



21 March 2019

Ms Louise Sylvan AM
Independent Reviewer
Review of the coordination and funding of financial counselling services
Via email: Financial.Counselling.Review@dss.gov.au

Dear Ms Sylvan

Review of the coordination and funding of financial counselling

The Australian Banking Association (**ABA**) welcomes the opportunity to provide this submission to the review of the coordination and funding of financial counselling in Australia (**Review**).

ABA members strongly support financial counselling and the valuable service financial counsellors provide to people in need. Financial counsellors provide free and independent support, advocacy and practical assistance for customers who are experiencing significant financial hardship, unemployment, serious health problems, addiction and a range of other issues. Financial counsellors get people back on track when they're experiencing some of the most difficult moments in their lives and provide a valuable education service to people with lower levels of financial literacy and capability.

Recommendations

ABA members support the observation of Commissioner Hayne that there is a need for predictable and stable funding for the legal assistance sector and financial counselling services.¹ It is clear to ABA members that there is significant unmet demand for financial counsellors and the banking industry supports additional funding to meet this need.

The ABA recommends that the Review outcomes provide for:

- long-term funding certainty for financial counselling, at a level that objectively meets the needs of the community and allows for additional investment in training for existing financial counsellors
- confirmation of the continued role of government funding (State and Federal), at current funding levels and indexed over time
- a data driven assessment of unmet demand, the capacity of the financial counselling profession to absorb additional funding and future funding needs, including any need for additional training for existing financial counsellors.
- a central governance function to allocate funding and report on outcomes
- industry funding sourced from both financial sector participants and other creditors and industries that contribute to financial hardship
- an interim funding approach over the next 4 years funded by government and financial sector participants on a fixed proportional basis, with scope to include other providers over time, and
- an enduring, data driven funding model, based on a fixed contribution by Government and proportional contributions from industry participants, which reflects the drivers of financial hardship and encourages better practice by industry participants.

¹ P. 493 <https://www.royalcommission.gov.au/sites/default/files/2019-02/fsrc-volume-1-final-report.pdf>



In addition to financial counselling, ABA members also acknowledge the critical role played by community legal services. The ABA supports the proposed funding model also including funding for specialist community legal services.

Proposed interim funding approach

The ABA proposes an interim funding approach, for the next 4 years, based on the following parameters:

- Existing level of government funding maintained (approx. \$64M in 2018) and indexed annually.
- Additional funding from financial sector participants (AFCA members), ramped up over 4 years up to an amount matching government funding by year 4 to enable up to 100% increase in services in that time.
- Funding from AFCA members to be based on the participant's relative share of total AFCA fees.
- A mechanism to join non-financial sector participants to provide additional funding.

Enduring funding model

ABA members support the development of an enduring funding model, based on the following principles:

- Fixed minimum level of Government funding based on today's funding indexed overtime
- Levies on financial sector and non financial sector participants that reflect the drivers of financial hardship and the obligations financial counselling clients are managing, and
- A model that encourages better industry practices, including hardship processes, product suitability and appropriate distribution practices, and approaches to assisting customers experiencing vulnerability.

To enable the enduring model, financial counsellors will need to collect consistent data on the drivers of financial hardship and the sources of obligations managed by financial counselling clients. Funding for the collection and analysis of this data will need to be specifically accounted for.

Existing industry support

The banking industry already provides significant support to financial counselling in several ways including:

- Many ABA members partner with financial counselling organisations including FCA and Uniting Kildonan to train frontline bank staff and contractors to ensure bank customers can see a financial counsellor quickly to try to help customers before their circumstances get worse.
- The ABA and its members provided in kind support and \$4 million of seed funding to set up the Way Forward² Debt Solutions (debt repayment service), which helps customers who are struggling with multiple debts.
- Several ABA members provide direct funding and scholarships to provide for and train financial counsellors.

Financial literacy and capability

In addition to providing more funding for financial counsellors, ABA members believe this Review should recommend measures for better financial literacy / capability education. Financial counsellors assist their clients with this however, if financial literacy / capability was improved, customers may be prevented from getting into difficulty and this will relieve pressure on financial counselling resources.

² <https://wayforward.org.au/>



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The ABA looks forward to continuing to work with the financial counselling profession and the Government to develop a model for long-term funding certainty for financial counselling, at a level that objectively meets the needs of the community.

We will be pleased to provide further information or meet with you to discuss the detail of our submission. Please contact Eliza Twaddell eliza.twaddell@ausbanking.org.au or 0490 775 479 if you require further information.

Yours sincerely

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Attachment A - Response to submission questions

Funding

- 9) **What are your views on which sources of funding for financial counselling should be utilised in Australia?**
- Should industry contribute and if so, which industries and what for might such contributions take?**
 - What do you see as the role of governments, in supporting financial counselling services?**
 - Should consumers be asked to contribute some nominal amount where they are able to?**

Who should contribute?

In the long term, financial counselling should be funded by Government, financial sector participants and other relevant industries that drive cost of living expenses and financial hardship including utilities and telecommunications.

Financial counselling services provide support to customers of financial services entities of all kinds, as well as the customers of many other industries across the economy including but not limited to: telecommunications, utilities, gambling, toll companies and government debt recovery agencies. Financial counsellors also reduce reliance on government assistance and welfare payments.

Therefore, we propose an enduring funding model that reflects the benefit that financial counselling provides across the economy, and provides long-term, guaranteed funding for financial counsellors.

Any change in the funding model should seek to expand the funding and availability of services, not substitute industry funding for government funding. For this reason, the ABA believes that industry funding should only proceed with a Government agreement to maintenance of effort. We strongly support the Government maintaining its current level of funding, as a minimum, on an indexed basis.

Financial Counselling Australia (**FCA**) is also supportive of a funding model which combines funding from government, financial services and other industries³. FCA data, while limited, shows that many industries “contribute to financial stress, refer their customers to financial counsellors and benefit when they get back on track”.

Funding model design considerations

- *Incentives* – any funding model should ensure that industry participants are incentivised to continue to assist their own customers when they are experiencing hardship and continue to improve practice in this area.
- *Proportionate funding* – The ABA proposes using a funding model that approximates the size and profile of the financial services business and the number of complaints received by the provider. This model could adopt aspects of the current funding model for the Australian Financial Complaints Authority (AFCA)⁴. This funding model includes a fixed component based on the size of each organisation and a user charge based on the number and complexity of complaints. While it is often difficult to track the source of a financial counselling client’s financial hardship, we propose that the funding could be collected in proportion to total AFCA fees – therefore using complaints as a proxy and also encouraging better industry practice.
- *Industry coverage* – As noted above, the customers of many industries benefit from the assistance of financial counselling. Therefore, we propose a broad funding model which

³ <https://financialcounsellingaustralia.org.au/Corporate/News/Financial-Counsellors-Welcome-Funding-Commitment-F>

⁴ <https://www.afca.org.au/public/download.jsp?id=7015>



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encompasses, as much as practicable, the industries which benefit the most. Continuing with our proposal above, all AFCA members should be levied for the financial services portion of industry funding – this encompasses banks, insurers, credit providers, financial advisers, debt collection agencies, superannuation trustees and others. Others are likely to be better placed to propose how funding from other industries should be calculated and levied, however Ombudsman services from other industries may have funding models

- *Assessment of need* - The banking industry agrees there is a significant unmet demand for financial counsellors however, accurate data on the size of that unmet need is not available. We propose that better data be collected to monitor the ongoing need for financial counselling services and funding be adjusted overtime to reflect that demand. The assessment should also take into account “lumpy” demand based on local economic issues or natural disasters.
- *Ramp up* - The financial counselling profession will require time to train and recruit new financial counsellors and therefore than any increase in funding should be graduated over the first 4 years to allow the industry time to ramp up to meet demand. We propose additional independent analysis to assess how quickly this increase can occur and therefore the growth path for additional funding.
- *Rolling funding* - Funding should be delivered on a rolling basis to ensure that financial counselling has the certainty to engage in appropriate planning to expand the reach of their services.
- *Governance* - the banking industry offers our commitment to providing additional funding on the basis that it is accompanied by an appropriate governance structure to oversee and report on how this funding is being used and the outcomes it is delivering.

About the ABA

With the active participation of 23 member banks in Australia, the ABA provides analysis, advice and advocacy for the banking industry and contributes to the development of public policy on banking and other financial services. The ABA works with government, regulators and other stakeholders to improve public awareness and understanding of the industry’s contribution to the economy and the community, to ensure Australia’s banking customers continue to benefit from a stable, competitive and accessible banking industry.