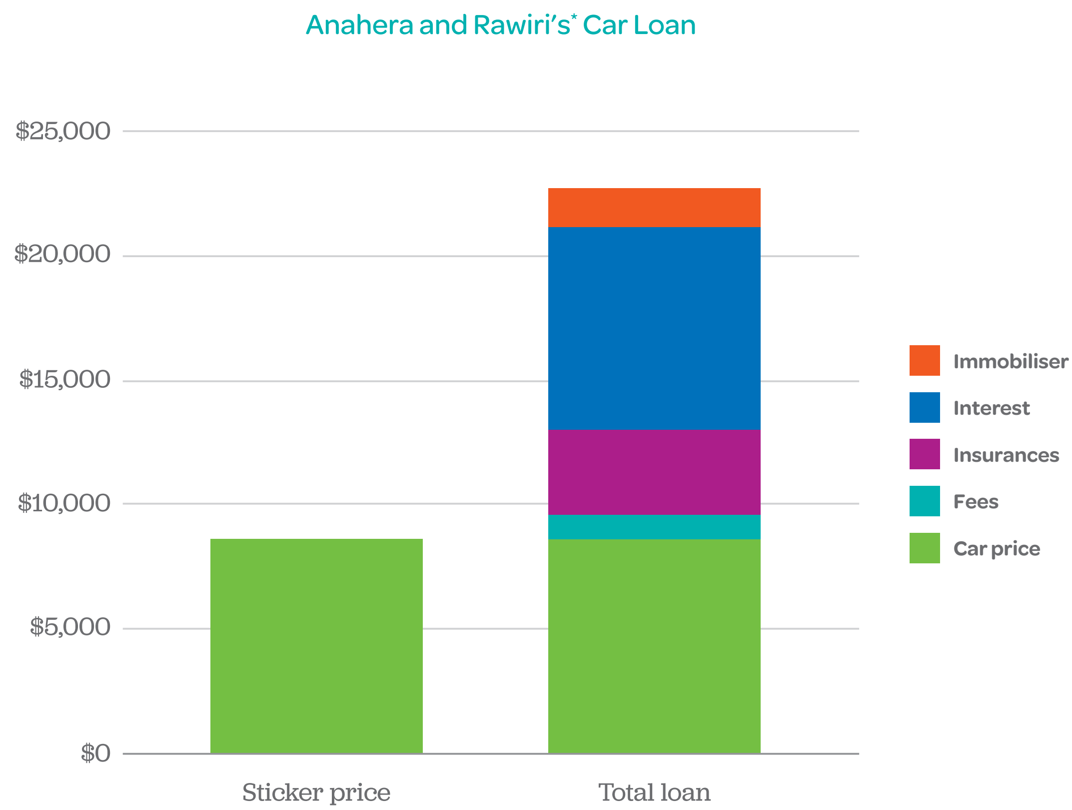
Surprisingly, it has the highest level of car dependency in the Organisation for Economic Cooperation and Development (OECD) countries – **with about 860 cars for every 1,000 people in Aotearoa**.[1] This statistic is keenly felt in Tāmaki Makaurau (Auckland), which combines those high rates of car ownership with one of the lowest rates of public transport patronage globally. In 2018, 60% of households across the country owned two or more cars, and in 2019 (before the pandemic), 70% of all trips made in Tāmaki Makaurau were made by a private or company car.[2] This goes to show that owning a car is a deeply entrenched idea in Aotearoa.

For most families, having access to a vehicle is essential for everyday activities. Cars are needed to take the kids to school; they take people to work; they collect groceries and shopping. Urban areas across Aotearoa are designed for vehicle use. Shopping destinations, such as malls and supermarkets, cater for drivers with free parking, so vehicle use to make purchases is much more practical than carrying purchases on public transport. The spread-out nature of cities, particularly Tāmaki Makaurau, means that travelling across town is usually much faster in a vehicle than public transport that may require changes and waits. For people who live in rural areas or on the fringes of town, public transport services can be too distant or far too infrequent to be of value.

The use of public transport can be less expensive than using a vehicle for some, however, public transport in Aotearoa's largest centres is expensive compared to other major cities internationally.[3]

The comparatively minor cost difference between public transport and vehicle ownership remains a disincentive for people to use public transport when weighed against the flexibility and convenience that a vehicle provides. Furthermore, studies favourably conclude that the economic benefits of public transport overlook the practical benefit of sharing a vehicle's use across many family members.[4] **The cost of one car to take two people to work, drop kids at school, and pick up groceries is much lower than the equivalent cost of public transport when shared between multiple people.** Using a vehicle is often the most practical solution to meet the needs of families compared to the limitations and cost of using public transport. Families in Aotearoa, therefore, are highly dependent on using a car. With the need for a vehicle so high, so too is the urge amongst low-income families and vulnerable persons (including those going through financial hardship or with poor credit ratings) to get a car, even under grossly expensive offerings from vehicle finance companies.

Of the hundreds of families that CAP helps every year it is most often an expensive vehicle loan that has prevented them from feeding their kids properly, paying their rent on time or saving for both expected and unexpected costs.



As the graph above shows, it is common to see contracts that require borrowers to repay more than double the car sticker price, assuming that the borrower makes every repayment on time and does not fall into default. A CAP Debt Coach notes:

> ***"Very, very rarely do you see the loan being worth the value of the car. The car yard is not going to sell them a $2,000 car. The car yard is going to sell them a $10,000 car. It is always lopsided the other way that the debt is much, much bigger than the car is worth."*** Debt Coach, West Tāmaki Makaurau

Despite the ready supply of financing options, thousands of families in Aotearoa may not have a good credit rating or meet mainstream lenders' income criteria. In 2020, Te Ara Ahunga Ora reported that 34% of households in Aotearoa (608,000 households) were experiencing financial difficulties to the point that it was a struggle to pay bills and meet other commitments. A further 40% of households (715,000 households) had little financial resilience and were potentially exposed to financial shocks.[5] For borrowers perceived as a credit risk – typically households that do not own a home, with no equity to act as security – the cost of financing a vehicle can commonly be up to six times the rate of interest compared to financially secure households.[6]

Vehicle finance fees and insurances add to the cost of borrowing for a car and are often expensive. The compound effect of these costs when accumulated together and charged at a high rate of interest is enormous: to borrowers, to their whānau, and the wider society. Vehicle finance lenders and car dealers are sadly profiting heavily from people's desperation for a vehicle.

Across Aotearoa, as families with poor credit ratings or low incomes search for safe means of transport for their families, they are being sold vehicles at extremely high interest rates for lack of a better alternative. These expensive vehicle financing arrangements are swelled by high establishment fees and broker fees, or the initial prices are significantly marked up compared with other dealers.

In CAP's experience, some lenders do not provide translators for customers who speak other languages, encouraging them to sign documents where they are not well-aware of the financial implications. As a CAP Debt Coach recounts:

> *"One of my clients is from Samoa and struggles with English. It was very easy for the car firm to pull the wool over his eyes. They sold him a car that was a dud; it was a bit of a lemon. When he took it back to them, they sold him another car. They added the shortfall from the original car to the new loan, the difference between what they estimated [it] was worth and what was owing on it. The client had no idea of this until we got a printout of all the transactions."* Debt Coach, South Tāmaki Makaurau

Some of the salient details are often worded in the middle of the contract, and many lenders do not take due time or care to explain the financial implications before clients sign on the dotted line.

While existing legislation in Aotearoa is meant to prevent the perpetuation of these behaviours, CAP continues to find many cases of predatory vehicle finance lending practices that put vulnerable families in financial hardship.

Legislation and Enforcement

The primary purpose of the Credit Contracts and Consumer Finance Act 2003 (CCCFA) is to "protect the interests of consumers in connection with credit contracts."[7] The Act outlines regulations regarding high-interest rates, unreasonable fees, affordability assessments, disabling devices, insurances and waivers, and repossession.[8] Among other things, this legislation ensures lenders comply with responsible and fair lending principles. Despite these protections, CAP remains concerned by the lack of effective enforcement to identify and prevent unconscionable lending practices.

The following areas are of particular concern to CAP:

Enforcement of existing protections

As well as vehicle finance being prohibitively expensive, CAP continues to see unaffordable loans granted to many families who are already exposed to financial hardship. This practice is alarming, especially as affordability assessment provisions have been in force since 2015.[9]

The CCCFA states that "A lender must, in relation to an agreement with a borrower, make reasonable inquiries, before agreeing, and before making a material change referred to in subsection (8), so as to be satisfied that it is likely that the borrower will make the payments under the agreement without suffering substantial hardship."[10] The Responsible Lending Code 2021 outlines that an affordability assessment and supporting evidence such as payslips and bank statements enable the lender to make reasonable inquiries into affordability.[11]

In CAP's experience, while most lenders would collect these documents, they are not using them to allow for reasonable and sustainable living costs for those clients. Instead, unrealistic budgets that do not consider the basic needs of a household are developed as a check-box exercise. This has led to unaffordable loans being approved to thousands of families who are then further locked-in to financial hardship.

> **Poor affordability assessments appear to be rife within the vehicle finance industry.**

While CAP is supportive of the recent changes to the CCCFA which further strengthen affordability assessments, implementation and enforcement of the regulation remain the key concern.

Dispute Resolution Services (DRS) reviews CAP's complaints in situations where a lender's affordability assessment has been grossly inadequate. 100% of complaints raised by CAP to DRS were upheld in 2021, leading to tens of thousands of dollars of interest charges and fees being waived. In effect, Disputes Resolution Services have favoured CAP's versions of affordability assessments over those produced by the creditors. The collective outcome of these reviews is that CAP saved its clients $142,000 for complaints about affordability assessment.

These creditor budgets have in most cases considered nothing more than the most basic essential living costs.

> *"The lender did not do any due diligence; they were not interested whether he could afford it or not. He got the car and a boat. Furthermore, he said, "I did not want the boat, but they talked me into it." He could not afford it at all."* Debt Coach, Whangārei

One creditor prepared the following budget below for a single mother with three children, who wanted a car loan:

Weekly Expenses	
Accommodation	$111.00
Advance Repayments	$44.30
Child Support	$17.80
Debt Repayment #1	$20.00
Debt Repayment #2	$1.00
Debt Repayment #3	$16.00
Debt Repayment #4	$20.00
Debt Repayment #5	$7.50
Debt Repayment #6	$10.00
Phones	$16.00
Electricity (including Winter Energy Payment $22 + $31.82)	$53.82
Food	$170.00
Clothing & Footwear	$48.00
Vehicle Running Expenses	$51.00
Buffer (Discretionary Expenses)	$20.00
Total Expenses	**$606.42**

Evidence of lots of other debts

Insufficient allowance for food

Insufficient for petrol, WOF, Rego, maintenance

Income Source	
Total Benefit Income	$727.05
Total Gross Income	**$727.05**

Weekly Affordability	
Total Gross Income	$727.05
Total Expenses	$606.42
Net Surplus	**$120.63**

The creditor applied ALL the surplus in the family's budget to the car loan

The dispute resolution scheme ruled that the lender made a mistake when assessing the client's food allowance in her budget, underestimating the amount needed to feed her and her three children. The lender did not take medical expenses into consideration. If a more true-to-life amount had been included, the client's budget would have been in deficit, the loan would have been unaffordable, and the lender would have declined the loan. The allocation of $170 for food was too low. CAP estimated that $220 would be more realistic.

Since relevant parts of the Credit Contracts Legislation Amendment Act 2019 (CCLAA) came into effect in December 2019, enforcement agencies have had the appropriate mechanisms to charge lenders in breach of Lender Responsibility Principles due to the introduction of penalties and statutory damages.[12]

Further amendments announced by the Commerce Commission came into force on 1 December 2021 and 1 February 2022.[13] These changes include requirements for lenders to verify affordability assessment documents and maintain records to demonstrate compliance with their affordability and suitability obligations. CAP supports ongoing reforms to the CCCFA regulation and is optimistic that its implementation — if appropriately enforced — will change the lending status quo.

Vehicle Disabling Devices

The CCCFA states that "Neither a creditor nor a creditor's agent may activate a disabling device unless— the creditor or the creditor's agent has given the debtor reasonable notice, in advance of the activation: (i) that the disabling device is to be activated; and (ii) about what action the debtor may take to prevent the disabling device being activated."[14] **While disabling devices have been marketed to help deter car crime and theft, CAP has found that they are primarily used as a punitive measure for missed debt repayments and create a power imbalance between the lender and borrower.**

It is ironic that the borrower must pay for the installation and upkeep of the device, even though, on balance, disabling devices cause more harm than good to the borrower. For example, a disabling device can cost the borrower $465 to install and $16 per month to maintain. On top of this, CAP clients have stated that disabling devices cause them fear and anxiety regularly.

> *"I had a client, she lived in constant fear of her car being immobilised when she had the kids in it. She worried that she could not get them home."* Debt Coach, West Tāmaki Makaurau

CAP clients speak of disabling devices being activated without warning and under illegal circumstances. One CAP client recalled walking for hours to work, unable to use her car. Another found their car disabled after finishing a night shift.

A Debt Coach in Whangārei shares a story of a client who had her vehicle immobilised in a rural area as she was travelling up north:

> *"She was stuck in a place where there is no mobile connection. She was in the car in the middle of the night with a baby and two toddlers... this was in the winter as well, so they were freezing. She ended up just waiting for a car to go past so she could flag them down. But in the middle of nowhere... there were no cars that went past. So, she just bundled her kids up and started walking until she could get some phone coverage, so she could ring somebody to come and pick her up."* Debt Coach, Whangārei

Stories such as the above have no place in Aotearoa. No one should have to go through such a traumatic experience because they are behind on debt payments for their car.

Lifting the Bonnet on Vehicle Finance

In this section we lift the bonnet on how the vehicle finance industry in Aotearoa has normalised sky-high interest rates, exorbitant commission structures and poor-quality insurance products that add thousands of dollars to a typical vehicle price.

More Expensive than Credit Cards

Thousands of borrowers in Aotearoa are paying an excessive cost for vehicle finance, with interest at a higher rate than an unsecured credit card. A variety of high fees are added to the sticker price of the car:

Sky-high Interest Rates

While vehicle finance is often advertised at interest rates that sound attractive (the website of a major creditor currently says from 7.95% per annum (p.a.)), CAP frequently sees interest rates as high as 30% p.a. **Of the financing contracts that CAP reviews, more than one in four charges at least 20% p.a. Even though creditors hold security interest over the vehicle, default interest rates are commonly a staggering 40%+ p.a. At this rate, any repayment defaults can see loan values rapidly spiral out of control.**

CAP frequently sees interest rates as high as **30% p.a.**	More than one in four lenders at least **20% p.a.**	Default interest rates are commonly a staggering **40% p.a.**

Every month, thousands of New Zealand families on low incomes – or those who have poor credit ratings – are induced to pay thousands more dollars in interest charges. These high rates of interest perpetuate financial inequality. This stands in vivid contrast to those New Zealanders in secure financial positions who can leverage mortgage equity to purchase a vehicle at current mortgage interest rates (currently <7% p.a.). People with a less secure financial position and/or poor credit ratings may have no better option than to go with interest at over four times that rate.

Previous changes to the CCCFA have placed a limit on the cost of credit so that high-interest loans (>50% interest p.a.) cannot charge more than double the initial loan's principal. **However, one in five vehicle finance contracts which CAP reviews requires the borrower to pay back at least double the vehicle price.** This also assumes that borrowers will make every payment on time over the average loan period of four years. CAP has seen many examples of borrowers who have fallen into default and have not reduced their loan balances at all, despite making regular repayments. **As vehicle finance loan balances are usually for thousands of dollars, the high interest rates can snowball late payments into a life sentence of repayments.**

> **It is not only the sticker price of the vehicle that incurs these interest charges. Every dollar spent on establishment fees, broker fees, insurance products, and payment waivers incur the same hefty interest rates.**

These high-interest rates mean that consumers initially pay only token amounts of money towards the loan principal.

Interest Commission

A review by the Commerce Commission in 2021 found that most lenders pay dealers an 'interest commission,' sometimes referred to as a 'flex commission.'[15] This widely used practice is where the dealer adds a percentage to the base rate charged by the lender, which is then paid (or part of it is paid) to the dealer as commission. **The higher the interest rate, the larger the commission earned by the dealer.**

As the Commerce Commission has pointed out, "This [practice] effectively means the dealer sets the interest rate that the consumer pays."[16]

However, many dealers do not disclose the applicable interest rate until the purchaser is at the 'approval' stage of the lending process. This is usually after the purchaser has invested significant time, resources, and emotional energy into choosing a car, only to find out that the loan will cost them much more than they first thought.

In 2017, the Australian Securities, and Investments (ASIC) in Australia banned this commission model. ASIC concluded that flex commissions lead to poor consumer outcomes as borrowers are charged greater interest rates than they would ordinarily have been charged.[17] ASIC Deputy Chair Peter Kell noted that "flex commissions resulted in consumers paying very high-interest rates on their car loans. We were particularly concerned about the impact on less financially experienced consumers."[18]

New legislation in Australia operates so that the lender, not the dealer, has responsibility for determining the interest rate. The car dealer cannot suggest a different rate that earns them a greater commission, although they can discount the interest rate and receive a lower commission, leading to lower credit costs.

Likewise, in the UK, the Financial Conduct Authority (FCA) banned this commission model in January 2021 after finding that it created an incentive for dealers to sell more expensive credit to some customers, which creates a perverse incentive to act against customer's interests.[19] Christopher Woolard, the FCA's Interim Chief Executive, opined that "By banning this type of commission, where brokers [were formerly] rewarded for charging consumers higher rates, we will increase competition and protect consumers."[20]

> **The FCA concluded that preventing flex commissions would remove the financial incentive for brokers to increase the interest rate and would give lenders more control over the prices customers pay for their motor finance.**

Here in Aotearoa, CAP is concerned that flex commissions are adding significant extra cost to vehicle finance and that the continuation of these practices is harming borrowers.

Dealer/Broker Referral Fees

There are many fees that are added to the vehicle finance contract at the point of sale. The most arbitrary and unnecessary is the broker referral fee. This is a fee charged by the vehicle dealer to connect you with a financier and help establish finance for the vehicle – charges for this service range from $100 to $1,000. It is also a very common fee – three out of five contracts reviewed by CAP included a referral fee. **This fee is wrapped up in the finance arrangement, and interest is charged on the fee throughout the term of the loan, adding hundreds of dollars to the cost of the loan.** Although the borrower could avoid this fee by contacting a finance company directly, it is very profitable for the vehicle dealer to 'clip the ticket.' CAP argues that a dealer's sticker price must include the costs incurred in trying to close sales. If financing is required to close the deal, it is not a stretch to suggest that a lender could pick up the phone to the finance company as a part of the business without charging the borrower hundreds of dollars.

Establishment Fees

An establishment or set-up fee is charged at the start of a credit contract and covers the lender's administrative costs in setting up a loan. 100% of all vehicle finance loans analysed by CAP had an establishment fee charged. While this fee should be limited to essentially covering the lender or broker's cost, CAP is concerned to see a wide range of charges passed on to vulnerable clients.

> **The average fee across the loans analysed by CAP was $275 per loan established, but this ranged significantly, from $45 to $595. This fee is wrapped up in the finance arrangement, and interest is charged throughout the loan term, potentially adding hundreds of dollars to the cost of the loan.**

Despite regulations requiring fees to be reasonable at cost, CAP contends that the wide range of charges means that some lenders are charging too much, and many are unreasonable.

> *"[There were] all these extra fees that I had to pay; the establishment cost, PPS - I do not know what that means, processing fee cost, and all the other things that came with the car. That is how it went over my budget, and that is why I ended up paying by instalments. I ended up getting a car loan, which I had no intention of getting. However, I needed a car, so I had no other option than to get a car loan."* Patricia, CAP client and single parent, wider Tāmaki Makaurau

Vehicle Immobilisers/Disabling Devices

There are vehicle finance lenders who have mandatory policies of installing vehicle immobilisers with a GPS tracking component. This gives the lender the ability to observe the vehicle's location and remotely interrupt the vehicle's ignition so that the vehicle cannot be used. This 'telemetric device' is marketed as a benefit to the borrower. If their vehicle is stolen, the car can be immobilised and located. However, CAP cannot recall one instance where this has been an outcome for a client. Instead, as highlighted earlier, these devices are frequently used as a punitive and bullying method to discourage people from falling into default.

> *"Theresa started a new job and took out a car loan so she could get to work. Because she had not accrued sick leave, when she fell sick, she missed a repayment. The loan company then immobilised her car, meaning she was not able to get to work, making Theresa fall further behind."* CAP Budget Solutions Adviser

Borrowers pay, on average, $1,100 plus interest for the cost of installation, removal, and a monthly "rental" fee which are all added to the loan. **Despite already holding security over the vehicle, CAP found that the finance companies with the highest interest rates (30%) were the most likely to have immobilisers installed.** The immobilisers are there for the benefit of the lender to coercively extract payments from people in default. The ability to remotely switch off a borrower's car upon missing a payment is degrading. Even though telemetric devices are expensive and offer no real benefit to the borrower, finance companies still do not take responsibility for them. One lender's terms and conditions stated:

> *"We will not (nor will any vendor of the Starter Interrupt Device) have any liability of any nature to you for any loss or cost incurred or suffered by you as a result of, directly or indirectly, any malfunctioning of the Starter Interrupt Device or the normal operation of the Starter Interrupt Device."*

CAP finds it troubling that people are unaware that this is a mandatory cost associated with borrowing. Most often they only learn about this additional cost at the point of sitting down to complete paperwork. In the end, the presence of such devices forces families to choose between wellbeing essentials (such as putting food on the table, heating their homes, buying medication) and making payments on their vehicle loans in order to sustain transport to their jobs and livelihoods.

> *"A car loan carries the largest emotional and stress factor. Having a car can feel essential, and the threat of losing it is extremely stressful, especially if they are working and need the car to get to work. I have had shift workers for whom public transport is not an option; if they lost their car, they would lose their job. A car will take priority over any other debts, sometimes even rent."* Debt Coach, West Tāmaki Makaurau

The Add-on Insurance Scam

> **Despite the high cost of the loan itself, dealers further line their pockets by upselling a range of insurances and waivers that are commonly sold alongside vehicles purchased on finance.**

Add-on insurance products are prevalent. Of vehicle finance loans analysed by CAP, 50% included at least one of the insurances discussed below, sometimes several. In most cases, the lender does not provide the insurance directly but bundles in a third-party's insurance at the time of sale.

Add-on insurances are costly as they are commonly bundled into a car loan with a single upfront premium. This substantially increases the costs because borrowers pay interest for each type of insurance over the life of the loan. More so, consumers are paying retail rates that include very high commissions for the dealers for junk 'add-on' insurance products at the point of sale. CAP has seen a case where a car valued at $8,600 had insurances as high as $3,400, which is nearly 40% of the car's original value.

Reviews by overseas authorities in the UK and Australia have severely criticised selling these over-priced and low-value products. In contrast, standard practice here in Aotearoa adds thousands of dollars to the price of financed vehicles. Worse still, add-on insurance products are poorly understood by consumers. They are also very difficult to claim on, and often have negligible economic value when considered on a cost/benefit basis.

Furthermore, while these insurances are promoted as providing peace of mind for consumer, they are often very expensive and have no real benefit. The Commerce Commission found that there is only a 1-15% probability of consumers' claims against their policies being paid out.[22] **Insurance products added to vehicle finance cost borrowers thousands more in interest charges and dealer commissions and lead to poor consumer outcomes.**

Insurance Commissions

Each insurance product added to the finance arrangement earns the vehicle dealer a handsome commission. The high rate of commission incentivises dealers to up-sell insurance products for the high rate of commission, but this often comes at the expense of good outcomes for consumers who may be being sold insurance products that are unsuitable and unnecessary.

Overall, across the last three years, the average commission earned by dealers has increased. A 2021 review by the Commerce Commission[23] surveyed the wholesale premiums (paid to insurers) and the average commission rates charged by intermediaries (typically car dealers), which add to the retail price paid by consumers. These do not include the additional cost of interest also charged to the consumer when financed. Dealers retain the mark-up as their commission. Insurers typically limit dealers to a commission of 100% on the wholesale price, which means that the retail price paid by the consumer is typically double the wholesale price set by the insurer, although the Commerce Commission noted that some insurers have no systems in place to keep records of what end rates consumers are charged.

As car dealers have the flexibility to set their commission, the retail prices of add-on insurances are not advertised by insurers, making it impossible for consumers to make well-informed financial decisions. There simply is not the information to enable consumers to compare rates across different providers.

CAP's concern is that a rot is setting in as is shown by the Commerce Commission's 2021 review. **As seen in the table below, this reveals that, for each of the add-on insurance products reviewed, more is paid in commissions than consumers make in claims. More than half the value of Mechanical Breakdown Insurance (MBI) consumer claims has been paid in commissions, almost four and a half times the value of consumer claims for Guaranteed Asset Protection (GAP) insurance has been paid in commissions, and over seven times the value of consumer claims for Payment Protection Insurance (PPI) has been paid in commissions.**

	Total Retail Premium Sales ($m)	Average % of Commission	Approx. Commission Paid	Value of Approved Claims ($m)	Commission Paid vs. Approved Claims
MBI	312	38%	119	116	1.0
PPI	91	55%	50	7	7.2
GAP	39	56%	22	5	4.4
Waivers	106	35%	37	11	3.4

Source: "Motor vehicle financing and add-ons review," Commerce Commission, 2021

These insurance commissions are grossly inflating the cost of insurance above wholesale rates. Further, these current pricing practices make it impossible for consumers to find appropriate market alternatives.

Single-Premium Policies

In CAP's experience, consumers who include any insurance policy with vehicle financing are being charged for the whole policy upfront (a single premium), while incurring the additional cost of interest over the loan term. Single-premium policies not only reduce transparency about the cost of the product being sold, but they also make it harder for consumers to remember their coverage and to consider their ongoing coverage requirements and market alternatives actively.

For instance, in Australia, ASIC noted that single premium policies reduce transparency about the product being sold and its cost.[24] **They note that "single premiums lead to reduced claims and reduced consumer awareness and increase the risk the consumer will not receive a premium refund if they pay out their car loan early."** For similar reasons, the Competition Commission in the UK banned the single-premium sale of PPI in 2010,[25] deciding that they must be changed periodically (monthly or annually). Also, in cases where the premium is paid annually, the consumer is entitled to a pro-rata rebate if the consumer terminates the premium earlier in the year.

CAP queries the necessity of requiring full, up-front payment for Payment Protection Insurance (PPI) under a single premium. The sale of PPI under a single premium and rolling it into financing arrangements leads to poor consumer outcomes such as a much higher cost of insurance and lower ongoing assessment of coverage by consumers.

Insurance sales methods and products with poor consumer outcomes

CAP is concerned consumers are placed at risk of further poor outcomes due to sales techniques and practices at point-of-sale. Consumers do not have the opportunity to fully consider the terms and conditions of these insurances or the various exclusions. CAP considers it unreasonable that dealers have a profit incentive to over-sell policies that are unsuitable for the consumer's purpose.

Mechanical Breakdown Insurance (MBI)

MBI provides cover if an insured person has a mechanical or electrical fault with their vehicle. It is often marketed as providing peace of mind against unforeseen problems. **MBI is the most common add-on insurance in CAP's analysis of vehicle finance loans,** sold with two in five vehicles. The cost of this insurance varies widely between $585 and $2,295, with an average cost of $1,280, excluding financing interest costs.

However, it is hard to imagine what is left of the vehicle when you review the list of commonly excluded components: Chassis, panel, paintwork, glass, trim, upholstery, mirror components, keys and remotes, batteries, exhaust systems, catalytic converters, diesel exhaust fluid systems, filters, tyres and wheels, light bulbs and fuel tanks, shock absorbers, suspension systems, entire brake system, clutch friction materials, flywheels, drive belts, glow plugs, injector servicing and spark plugs, navigation, communication, and entertainment systems and speakers, safety airbag and seat belt systems and ambient lighting...and more.[26]

The Commerce Commission found that $116 million of approved claims had been made from over $312 million of retail premiums (37c in the dollar returned to consumers). The average claim pay-out was $1,246.[27] MBI had the second-lowest approval rate and the lowest average claim pay-out, despite having the highest average retail premium. The low approval rate is not surprising given the high number of exclusions from standard policies.

While MBI had the highest probability (15%) of customers having their claim approved, out of the add-on insurances surveyed by the Commerce Commission, this does not necessarily reflect value for consumers. This is because there is significant overlap between MBI and consumers' existing rights. Under the Consumer Guarantees Act (CGA), vehicles sold must be of acceptable quality and reasonably fit for purpose.[28] CAP is concerned that these rights are not being made clear to consumers who unnecessarily take out MBI cover .

The Motor Vehicle Disputes Tribunal has highlighted the issue of vehicle dealers using MBI as a means of evading their responsibilities under the Consumer Guarantees Act in their annual report two years in a row.[29,30]

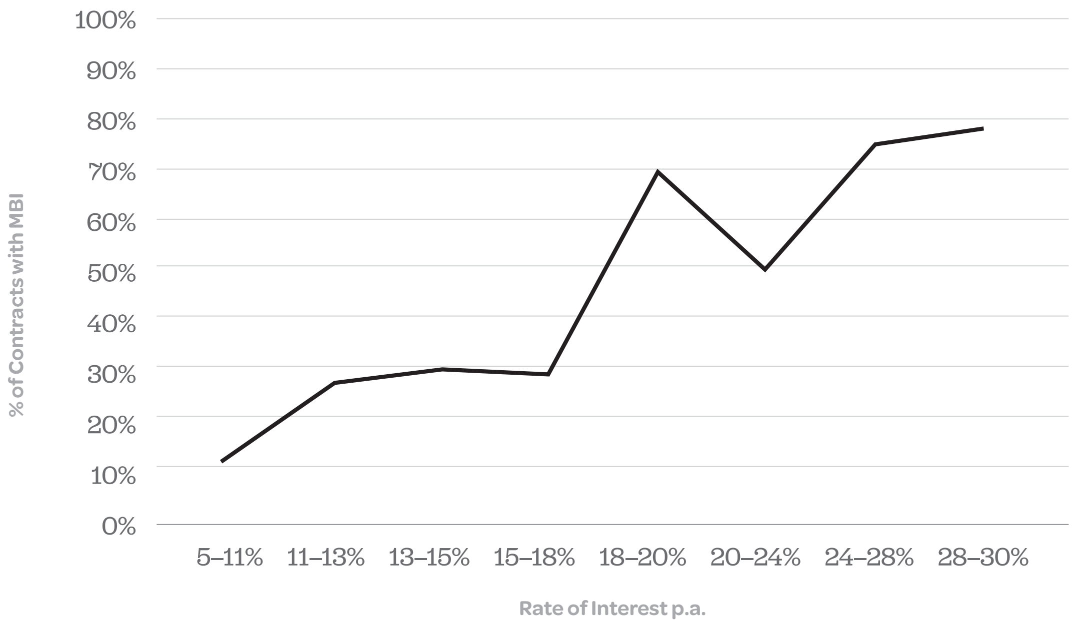
Dealers are dodging their responsibility to repair vehicles under CGA obligations; instead, they pass consumers with vehicle issues on to insurance companies.

As the Commerce Commission has pointed out:

> *"...unnecessarily claiming on an MBI policy when a CGA remedy could be available might result in negative consumer outcomes, including eroding the consumer's maximum sum insured; erasing their no-claims status (which may remove their ability to transfer the policy if the vehicle is sold); requiring payment of any insurance excess; and, over time, potentially increasing the MBI premiums for consumers."* [31]

Concerningly, from CAP's analysis, MBI is the type of add-on insurance that is correlated with a higher rate of interest. It is conceivable that borrowers paying higher interest rates may also lack awareness of their existing rights under the CGA.

% of Contracts with MBI by Interest Rate



Source: CAP's Analysis of Vehicle Finance Contracts, 2021

Payment Protection Insurance (PPI)

PPI provides cover for loan repayments if the insured person cannot make repayments due to a range of insured events. It is insurance related directly to the finance itself, so it is charged upfront under a single premium policy in nearly all situations. In vehicle finance loans analysed by CAP, PPI was present in **over one in five cases**. The median cost of PPI was $1,400. Billed over a standard four-year term at a 16% p.a. interest rate, the borrower **will pay over $2,300**. In their review of PPI, the Commerce Commission noted that the average wholesale price for PPI had decreased over the three years reviewed, but the average retail rate had risen over the same time due to an increase in the commissions charged by intermediaries.

However, of the cases analysed, there are many exclusions and limitations to making a claim. This is because the most common provider will only cover up to $125 per week, despite loan repayments regularly being higher. Furthermore, the same provider stipulates that within 12 months, PPI will cover a maximum aggregate of repayments of $1,500 for sickness, $2,000 for hospitalisation, and $2,000 for job loss.

The Commerce Commission also noted that out of $91m of PPI premiums sold over three years, only $7m of approved claims were paid out (7.6 cents in the dollar).[32]

> **The probability of claiming and having a claim approved was only 2% of active policy holders, and the average pay-out for this small group was $1,824.**

CAP is concerned that people are receiving poor value from this type of insurance when any pay-out from approved claims is close to the premiums paid.

Guaranteed Asset Protection (GAP) Insurance

In the event that there is a total loss of the vehicle (e.g., the vehicle is stolen or written off), GAP insurance will cover any 'gap' between what your insurer pays out and how much is owed on the loan. This is marketed on the premise that borrowers will not have to worry about being stuck with a debt for a vehicle that has suffered a total loss. Like PPI, GAP insurance relates directly to the finance itself, so it is charged upfront under a single premium policy in nearly all situations. GAP insurance was present in nearly three out of ten vehicle finance loans. The median cost of GAP insurance is $630. When billed over a standard four-year term at a 16% p.a. interest rate, the borrower will pay over $850.

However, there are many exclusions for which a borrower cannot make a GAP insurance claim. Firstly, if the insurer does not pay out the market value, GAP insurance will not be paid out. Second, GAP will not be paid out if comprehensive insurance has not been in place continuously or has expired during the policy period. Third, insurance companies will not generally pay-out if the driver has broken the law, such as speeding or dangerous driving.

GAP insurance is an extremely expensive way to cover a potential insurance shortfall. It is reasonable to ask if the borrower is likely paying too much upfront for the vehicle if an insurance pay-out would not cover the loan value. **A more cost effective method of obtaining the same peace of mind would be to increase the car insurance's agreed value to match the total loan costs** and periodically review the insured amount if appropriate.

Overwhelming and confusing sales practices

Add-on insurances are being widely mis-sold. They are poor value for money and their sales are driven by commissions rather than consumer demand. CAP has talked with many clients who have misunderstood what their vehicle insurance actually covers them for. Research by the Financial Conduct Authority in the UK[33] and by the Australian Securities and Investments Commission in

Australia[34] concluded that many consumers had a very poor recollection of purchased policies and many regretted their decision to purchase add-on insurance. These regrets are attributable to decision fatigue and information overload experienced by consumers, coupled with poor explanations of product features as well as important information which is minimised by the dealer.

> **These findings legitimise CAP's concerns that some common sales practices may be designed to fatigue and overload consumers. When consumers have already expended their energy trying to find and negotiate the purchase of a vehicle they are far more likely to buy unsuitable and overpriced add-on insurances.**

The Cost of Vehicle Finance

This section explores the cost of harmful vehicle lending practices on borrowers and families in hardship to highlight the impact of unconscionable lending practices.

The cost of vehicle finance loans

CAP data collected shows that 51% of CAP clients owe money to vehicle finance companies.

When it comes to vehicles, the current absence of options such as co-ownership models, or affordable leasing, means families in Aotearoa have no practical alternative other than buying and owning a vehicle. For people who do not have the cash to purchase a vehicle outright or cannot save for a vehicle, there is a ready supply of vehicle financing options in the market to provide credit to enable an immediate purchase.

> *"For people who are receiving a benefit, there is no way they can be able to save to get a $2,000 car. This leaves them with no options than to get one from a car yard."*
> Debt Coach, Te Awakairangi (Lower Hutt)

The cost to borrowers

While the sticker price of a car may look affordable, as discussed in the previous section, the long list of extra costs added to the contract at the time of signing is staggering.

> *"One of our clients saw an ad on TV. She thought she was getting a car that was only going to cost her $40 a week, and she thought, "Well, I can afford that $40 a week." However, it was not $40 a week; it was $120 a week because there were all these other charges, insurance for the car, etc."* Debt Coach, Whangārei

The sticker price is also often misleading. As one CAP client notes,

> *"It is very misleading: when you enter the showroom, and you look at cars, they have the price tags on the cars, and the car says $4,000. And you think, "Oh, okay. This car is $4,000." However, when you sit there in the accountant's office and buy the car, you find that it is not only $4,000, it is $10,000."* Patricia, CAP client and single parent, wider Tāmaki Makaurau

The case of two CAP families below highlights how sticker price differs markedly after extra costs or add-ons to the car loan.

Anahera and Rawiri* wanted to buy a car for $8,600.
The total loan contract would have them pay back over $22,700.

Add-ons	
Establishment and referral fees	$990
Immobiliser installation and monthly fee	$1,500
GAP, PPI, and MBI[35] insurances	$3,400
Interest Rate	
Four-year contract term at 18.95% interest p.a.	
Implication	
Anahera and Rawiri will repay **over 2.6 times the vehicle cost**, assuming they do not miss any payments and fall into default.	

Iosefa and Teuila* required a special purpose vehicle to accommodate their three children, one of whom lives with a disability. They found a suitable vehicle for $13,000. The total loan contract will have them pay $27,700.

Add-ons	
Establishment and referral fees	$1,525
PPI, and MBI insurances	$2,900

Interest Rate

Four-year contract term at 23.95% interest p.a.

Implication

Iosefa and Teuila will repay **over two times the vehicle cost**, assuming they do not miss any payments and fall into default.

Iosefa and Teuila's* Car Loan

Maintaining such a significant financial commitment for many years without a default is very difficult for many families. **In CAP's experience, it is typical for a client's vehicle finance to be the most significant factor contributing to their financial hardship.** The family car is usually essential to travel to work and school, but high loan repayments leave too little to pay for other essential living costs. Families go into arrears on rent, utilities and take out more debt. They do not have savings for vehicle maintenance or repairs.

> *"Vehicle finance loans are the number one reason that our clients are stuck in a position of hardship. They cost so much each week that if they miss a repayment or two, things get out of control quickly"* CAP Policy Adviser

With default interest rates commonly between 30% and 40%, borrowers in financial difficulty will do anything to prioritise car payments, even if that means falling into hardship elsewhere in their lives.

The cost to families

Like any loan, car loans can quickly become unaffordable when situations change, leading to financial hardship. The fallout from an unaffordable vehicle finance loan affects the whole whānau. This is true for the three out of five CAP clients who have children in their care, and for the many more CAP clients who care for other family members also, such as a grandchild or elderly parent. **Families experiencing financial hardship are significantly cutting out spending on essentials before defaulting on loans. Before coming to CAP:**

67%	30%	65%
often skipped meals to make loan repayments	owed money for medical or school expenses	owe money for utilities and housing

"We have had one client who was desperate to hang on to her car, as it was her only means of being able to visit her family up north. She had three kids at home, three kids under six. Her repayments were $140 a week. Moreover, with all her other bills, she had $15 left to spend on food, $15 a week.

She could not afford to buy formula or milk for her baby, who was nine months old at the time. ***So, the baby was fed sugar water. They cannot afford nappies. So, it was old sheets ripped up, then used as nappies."*** CAP Debt Coach

Families experiencing hardship due to an unaffordable vehicle finance loan need support from a wide range of services in order to feed and clothe their families, as well as to meet other essential living costs.

The cost to society

Society pays an enormous cost to support families who are in financial hardship. It is common for clients who come to CAP with vehicle finance debt to have relied on Work and Income for support to meet essential living costs, incurring interest-free loans (recoverable grants) which must be paid back over a long period of time.

Nikau and Nina* are a humble couple who care deeply for their older kids and their community. They became trapped in a financial prison when Nina's health meant she could no longer work – **they struggled to keep up their $120 per week vehicle finance repayments, which were over 30% of their income**. Nikau was already unable to work due to physical and mental wellbeing challenges. They both rely on Jobseeker Support and Disability Allowance to make ends meet. Nikau and Nina have relied on Work and Income recoverable grants to meet their essential living costs, still leaving them with no money left each week. **They have accrued significant Work and Income debts totalling over $60,000.**

Society will also pay the cost because expensive vehicle finance loans are inhibiting the accumulation of wealth for the next generation. There is a growing societal inequality between financially secure consumers who can source financing for a vehicle purchase at an interest rate over four times cheaper[36] and those in society who are paying far more for assets that quickly depreciate and are worth much less than the total amount paid. Te Ara Ahunga Ora found that of people surveyed, the highest percentage of respondents who said they planned to apply for a Kiwisaver hardship withdrawal were those in financial difficulty.[37] It may be several years until Aotearoa sees the full extent of the inequality of those unable to accumulate wealth and who accessed retirement savings to address financial hardship today.

*All identifying details have been removed but these are real CAP clients.

Case Studies

Rachel's Story*

Pasifika, female, in her thirties

Lives in Tāmaki Makaurau

Single mother, five kids

On parental leave from work

Total debt: $20,000

- Car loan
- Furniture loan
- Electricity and mobile arrears
- Rent arrears and housing damages
- MSD debt
- Clothing and other debts

Affordability

Rachel is a hard-working solo mother living in Tāmaki Makaurau with school-aged children, one of whom has special needs. Getting by every day without a reliable car was unbearable. Her first car was written off due to an accident, with no insurance cover for a possible replacement. **Rachel desperately needed a new vehicle, but her credit ratings posed a big challenge.**

"It is hard for a single parent with more than two children to get a car. You will get declined straight away if you do not have good credit."

Eager to get back on the road again, she weighed her limited options and approached a vehicle finance company she had used in the past. Rachel admitted remorsefully that she was dishonest in her application. **The car dealer, however, did not make reasonable inquiries to verify all the information she provided to ascertain if she could afford the loan in the first place.**

Rachel chose a 2006 model family vehicle valued at $8,000 at the interest rate of 12.95%. The car dealer had also **sold her three insurance packages, totalling $2,400, that she did not understand. The vehicle was now costing Rachel more than twice the original price over its lifetime. This compounded the debt situation of an already struggling mum and increased her total weekly repayments to over $400 a week across debtors.** The prospect of trying to make ends meet on the reduced income of parental leave brought stress and anxiety. She quickly realised she was in a dire situation and in need of help.

"My mind was not coping with the fact that I was down so many hundreds of dollars and how I was going to survive on having that much less income coming in."

Desperate for help, Rachel then reached out to CAP for assistance. She was so eager to become debt free that she began the process two weeks earlier than planned. She recently welcomed her new baby and is assiduously working on building her financial management and resilience skills.

*Name and some identifying details have been changed to protect the client's identity. This includes some rounding or approximating of figures.

Lia's Story*

Samoan, female, in her thirties

Lives in Tāmaki Makaurau

Married, one child

Stay-at-home mum

Total debt: $96,000

- Bank loan
- Car loan
- Work and Income
- Unsecured debt to finance companies

Improper Disclosure

For Lia and her family, living in Tāmaki Makaurau with a rundown vehicle was a challenge. Their vehicle experienced regular mechanical breakdown and was no longer roadworthy. The family of three desperately needed a new car that could serve their needs.

"We wanted something we could use because the car we were using is not safe. So that was the only thing coming up on our minds. We were trying to look for something to use."

Getting a new car on finance would not come easy. Lia's husband was on a casual contract and did not hold a valid New Zealand driver's license. This led to several unsuccessful car loan applications. This continued for some time until they came across a Facebook advert by a local car dealership promising easy car finance. Lia dropped by the next day, put in an application and surprisingly, it was approved.

The car dealer explained the details of the vehicle contract but did not provide any translator service, despite English being a second language for the Samoan family. Lia and her husband did not mind at that time as they were eager to sign on the dotted line and drive away. However, the vehicle with many add-ons totalled $36,000, with a car repayment plan of $280 a fortnight.

The excitement of driving the new car soon faded as the family struggled to juggle high car repayments with their existing debts and bills on a single income. They started to skip meals, fall behind on bills and get into further debt. This continued until CAP was recommended to Lia by a local social and health service provider.

After coming to CAP, Lia and her husband made the tough choice to surrender their vehicle due to the high repayments. While this process was stressful, particularly the thought of going without a car, CAP eased the stress by helping them navigate unfamiliar territory, including finding a more affordable vehicle. Since coming to CAP, Lia and her husband have learned new things about managing their debt, budgeting, and household finances. As they work towards being debt-free, they're planning to buy their own home.

*Name and some identifying details have been changed to protect the client's identity. This includes some rounding or approximating of figures.

Casey's Story*

Māori, female, in her late twenties

Lives in Tūranga-nui-a-Kiwa

Single, one child

Full-time employment

Total debt: $33,000

- Vehicle loan
- Various buy-now-pay-later providers
- Utilities
- Bank overdraft
- Unsecured debts to finance companies

'Sold a Lemon' and Creditor Harassment

Casey's experience with vehicle financing is a mix of the good, bad, and ugly. The good part was the ease of acquiring the vehicle of her choice on finance. The bad part was that a year after the purchase, Casey's endless trips to the mechanic began. Beleaguered with the cost of continuous repairs and additional insurance expenses, her finances took the hit.

"It was a year and one month. And then, from that moment, I have just had like 1,000, 2,000, $4,000 on mechanical things... none of those insurances that I had covered issues that were mechanical. If your car hits the hay every couple of months and it is mechanical, it will not [be covered by insurance company]."

As it turned out, Casey was sold a defective vehicle that had mechanical issues. The ugly part was that this did not stop creditors from chasing her down for her scheduled repayments. One time, she was asked to surrender the phone used to secure the vehicle loan – which sadly belonged to her now ex-partner. **Unable to meet this demand, she was hounded with incessant phone calls and threatened with vehicle repossession.**

"It was just so overwhelming that I was not going to have a car. And then I thought, 'They are going to take the car, and I am still going to have to owe money because it is not going to be worth the amount it was at the start.'"

The situation took its toll on her mental health, particularly when the creditor intended to involve the police to secure possession of her phone. She recalled telling the finance company, "'You are not listening. I do not feel safe with you bringing the police...' It was for my mental health..."

At this point, Casey had started her CAP journey, and CAP was able to negotiate an affordable repayment plan and convince the creditor to halt the repossession process.

"I communicated that with CAP. I cried to CAP one day because I was like, 'I do not know what to do. They are going to take the car, they are going to do this, that,' and then they [CAP] sorted it out, and that was that."

Managing ordeals with creditors and dealing with spiralling debt has brought its share of struggles for the single mother. However, since coming to CAP, Casey has stayed on track with debt repayments. Casey describes her journey with CAP as delightful, non-judgemental, and helpful for managing her finances. She says life is looking brighter. **The crushing feeling she used to have regarding her vehicle loan and additional debt is slowly wearing off as Casey works towards the debt-free finish line.**

*Name and some identifying details have been changed to protect the client's identity. This includes some rounding or approximating of figures.

Recommendations

This section provides key recommendations to government, regulators, and creditors to address the issue of predatory vehicle finance in Aotearoa.

Government

1. Establish an inquiry into the vehicle finance sector

CAP is calling on the government to establish a formal inquiry to review the whole vehicle finance sector to make recommendations that will protect consumers from the significant harm that the current market model is causing. This inquiry should not be limited to the supply and methods of vehicle financing that are causing harm but should also identify proactive steps to enable alternatives to vehicle ownership, especially for those in financial hardship.

2. Prohibit flex commissions on interest

CAP advocates that the government in Aotearoa follow the same action taken both in Australia and in the UK to prohibit the flex commission on interest which incentivises dealers to try and charge more interest than consumers would otherwise pay in the market. This is leading to poor consumer outcomes by increasing the cost of finance to the consumer and obscuring the true cost of credit before the point of sale. The lenders should be the party to set a transparent interest rate that cannot be amended by the dealer at the detriment to the consumer.

3. Curb insurance commissions

CAP calls for limitations to be established around the costs of insurance commissions. High levels of commission on insurance products sold by dealers are grossly inflating the cost of insurance to the end consumer, resulting in poor outcomes for consumers through increased costs, and the mis-selling of inadequate or inappropriate insurances. Limiting the amount of commission that an intermediary can charge will disincentivise the mis-selling of unnecessary insurances. This will also allow consumers to more appropriately compare costs across different insurance providers with confidence in the retail cost offered by the intermediary.

4. Ban single-premium policies

CAP encourages the government to ban single-premium policies, which reduce transparency about the cost of the product being sold and make it harder for consumers to actively review their insurance requirements. Single-premium policies are extremely expensive when rolled into vehicle finance loan repayments. It is unclear for consumers if and how they can cancel insurance, and what refund they may get, if any.

5. Review vehicle finance with regards to the total cost of credit cap

CAP calls on the Minister to include vehicle finance lending within the scope of the review of subpart 6A in the CCCFA. This look at the effectiveness of the total cost of credit cap and whether the interest rate that defines a high-cost consumer credit contract should be reduced. CAP has seen many examples of loans that have spiralled to more than double the value of the vehicle due to very high rates of default interest. Borrowers become trapped because the value of repayments and default interest rates are so high that the debt compounds rapidly. Because lenders already hold security over the vehicle, lowering the total cost of credit cap to capture high-interest rate vehicle loans will encourage competitive offerings. Further, this would protect people from being charged more than double, while not limiting lenders' rights to recover the debts using their security interest.

6. Introduce a deferred sales model for add-on insurance products

CAP recommends that the government introduce a mandatory four-day pause between a vehicle finance sale and the sale of any add-on insurance, similar to those implemented in the UK and in

Australia. A deferral of add-on insurance will give consumers time to consider the insurance they've been offered, and compare it with alternatives, thereby increasing competition in the add-on insurance market, which is currently dominated by point-of-sale dealers which reduces competition. It will reduce the risk of people buying, or being persuaded to buy, insurance on the spot that is of poor value or not appropriate for them.

7. Ban immobiliser activation as a method of leveraging loan repayment

CAP calls for the banning of immobilisers being used as a method of coercing borrowers to repay debts, a process which is punitive, degrading and dangerous. Activating an immobiliser is largely incongruent with the new expectations of Chapter 12 of the Responsible Lending Code, particularly 12.16 which establishes expectations when lenders become aware of repayment difficulties. Banning the use of immobilisers to leverage repayment will protect vulnerable consumers from having their car immobilised, without impacting the lender's right to call up the vehicle as security in cases of default. Banning their use as a method of debt recovery will disincentivise the selling and charging of this expensive add-on, leading to better consumer outcomes through reduced financing costs.

Beyond this, CAP would like to see government upscaling market awareness, including funding and support behind microfinance options.

Regulators

1. Enforce appropriate affordability assessments

CAP is supportive of the regulatory framework that addresses affordability assessments but it is equally necessary that regulations are being followed by lenders. CAP regularly encounters the same vehicle finance lenders' names when making complaints. Therefore, it is important that the enforcing agency visit these lenders and sample recent loans to ensure that the lenders are appropriately complying with regulatory obligations in their decision-making processes. Responsible Lending Guidelines have been in place since 2015, yet many lenders have continued to approve unaffordable loans that have placed families in substantial financial hardship. It is clear that proactive enforcement is necessary to protect families from irresponsible lending practices.

2. Provide explicit guidance on appropriate establishment fees

CAP calls on the regulating body to provide explicit guidance on what constitutes an appropriate maximum amount to charge for establishing a loan. CAP has seen a wide range of fees charged for establishing a new loan which adds hundreds of dollars to the cost of a new vehicle loan. Some lenders are clearly charging far more than is appropriate, which is leading to poor consumer outcomes.

Relatedly, the Commerce Commission should continue to more guidance around accreditation and licensing. This would ensure that those lenders who can operate a car finance business are licensed and have undergone some form of accreditation from the commission. A comprehensive licensing scheme would help separate the wheat from the chaff by ensuring that vehicle finance companies are not just rendering service but that they meet regulatory standards and comply with guidelines.

3. Scale up creditor compliance training for vehicle finance loans

With the current changes to CCCFA, there is a greater opportunity for the Commerce Commission to scale up its educational compliance programmes. These programmes will drive awareness of guidelines on responsible lending and the importance of conducting proper affordability assessments before approving a loan. CAP calls for targeted training for creditors to increase awareness of the unconscionable and predatory lending practices that cultivate financial hardship and unmanageable debt for many vulnerable persons in Aotearoa.

Creditors (vehicle finance lenders and their agents)

1. Train staff on compliance

It is essential for all agents implementing the CCCFA to be trained and competent in the legislation. While the new CCCFA regulations require directors and senior managers to exercise due diligence and face penalties for failing to comply, frontline creditor staff though expected to be competent are not liable. A concern is that creditors do not always adhere to legislation and are not penalised for this behaviour. For instance, this report has discussed situations where proper verification and due diligence in affordability and suitability assessments were lacking according to the CCCFA.

CAP would like to see stronger legislation enforcement and contends that all creditor staff (not just directors and senior managers) exercise due diligence or face penalties. The rationale is that frontline creditor staff are more likely to be granting loans, while directors and senior managers are possibly removed from this administrative work.

2. Providing contractual clarity to customers

CAP would like to see creditors take time to explain contracts with detail and clarity when communicating with prospective customers before they append their signature to it.

3. Provide borrowers access to translation services

CAP recommends that translators are free and readily available for clients who speak a different language or encounter literacy barriers during the loan process. Having translators would ensure customers have a comprehensive understanding of what they are signing up for and prevent confusing or misleading information from being passed on. Furthermore, we encourage information to be provided to borrowers using other media such as videos to overcome communication barriers.

> *"I was actually just able to be present and in the moment with my children."*
>
> Alaina, debt free CAP client

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About CAP

Christians Against Poverty (CAP) is a non-profit organisation passionate about releasing New Zealanders from debt, poverty, and its causes. CAP has been providing professional debt counselling in partnership with local churches since 2008. In that time, thousands of people have received the holistic help and support needed to break free from unmanageable debt and step into lives filled with freedom and hope. Also, in partnership with local churches, CAP runs community groups offering help with money management. All CAP's services are FREE and available to anyone who needs our help.

The CAP External Engagement Team brings about compassionate solutions and insights to the issues of poverty and unmanageable debt in New Zealand. Our motivation is to shape and influence policies and structures, with the goal of improving the lives of individuals and whānau. Our mahi is reflective of CAP's desire to bring help, hope and God's love to the nation of Aotearoa. We share and embody these values in our policy reports, and publications and in our advocacy work.

Data

The statistics and data contained within this report are analyses of CAP's past and current clients. Where appropriate, we indicate data that CAP has not sourced.

*The names and some other identifying details of clients within the case studies have been changed to protect their identities; some figures have also been rounded or approximated. All client and Debt Coach quotes within the report are genuine but anonymous.

Acknowledgements

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