

16 December 2022

Mr Chris D'Souza  
Branch Manager  
Financial Wellbeing Branch  
Department of Social Services

Via [engage.DSS.gov.au portal](https://engage.DSS.gov.au)

Dear Chris

### **Financial Counselling Industry Funding Model**

Thank you for the opportunity to provide comment on the proposed Financial Counselling Industry Funding Model.

COBA is the industry association for Australia's customer owned banking institutions (mutual banks, credit unions and building societies). Collectively, our sector has over \$160 billion in assets, around 10 per cent of the household deposit market and around five million customers. Customer owned banking institutions account for around two-thirds of the total number of domestic Authorised Deposit-taking Institutions (ADIs), and deliver competition and market leading levels of customer satisfaction in the retail banking market.

By assets, our entire sector is much smaller than any of the major banks and even our largest member is less than two per cent of the largest major bank. Our members are all regulated by APRA as Authorised Deposit-taking Institutions (ADIs). All COBA members are AFCA members. Our members predominately provide retail banking services. They focus on offering traditional retail banking services like deposit accounts, home loans, credit cards and personal loans.

### **Customer owned banking point of difference**

Our point of difference is our ownership model – our customers are also the owners of our institutions. This model removes the motive to undertake the 'profit before people' behaviour examined in the recent Banking Royal Commission. Our customers and owners are the same – we are mutually owned. Our model better aligns the incentives of customers and their bank and reduces the risk that the bank's purpose will create demand for financial counselling services. This supports our sector's status as a different subsector to listed banks.

### **Key points**

- We support the proposed industry funding approach, including the carve out provision for sectors using less than three percent of financial counselling time.
- A mandatory contribution is appropriate if funds weren't raised using the voluntary mechanism.
- The model must avoid double levying where a business is part of multiple peak bodies.
- The model should make emergent problem sectors contribute before 'broadening the base'.
- The model should ensure data collected correctly identifies the correct banks for sector allocation.

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- Given the changing structure of the customer owned banking sector, COBA would like to provide input to the contribution model should the sector meet the requisite threshold.

### **General comments**

COBA strongly supports the broad proposal to fund additional financial counselling services through a voluntary contribution model on subsectors that utilise more than three per cent of financial counsellor time.

We recognise that this means our sector will not currently be levied to contribute funding as we sit below the requisite threshold, and appreciate the recognition of the customer owned model as one that inherently looks after its customer.

It is entirely appropriate that sectors who are contributing to the demand for financial counselling are responsible for providing financial support. Should there be any failure of identified subsectors to provide the voluntary contribution allocated, we would prefer to see that become mandatory rather than broaden the base of the voluntary contribution to raise additional funds. Expanding the base is unlikely to make a significant impact compared to a mandatory contribution in above threshold sectors.

The funding model should be sufficiently flexible to accommodate changes in evolving markets, such as new products and services that are contributing to consumer distress for whatever reason, including non-application of responsible lending obligations. Identifying businesses driving demand and ensuring they contribute accordingly will be critical to ensuring the sustainability of the model.

The collection of data should include clear guidance for participating financial counsellors about the scope of the customer owned banking sector, to ensure that banks that are not customer owned banks are incorrectly categorised.

Customer owned banks traditionally support local communities. Should this subsector be subject to a contribution in the future, members have expressed a preference that they are able to continue prioritising support for their local member communities. The independent funding body should have the ability to facilitate this outcome.

### **Existing support for financial counselling sector**

Customer owned banks recognise and support the critically important work undertaken by financial counsellors to help people gain control of their financial situation. Our sector works constructively with financial counsellors by inviting financial counselling representatives to participate in our key consumer stakeholder group, the Consumer Representatives Forum. We have ongoing liaison with the peak body Financial Counselling Australia on matters of shared interest. We also meet and provide information to local agencies on any matter requested, and actively raise awareness of our sector with financial counsellors by attending and exhibiting at the annual FCA conference.

Giving back to the communities we work in is strongly embedded in the ethos of the customer owned banking sector, and some COBA members already choose to support local financial counselling services.

Great Southern Bank (GSB), for example, funds a specialist financial counsellor at Micah Projects Brisbane Domestic Violence Service as part of its broader Financial Inclusion Action Plan work. They also support Care Ring, a program by Kildonan Uniting Care, whereby GSB refers customers for help them with a range of support including financial counselling, which in turn gives the customer help with related housing, psychosocial, parenting, and family violence matters.

It is not just the larger members who already work with financial counsellors. Coastline Credit Union, for example, has a referral partnership with Kempsey Neighbourhood Centre and Mid North Coast Financial Counselling Service to further support their customers experiencing vulnerable circumstances.

The customer owned model means that our institutions need to proactively manage members experiencing financial difficulty. This close interest in the financial wellbeing of our members through

life's ups and downs means, and the uniquely close relationship to customers, means customer owned banks are often able to assist people to get back on track quickly.

## **Response to questions posed in the consultation paper**

### *Principles to develop the funding model*

COBA broadly agrees that industry funding to address unmet demand in a predictable and stable way is beneficial. It is important that government funding continues to be the primary funding mechanism for financial counselling services. The funding body should also be aware that some institutions may be members of multiple peak bodies. At least one COBA member (who is a customer owned bank) is also a member of the Australian Banking Association. Safeguards should ensure that a contribution commitment for an entity is issued by only one peak.

### *Calculating within subsector contributions*

COBA's membership is incredibly diverse, with members ranging from over \$16 billion in assets to \$22 million in assets, with a large group of smaller members.

We believe it is more appropriate to use the ASIC Cost Recovery methodologies (Option 2) as this is more granular and equitable than the AFCA size categories. The use of the AFCA size categories (Option 1) may lead to entities paying the same contribution despite being at different ends in terms of size in each category.

We would anticipate that the two-year review could provide insights into the impact on different-sized businesses who are levied, and that will provide valuable guidance on the most equitable way to apportion the contributions.

Given recent changes to our sector, including the current mergers underway of four of our largest members in two, we would need to consider the contemporaneous structure of the sector, should the customer owned banking subsector meet the preconditions to be levied.

### *Securing commitments*

We agree broadly that three years is an appropriate initial industry funding model period, with a review at two years. If our sector was subject to the contribution, we would find it administratively difficult to get to a commitment as an industry association with 58 members. Our view that the pursuit of voluntary commitments should be done by the independent body who is better resourced to both seek commitments and provide information on the impact of the voluntary funding.

While our sector is not subject to these voluntary contributions, COBA members would be interested in understanding how additional funding provided to financial counselling would be treated. A COBA member highlights the potential, for example, of further support to the financial counselling industry by sponsoring the training and development of an agreed number of financial counsellors.

### *Evaluation*

This should consider whether complaints to AFCA have been impacted by the funding model. Funding for financial counselling should not detract from business funding of dispute resolution within a business. An evaluation of consumer outcomes should also form part of the evaluation process.

Thank you again for the opportunity to provide input. COBA is committed to supporting the introduction of an efficient, adequately resourced independent funding body that provides quality financial counselling services for consumers in a timely way.

If you wish to discuss any aspect of this submission, please contact Sarah Wilson ([swilson@coba.asn.au](mailto:swilson@coba.asn.au)).

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Michael Lawrence', with a stylized flourish at the end.

**MICHAEL LAWRENCE**  
Chief Executive Officer