

Head of Secretariat
Financial System Inquiry
The Treasury
Parkes
ACT 2600

5 December 2013

SUBMISSION REGARDING THE DRAFT TERMS OF REFERENCE FOR THE FINANCIAL SYSTEM INQUIRY

UnitingCare Australia welcomes the opportunity to comment on the draft Terms of Reference for the Financial System Inquiry. Our submission recommends the adoption of a whole-of-system approach that sees Not-for-profit (NFP) social services providers as core participants and seeks to ensure Australia's financial system specifically meets the needs of people on low or unreliable incomes.

UnitingCare Australia is the Uniting Church's national body supporting community services and advocacy for children, young people, families, people with disabilities and older people. The UnitingCare network is one of Australia's largest social services providers and is a trusted and strong contributor to the social and economic fabric of our nation. The network employs 35,000 staff, supported by 24,000 volunteers, providing services to more than 2 million people each year in 1,300 sites in every state and territory in remote, regional, rural, and urban Australia.

The guiding principles of UnitingCare Australia's work are that all people have:

- intrinsic value;
- physical, spiritual and social needs;
- a just claim to be heard;
- the right to participate in community as fully as they wish and are able; and,
- the right to opportunities that will enhance their life chances and quality of life.

UnitingCare Australia therefore supports moves to address the fairness and efficiency of Australia's financial system in relation to the outcomes that we seek: a fair and just society which enables all people to participate as fully as they wish and are able and respects the dignity of all people at all stages of life.

Financial literacy and accessibility are important building blocks for full participation. In addition to the focus on a client's ability to repay, steps need to be taken to ensure consumers understand the conditions of a product. For example, financial distress caused by payday lending debt and multiple credit/store card debt is a common theme for low-income clients.

Much has changed since the time of the Wallis and Campbell inquiries and in the interim the "system" has grown to encompass Australia's \$1.3 trillion mortgage market, the \$1.6 trillion pool of superannuation

savings and a plethora of medium-sized and micro players, and the emergence of need on the part of vulnerable and disadvantaged consumers, particularly for financial counselling.

One constant remains: the interests of consumers, particularly vulnerable consumers, should be paramount in any inquiry into Australia's financial system. In addition to the focus on a client's ability to repay, steps need to be taken to ensure consumers understand the conditions of a product. For example, financial distress caused by payday lending debt and multiple credit/store card debt is a common theme for low-income clients.

Many Australians enjoy a decent life with access to a wide range of goods, services and infrastructure. However, pockets of social disadvantage persist, despite best efforts by successive governments. Vulnerable and disadvantaged families and individuals are missing out, and that includes lack of access to safe, affordable financial products and services. For example, our coalface experience shows that disadvantaged communities are identifiable by the number of payday lending facilities visible in an area and the lack of other banking services.

Agencies within the UnitingCare network have successfully partnered with financial services companies, including banks and debt collection agencies, to improve accessibility, affordability and quality of services. During the global financial crisis, community agencies including Kildonan UnitingCare worked with creditors and those impacted by redundancy, loan default, bankruptcy and foreclosure to ensure families were not left homeless and without support – an example of the whole-of-system approach in action.

Recommendations

1. UnitingCare Australia recommends that the Inquiry reflect in the final Terms of Reference the need to take a whole-of-system approach, in recognition of Australia's mixed economy where the key players include NFPs, the public sector and business.
2. Within a whole-of-system analysis, UnitingCare Australia urges the Inquiry to consider that the needs and priorities of the community and banking sectors can align, rather than conflict, in a manner that will "foster an efficient, competitive and flexible financial system, consistent with financial stability, prudence, integrity and fairness" as required by the Inquiry's draft ToR.
3. UnitingCare Australia recommends that the draft ToR be amended to specifically include consideration of the role financial services play in directly enabling economic mobility for people on low incomes and the role this plays in driving equitable and sustainable economic growth, whole-of-system productivity gains, and fair and inclusive communities.
4. UnitingCare Australia notes that there has been some good progress, including the development of Australian Securities and Investments Commission (ASIC) guidance on responsible lending and recent reforms to consumer credit law which have resulted in a single national consumer credit regime governed by the *National Consumer Credit Protection Act 2009*, which includes the National Credit Code.

5. UnitingCare Australia recommends that **draft ToR 2.2** be amended to specifically address the need to ensure consistency across the financial system, including addressing unnecessary administrative burdens and finding ways to make it easier for consumers to navigate multiple lenders which each have different risk policies and requirements
6. The Australian Public Service plays a key role in commissioning public value and delivering whole-of-system efficiency and effectiveness. A key role of the public service is to serve as the critically important facilitator of collaboration between the public, business and NFP sectors. UnitingCare Australia recommends that the whole-of-system expertise of the public service is adequately represented in the work of the Inquiry into Australia's financial system.
7. UnitingCare Australia recommends that **draft ToR 2.5** be amended to specifically include consideration of an expanded role for regulators, particularly with regards to the Ombudsman being given directive powers, and the expansion of ASIC's ability to provide support, information and education to small businesses, as well as adequate Government funding for support services including financial counselling, as contributors to a well-functioning financial system.
8. Within the Inquiry's draft terms of reference there is scope to review the current funding model for financial counselling, noting that support for early intervention and ongoing education programs are part of any whole-of-system solution.
9. UnitingCare Australia recommends amending **ToR 3** to reflect the vital role of financial literacy and capacity building of consumers and the community in overall system integrity. New technologies and market innovations are driving current and future opportunities and challenges, for consumers and business. The coalface experience of the UnitingCare network shows there is a clear need, and opportunity, to review and improve the financial literacy of clients/consumers.

We look forward to contributing further to the work of the Inquiry.

Yours sincerely



Lin Hatfield Dodds
National Director
UnitingCare Australia