

Financial System Inquiry

Draft Terms of Reference

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**Re: Submission to Financial System Inquiry Draft Terms of Reference**

Thank you for the opportunity to participate in the Financial System Inquiry. RMIT researchers have had considerable experience in studying the Australian financial system, particularly the sociology of banking and money, and the design, measurement and evaluation of financial capability programs for disadvantaged Australians. We would like to make the following recommendations, in regard to the Draft Terms of Reference released for this Inquiry:

Objectives: We suggest that the Australian financial system should aim to be efficient, competitive, flexible and ‘*inclusive*’, in order to best promote financial stability, prudence, integrity and fairness.

Section 1: It is pleasing to note that the Inquiry will trace *developments* in the Australian financial system since the last Inquiry (1997), particularly the impact of the global financial crisis. Could we suggest a specific emphasis on the growing problem of *financial exclusion* in Australia, which already impacts **17.7%** (The Centre for Social Impact for NAB 2013) of the adult population?

Financially excluded Australians are unable to access safe, affordable and appropriate financial products and services, which restricts their ability to fully participate in the financial system. This exacerbates other forms of disadvantage such as social exclusion, limited health and lifestyle (particularly mental health) options, education and employment outcomes, and compromises their potential to contribute to economic outcomes and enhance productivity.

Section 1.2: A review of *domestic competition* should include both the mainstream and alternative sectors i.e. consider the rapidly growing provision of financial products and services via alternative sources such as payday lenders, pawnbrokers and other informal providers. It is important to consider the size of this alternate, informal market vis-à-vis the mainstream, as this may reveal a growing unmet demand for smaller-value, shorter-term financial products and services, which the mainstream may not be adequately providing for.

Section 1.3: In addition to examining the current cost, quality, safety and availability of financial products and services, it would be useful to also review the *access to*, and *usage of*, these products and services, across different segments of the community. In particular, it would be useful to consider differences in geography (eg. remote, regional/rural vs. urban communities) and socio-economic status, as our research suggests these factors cause significant variances in access and usage.

Section 2.1: *Consumer* protection is an essential component of a health financial ecosystem, and the Government, in particular the Australian Securities and Investments Commission (ASIC) has an important role to play in promoting the financial well-being of all Australians. We recommend this Inquiry places a specific focus on segments of the Australian population which research has identified as *disproportionately vulnerable* to financial exclusion i.e. Indigenous people, the young, people from non-English speaking backgrounds, and women, particularly those with lower socio-economic status.

The financially excluded often need targeted assistance as they may also experience lower financial capability and resilience, making them more vulnerable to income shocks. Mainstream financial service providers often lack information on such consumers, making it harder to assess their risk and credit-worthiness. The cost of service provision also means that mainstream providers may not offer smaller-value, shorter-term products which are better suited to the needs of these consumers, leaving them reliant on informal providers.

Section 3.1: *Technology* has rapidly emerged as a key enabler of financial inclusion in the developing world – it would be useful for this Inquiry to consider how such innovation can be applied to meet the needs of disadvantaged Australians, particularly those with limited physical access to financial and digital infrastructure (eg. remote Indigenous communities). Moreover, as already mentioned, growing financial exclusion is a particular challenge for Australia’s financial sector, and should be acknowledged in this Inquiry.

Section 4.3: *Financial Capability* i.e. the ability to make informed decisions regarding money and achieve financial well-being, requires more than merely increasing the users’ understanding of risks and rewards associated with financial decision-making.

Whilst such knowledge and education is doubtless important, the development of financial capability must also encompass financial awareness, skills, attitudes and behaviours, as well as opportunities to access financial products and services. This expanded focus will allow the Inquiry to straddle issues related to both the demand side (i.e. user focus) and supply side (i.e. provide focus) of financial exclusion, in order to truly enhance financial capability of Australians and inform evidence-based policies.

We trust these research insights will assist your efforts to review and enhance Australia's financial system. We welcome the opportunity to participate in further consultation, should you require any further information or clarification.

Yours sincerely,

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