19 December 2022

Mr Chris D’Souza
Branch Manager
Department of Social Services
Via email: FCR@dss.gov.au

Dear Mr D’Souza

Financial Counselling Industry Funding Model

The Australian Banking Association (**ABA**) welcomes the opportunity to provide this submission on the Financial Counselling Industry Funding Model Discussion Paper (**the discussion paper**).

ABA members strongly support the valuable service financial counsellors provide to people in need. Financial counsellors provide free and independent support, advocacy and practical assistance for consumers 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 are 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.

Our position

We recognise there is a clear need for stable funding for financial counselling services nationally. The ABA supports the establishment of an enduring mandatory funding model, based on a minimum contribution by Government and proportional contributions from industry participants, including from the online gambling sector. The contributions should be supported by robust data that demonstrates the unmet need under current funding structures and reflects the underlying drivers of financial hardship managed by financial counselling clients. There should also be a periodic review mechanism in place to ensure that Government contributions are maintained, the model meets the needs of the community, and that industry funding is equitable.

Our strong preference is that the funding model is mandatory. However, in the interim, the ABA has outlined several recommendations to improve the function and design of the proposed voluntary model. Our support for the voluntary model, as a transactional approach, is contingent on these recommendations being met.

Recommendations

The design of the interim voluntary industry funding model should be adjusted as follows:

- The Government must outline how it plans to address any residual unmet funding gap. We seek a commitment that the banking sector will not be asked to ‘top up’ any voluntary contributions that were sought but not obtained from other sub-sectors or industries.
- The funding body must be able to accept funding from Federal and State Governments for financial counselling. Government should commit to maintenance of the current funding level provided by the Department of Social Services (**DSS**) of $44 million per annum in real terms and transfer this funding to the body for distribution.
- The Government should re-calculate the contribution of various sectors using an adjusted methodology that includes a proxy for the relative level of financial stress caused by various industries and estimates unmet demand over a longer period.
- In the absence of revised modelling, the Government must seek a contribution from the online gambling sector. Note, a recent Financial Counselling Australia survey identified that 13 percent of

financial counselling agencies were unable to assist clients impacted by gambling.[1] The contributions from other industries should be accordingly adjusted downwards.

- A review of the industry funding model must occur after two years to evaluate the performance of the funding model against the six principles proposed by the Sylvan review. This review must be conducted by an independent panel in consultation with the funding body, industry, Government, and financial counselling stakeholders. The funding body must be required to keep detailed data on the collection, distribution and performance of financial counselling funding to support this review.
- There must be a formal mechanism to sunset the voluntary interim model after three years, with a clear plan on how this will be managed with the financial counselling industry.
- A suitable methodology for determining individual firm contributions within the banking sector would be to use a simple size metric collected by APRA (i.e. 'total resident assets'). Firms should be excluded that (1) do not have a significant consumer retail footprint in Australia, or (2) will make their primary contribution through another industry association.
- The funding body should be set up as a not-for-profit company limited by guarantee that can receive and distribute contributions and seek Deductible Gift Recipient status. The board would include an independent chair and fixed-term appointments with equal representation between members with specific skills and knowledge of the community sector and industry representatives.

We have provided further feedback on key elements of the discussion paper in **Appendix A**.

Summary of existing initiatives

Australian banks recognise and value the work that financial counsellors undertake for our community. The ABA has been working closely with the Government and financial counsellors to progress a longer-term funding solution for the financial counselling sector as an Advisory Group member.

The banking industry already provides significant support to financial counselling in several ways including direct funding and scholarships to provide for and train financial counsellors. Many Australian banks partner with financial counselling organisations, including Financial Counselling Australia, to train frontline bank staff and contractors in providing referrals so that bank customers can provide targeted and timely assistance before their circumstances get worse. In 2018, the ABA and its members provided $4 million of seed funding to establish Way Forward Debt Solutions[2], a debt consolidation service which helps customers who are struggling with multiple debts.

It is expected that voluntary funding for some of these initiatives will be redirected towards the funding model once it has commenced. The intent of the funding model is to provide long-term, equitable and sufficient funding for the sector so that a patchwork of grant funding provided by individual businesses is no longer required.

Next steps

The ABA looks forward to continuing to work with the financial counselling profession and the Government to develop a model with long-term funding certainty for financial counselling, at a level that objectively meets the needs of the community and reflects the underlying drivers of need. We will be pleased to provide further information or meet with you to discuss the detail of our submission.

Yours sincerely,

Amanda Pullinger
Head of Customer Policy

[1] Financial Counselling Australia, *The explosion of gambling harm and the need for urgent training for financial counsellors*, May 2022, p 8.
[2] https://wayforward.org.au/

Australian Banking Association

About the ABA

The Australian Banking Association advocates for a strong, competitive and innovative banking industry that delivers excellent and equitable outcomes for customers. We promote and encourage policies that improve banking services for all Australians, through advocacy, research, policy expertise and thought leadership.

Australian Banking Association

Appendix A: Detailed feedback on the model

The ABA is supportive of the six principles proposed by the Sylvan Review to guide the development of the industry funding model:

1. Industry funding helps to address unmet demand and improves the predictability and stability of funding for financial counselling services.
2. Industry funding provides an additional funding stream to current funding sources.
3. Industries that contribute to the demand for, and benefit from, financial counselling, contribute to the funding of the services.
4. Quantum and split of suggested industry contributions are determined on a fair and transparent basis.
5. The model contributes to improved coordination, innovation and capability building and enhanced service delivery across the financial counselling sector.
6. The operation and effectiveness of the model is supported by robust data and evidence collection and analysis.

We have made a several recommendations aimed at improving alignment of the model design to the six principles.

1. Industry funding helps to address unmet demand and improves the predictability and stability of funding for financial counselling services.

The ABA supports a mandatory industry funding model that is based on a fixed contribution by Government and equitable contributions from all industry participants that contribute to the demand for, and benefit from, financial counselling services. We consider that a mandatory model would have the best chance of creating a sufficient, predictable, and stable funding pool for financial counselling services in Australia.

While we support a mandatory funding model, the interim voluntary approach proposed by DSS may provide a suitable pathway to achieve this. The ABA is concerned, however, that the voluntary nature of the model may result in a funding shortfall. We require the Government to outline how it plans to address any residual unmet funding gap if this occurs. In particular, the ABA seeks comfort that the banking sector will not be asked to 'top up' any voluntary contributions that were sought but not obtained from other sub-sectors or industries.

2. Industry funding provides an additional funding stream to current sources

It is vital that the industry funding model seeks to help meet unmet demand for frontline financial counselling services not substitute for existing sources of funding. Moreover, the Government must continue to be the primary funder of financial counselling services into the future. This is because financial counsellors provide a vital public service; they help 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.

For this reason, the Government should agree to:

- maintaining current funding, as a minimum, on an indexed basis (as recommended by the Sylvan review)[3]; and
- distributing federal funding for financial counselling to the industry funding body.

The funding body must be able to accept funding from Federal and State Governments for financial counselling. Combining government and industry contributions into a single governance body will allow

[3] Recommendation 2A, *The Countervailing Power: Review of the coordination and funding for financial counselling services across Australia*, March 2019, p vi.

for better and more efficient distribution of funding to the financial counselling sector. It will also mean that the body has funding stability, which is particularly important given that the industry model proposed is voluntary in nature.

3. Industries that contribute to the demand for, and benefit from, financial counselling, contribute to the funding of the services

Robust data is vital to ensure that the stakeholders who create the demand for, and use of, financial counselling services contribute to its maintenance. The model must be designed to ensure that voluntarily contributing businesses do not disproportionately bear the burden of financing the model against non-contributing businesses, who could have practices that increase the need for the funding. Additionally, the methodology of the model must be credible and reliable to avoid dis-incentivising businesses from contributing.

The ABA is of the view that the methodology used by the DSS to apportion costs across various sectors is not robust and we are concerned that it cannot be relied upon given its limitations. The quantum of funding required to address unmet demand for financial counselling services was derived using the results of a 2021 survey undertaken over a two-week period by financial counselling agencies. The two main limitations posed by the survey methodology include that:

A. The survey was not designed to measure the underlying reasons for why clients have sought financial counselling, nor the impact of various sectors, subsectors and firms on the level of financial distress experienced by clients.

The Sylvan Review noted problem gambling can drive demand for financial counselling services, but debts to a gambling organisation is not the debt an individual seeks assistance with when receiving help from a financial counsellor. By classifying unmet demand by the primary type of debt, DSS' contributions methodology severely underestimates the underlying contribution that gambling can make to a person's financial distress.

Indeed, the current methodology reports that gambling is estimated to contribute 0.35 per cent of the total demand for financial counselling services. In contrast, a competing recent survey by Financial Counselling Australia found that approximately 13 percent of financial counselling agencies were unable to assist clients impacted by gambling.[4] It also found 46 per cent of financial counselling agencies currently do not receive specific funding for gambling work but nevertheless try to help their clients impacted by gambling.

Financial counsellors have reported that the rapid growth of gambling has resulted in increasing numbers of people affected by gambling harm, experiencing multifaceted problems. Helping these clients is more complex than working with clients not affected by gambling. It involves responding to addictive behaviour, potential suicidality, high debt levels and many other co-occurring problems.

B. The survey was conducted over a very short period of two weeks and is unlikely to represent average annual demand for certain 'seasonal' industries.

To resolve the above issues, the Government should re-calculate the apportionment of unmet demand across the various sectors using an adjusted methodology. This methodology should attempt to estimate unmet demand over a longer period and include a proxy for the relative level of financial stress caused by various sectors. A potential proxy could include sending surveys to financial counsellors that ask them to rank the various contributors to their clients' financial distress.

In the absence of revised modelling, the Government must seek a contribution from the online gambling sector, with adjusted contributions from financial services, energy, telecommunications and water. If the Government is not able to secure the voluntary contribution from the online gambling sector, we reiterate that the banking industry will not 'top up' that amount.

[4] Financial Counselling Australia, *The explosion of gambling harm and the need for urgent training for financial counsellors*, May 2022, p 8.

4. Quantum and split of suggested industry contributions are determined on a fair and transparent basis

DSS has proposed that the ABA coordinate the commitment of banking contributions to financial counselling for the first three years (2023-24 to 2025-26). One of the proposed methods for determining contributions from individual firms was to use a methodology similar to the fixed component of the AFCA levy. Another proposal was to use the ASIC cost recovery implementation statement (**CRIS**).

In our response to the Sylvan review, the ABA previously supported using the AFCA methodology. However, in July 2022, AFCA changed its levy calculation to remove the fixed component calculation and rely instead on the volume of complaints that each firm receives each year. The ABA is of the view that this metric is no longer fit for purpose, as it is potentially too volatile and no longer provides a proxy for firm size.

A better method to determine individual contribution amounts from firms within the banking sector is to use a simple size metric collected by APRA (i.e., 'total resident assets'). This methodology provides a proxy for a firm's relative retail banking footprint in Australia and capacity to pay. Before applying this methodology, firms should be excluded that (1) do not have a significant consumer retail footprint in Australia, or (2) have provided their primary contribution to financial counselling services through another industry association (e.g., through the Insurance Council if they are primarily an insurance business).

5. The model contributes to improved coordination, innovation and capability building and enhanced service delivery across the financial counselling sector.

The ABA supports a funding body set up as a not-for-profit company limited by guarantee that can receive and distribute contributions and seek Deductible Gift Recipient status, with a board composition similar to AFCA. This would include an independent chair, fixed-term appointments with equal representation between members with specific skills and knowledge of the community sector and industry representatives on the board. In our experience, this type of board works well for a smaller organisation. For example, it has been successfully implemented for Way Forward Debt Solutions, a debt consolidation firm of which the ABA was a founding contributor.

6. The operation and effectiveness of the model is supported by robust data and evidence collection and analysis.

DSS has proposed that an evaluation of the industry funding model would occur after two years of the model operating. The ABA suggests that the proposed voluntary funding model should be designed to expire after three years, with the review providing recommendations on whether the model should continue or be replaced by an alternative mandatory funding structure.

This review should be conducted by an independent panel, in consultation with the funding body, industry, Government and financial counsellor stakeholders. The review should evaluate the performance of the funding model against the six principles proposed by the Sylvan review and make recommendations to improve its alignment against the principles.

To assist with this review, the funding body should keep and share detailed data on the collection, distribution and performance of financial counselling funding. This should include data on:

- allocation of industry and government funding by jurisdiction and financial counselling agency;
- key performance indicators for the sector, including staff numbers and retention; and
- split on allocation to frontline versus other services.

In addition, further data should be collected on the underlying drivers of the need for financial counselling services, including changes in these drivers over time. This data should be used to inform the evaluation, including any findings on sectors that have contributed to the demand for financial counselling services but have not provided sufficient funding.