Insurance Council
of Australia

16 December 2022

Attention: Mary Hodge
Director
Financial Counselling Review
Financial Wellbeing Branch
Department of Social Services
GPO Box 9820
Canberra ACT 2601

Sent by email to:

cc: FCR@dss.gov.au

Dear Mary,

DEPARTMENT OF SOCIAL SERVICES – FINANCIAL COUNSELLING INDUSTRY FUNDING MODEL

Thank you for the opportunity for the Insurance Council of Australia (Insurance Council) and its members to comment on the Department of Social Services' Discussion Paper *Financial Counselling Industry Funding Model (November 2022)*[1].

We acknowledge the significant role of financial counsellors in supporting Australians who may be experiencing financial difficulty in the broader financial economy. This was identified by Commissioner Hayne in his findings to the Financial Services Royal Commission (FSRC)[2].

Our members recognise that individuals seeking financial counselling assistance may also be experiencing vulnerability, for example, whether because they are experiencing financial hardship or due to being a survivor of family and domestic violence.

As can be seen by the commitments in our updated 2020 General Insurance Code of Practice[3], from 1 January 2021 a new Part 9 *Supporting Customers Experiencing Vulnerability* and updated Part 10 *Financial Hardship* were introduced. We highlight our members' commitments in Parts 9 and 10 of the 2020 Code to refer, where appropriate, customers who may be experiencing financial difficulty to a financial counsellor through the National Debt Helpline[4]. In support of these Code commitments, our members may have established referral pathways to financial counsellors and/or may already make voluntarily contributions to support financial counselling services through charitable donations.

We appreciate the considerable background work that has gone into the Discussion Paper, as well as the opportunity for the Insurance Council to be involved in ongoing discussions with the Department since December 2020. However, we recognise that the costs and resourcing associated with establishment and administration of the voluntary scheme[5] are relatively high when compared against the overall amount of funding sought by the scheme. We suggest there be some further consideration

[1] Department of Social Services, Discussion Paper *Financial Counselling Industry Funding Model (November 2022)*
[2] Final Report *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Volume 1)*, pages 409-493.
[3] 2020 General Insurance Code of Practice
[4] As above for note 3, paragraphs 99 and 111(b).
[5] Up to $4.3 million comprising $2.8 million from the private sector for the first three years and $1.5 million from Government, if unlocked when commitment for 70% of private sector funding is reached: As above for note 1, Discussion Paper, pages 4, 10 and 20.

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towards a scheme with lower establishment and administration costs so maximum funds can be utilised for front-line financial counselling purposes.

We note the Department's preference for establishing a voluntary cross-sector scheme as a starting point, and that a mandatory scheme would only be legislated if cross-sector agreement is unable to be reached. We remain of the view that the greatest certainty in the long term, for both financial counselling services and for industries asked to co-fund those services, would be achieved through a mandatory scheme.

We also note the findings of a recent survey of financial counsellors which highlight the consumer impacts of online gambling, and the urgent need for specialist training of financial counsellors to better support the more complex needs of clients with gambling issues[6]. This survey suggests that the gambling sector should be approached to contribute at a higher level than suggested by the Department, with sector contributions to be adjusted accordingly.

We provide our detailed feedback on the proposed design features of the funding model and independent body in the ***Attachment*** to this letter.

We recognise the challenges many Australians are currently experiencing, with cost-of-living pressures, inflation and low wage growth potentially contributing to financial difficulty. Specifically, for the general insurance industry, the Department's proposed voluntary funding levy comes at a time when our members are embedding the implementation of a significant program of FSRC regulatory reforms introduced last year, with the implementation of further FSRC reforms in progress or imminent. Like many financial counsellors, our members are also focused on responding to the resilience and recovery of the many customers and communities impacted by recent extreme weather events, and this continues in an operating environment of resourcing and supply chain issues flowing from the COVID-19 pandemic. These factors continue to contribute to a challenging operating environment which saw the insurance bill for storms and floods since January 2020 top $12.3 billion with nearly 800,000 claims being lodged.

We look forward to hearing further about the possible design of the model ahead of the anticipated start date in July 2023, once the Department has had a chance to consider all feedback received.

If you have any queries about this submission, please feel free to contact Fiona Cameron, General Manager Policy – Consumer Outcomes at fcameron@insurancecouncil.com.au or 0400 124 746.

Yours sincerely

Andrew Hall
Executive Director and CEO

[6] FCA, The explosion of gambling harm and the need for urgent training for financial counsellors (May 2022)

ATTACHMENT: INSURANCE COUNCIL OF AUSTRALIA DETAILED FEEDBACK TO THE DEPARTMENT OF SOCIAL SERVICES – FINANCIAL COUNSELLING INDUSTRY FUNDING MODEL

1. The proposed design of the industry co-funding model

1.1 *The proposed principles for developing the industry co-funding model*

The Discussion Paper at page 6, suggests six principles to guide the development of an industry co-funding model.

We generally support the principles and suggest some refinement to give enhanced guidance to inform the design, and also possibly gauge the success, of the proposed funding model.

For proposed principle 2 '*Industries that contribute to the demand for, and benefit from, financial counselling, contribute to the funding of the services',* we highlight that the 'benefits' of financial counselling might be realised more broadly and have impact beyond any one particular industry sector, especially if an individual's resilience, well-being and financial capability improves through their experience in receiving financial counselling support. As proposed principle 3 '*Quantum and split of suggested industry contributions are determined on a fair and transparent basis*' appears to narrow the focus of proposed principle 2, we query the need for proposed principle 2.

Further, in addition to *fairness* and *transparency* to guide the development of a sustainable source of funding for financial counselling services, we would also like to see principles of *equality*, *predictability* and *stability* acknowledged and reflected in the design model. The detail of the design methodology that will ultimately determine the contribution of our sector, and within that, the contributions of individual general insurers, will be crucial to an outcome that provides equality, predictability and stability. For example, if some sectors do not agree to participate or withdraw participation, giving rise to a shortfall in a particular sector's contribution and the overall funding pool, contributions from other participating sectors should not increase. This would reflect the principles of fairness, predictability and stability.

1.2 *How industry co-funding contributions will be spent*

The Discussion Paper outlines at page 11, how overall industry funding co-contributions might be spent: 92% for service delivery paid directly to financial counselling organisations; 5% for the independent body's operating costs; and 3% for innovation and capability building within the sector.

We appreciate the independent body may develop funding usage guidelines for recipient financial counselling organisations and respond to the sector's queries so there is a shared and consistent understanding of the 'core approved purposes' for which funding may be directed.

We would be interested in hearing possible examples to illustrate what the Department has in mind for the 3% of overall industry funds ($0.5 million) which would be devoted towards innovation and capability building. In principle, there could be merit to industry funds being used to fund activities beyond front line services such as capability building that can enhance the efficiency of services, subject to clear reporting requirements to measure the effectiveness of the services being provided.

1.3 *The proposed funding contribution for the general insurance sector*

In principle, the Insurance Council and its members are comfortable the projected percentage contribution satisfactorily represents time spent on general insurance, as set out in Table 3 of the Discussion Paper. We understand the methodology on which these three-year projections are based is intended to be an evidence-based starting point, and that over time the evidence base may become more precise as more sophisticated methods of calculation are developed.

We appreciate the Department's willingness to offer some predictability to the financial counselling and private sector by projecting funding needs over an initial three-year period.

1.4 *The role of the Insurance Council in coordinating general insurer's commitments and calculating the sub-sector split for general insurers*

Once the Department is able to confirm whether the voluntary funding model approach is proceeding and the overall contributions sought from each sector, subject to further discussion with our members, the Insurance Council could consider support by way of coordinating, at the start-up phase, the calculation of each contributing general insurer who is a member of the Insurance Council and communicating this so the general insurer may consider payment directly to the independent body with deductible gift recipient status (see ***below*** our comments at 2.1).

The Insurance Council could adopt a calculation methodology that would be broadly reflective of each general insurer's footprint in the retail insurance market (i.e. proposed method 3).

We prefer this method of calculation over the other calculation methods mentioned in the Discussion Paper. The size categories used by AFCA are no longer a feature of AFCA's funding model following its recent funding model review[7], and ASIC's Cost Recovery Implementation Statement is aimed at cost recovery by a regulator, who may cost recover more from a particular financial firm if they generate more monitoring, compliance and enforcement activities for ASIC.

We highlight that many of our members are ASX-listed companies who have operating rhythms involving a 12-month annual budgetary cycle to forecast how they will meet their projected financial expenses and undertake special fundraising activities as needed, with some members' budgetary cycle following a financial year and others' following a calendar year. Our members who operate within a financial year advise that they would have already set their budgets by February to March 2023 for a 1 July 2023 start, while those who operate within a calendar year, would have already set their 2023 budgets by August to September 2022. It may be the case that the timing of the Department's confirmation and when this occurs in the budgetary cycle for a general insurer may be relevant to the general insurer's ability to make preparations to voluntarily contribute a payment.

As each general insurer's funding would be provided on a voluntary basis, the Insurance Council would need to consult with its members as to whether it could provide a general written commitment for the general insurance industry to participate in the scheme. Ultimately, as each general insurer would fulfil making their own individual payment, the Insurance Council's commitment would not be able to be taken as a form of written guarantee of payment.

Our members appreciate that as the funding model is voluntary, standard processes of receiving an invoice would not be available.

We note the Discussion Paper at pages 20-21 indicates that in the event an industry association is unable to provide a formal commitment to the proposed three-year co-funding model in the manner proposed by the Department, the Department could directly seek formal commitments from the largest (top 3-4) businesses in a sub-sector. We suggest this approach might put a disproportionate responsibility on the leading firms in each sector to ensure the model's success, challenging the design principles of *fairness* and *equality*.

1.5 *Whether small businesses should be excluded from the financial services sector for the purposes of contributing to the co-funding model*

We recognise this consideration might be more relevant to other industry sectors where small businesses might provide products and services, and it might be beneficial for the co-funding

[7] AFCA funding model

model to adopt a consistent approach through a definition of 'small business', especially if small businesses are not meant to be captured by the scheme for administrative efficiency.

Our members are companies that are licensed by APRA under section 12 of *the Insurance Act 1973 (Cth)* to conduct a general insurance business in Australia, as well as licensed by ASIC under section 912A *Corporations Act 2001 (Cth)*.

1.6 *Future-proofing and administrative expediency for the independent body to take over*

Our members highlight the need for futureproofing so it is administratively expedient for the independent body to take over calculating the general insurance sub-sector split from an industry association.

We identify there might be challenges in transitioning for the independent body, who may need to be able to access the data sets informing, for example, the footprint of general insurers in the retail insurance market to be able to calculate and communicate the subsector split for general insurers on a year-on-year basis.

Given the commercial in-confidence nature of this data set, it may be desirable for the independent body to have clear data handling and management governance practices and procedures, as well as well as sufficient IT and cybersecurity measures in place.

1.7 *Review mechanism*

The Insurance Council supports the survey being reviewed at the second year of the proposed industry co-funding model to inform year 4 of the proposed co-funding model.

2. The design of the independent body

2.1 *The proposed characteristics of the independent body*

The Insurance Council and its members support an independent body that could coordinate and distribute funding it receives for financial counselling services.

We consider the independent body who would accept and release the funds would need to be a company limited by guarantee, registered as a charity and having deductible gift recipient (DGR) status as a public benevolent institution (PBI) with the ACNC and ATO.

For administrative expediency, we would expect the independent body would also need to be able to receive funding from Federal, State and Territory Governments and coordinate the distribution of funding that is pooled with private sector funding contributions.

We note the Government has committed to $1.5 million in 2022-2023 for one-off seed funding to establish the independent body, and that its operating costs are estimated to range between $0.7 million to $1 million from 2023-2024. We further note that the Discussion Paper at page 20 indicates this one-off seed funding would not be activated until at least 70% of private sector co-funding contributions are committed. We are interested in better understanding what this would mean for the future of the co-funding model if the seed-funding is unable to be unlocked.

2.2 *The independent body's possible governance structure*

We support the independent body having an AFCA-like Board comprising of an Independent Chair and representatives from industry's contributing partners, as well as the financial counselling sector.

3. Evaluation

A monitoring and evaluation framework will be important when assessing whether industry co-funding contributions have met the objective of meeting the unmet demand by ensuring all customers who seek financial counselling assistance are able to access financial counselling support within 2 weeks.

It could also be desirable to assess and measure the true value of financial counselling assistance, including whether clients who receive financial counselling assistance have been able to develop their financial capability and resilience such that they do not experience financial difficulty again.

4. Data improvements

The Insurance Council and its members would welcome accompanying data improvements and management to inform the future design of the financial counsellor co-funding model.