

COMPENSATION ARRANGEMENTS POLICY

The business has an obligation to maintain sufficient resources to meet any possible compensation claims to consumers for loss or damage suffered because of breaches of the National Credit Act. This includes when a client makes a claim against the business that could not be satisfied by varying the credit contract and requires the business to pay compensation to the client.

As a credit provider, as opposed to a credit assister, the business is not obliged to obtain and maintain professional indemnity insurance as per NCCP Regulation 12 (c). The business does still need to meet its compensation arrangements as described above and achieves this on a self-insured basis.

In considering if the business has adequate financial resources to meet its compensation arrangements, the following should be considered:

- the kinds of credit activities involved.
- the volume of business and the number of clients involved.
- the volume of business that would likely be impacted by a compensation event.
- how funds would be raised for the compensation event.
- if the business has any authorised representatives.

In determining a formula for funds required to meet our compensation arrangements, the following statements are made:

1. The business has no authorised representatives, so this does not need to be accounted for in determining the amount required to meet its compensation arrangements.
2. It is reasonable to use the current loan book value and calculate the maximum possible fees and charges for these loans and use this as the maximum amount of exposure.
3. This is the most extreme possibility, and not all loans would be defective usually and civil penalties rarely start at 100% of the credit charges.
4. We consider that the capacity to pay compensation of 50% of the possible credit charges on the loan books active loans at any one time is adequate resourcing.

The methodology above must be revisited and recalculated on month-by-month basis to ensure the business has adequate access to financial resources.

The business does not necessarily need to have cash reserves of this amount. Having adequate financial resources for compensation arrangements can be made up of a combination of cash reserves, ability to borrow against assets and personal guarantees from shareholders or officeholders.