

Good Shepherd Microfinance Submission: Financial System Inquiry - Draft Terms of Reference, Dec 2013

Attention:

Head of Secretariat
Financial System Inquiry
The Treasury
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Submission from:

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Introduction:

This document, prepared by Good Shepherd Microfinance, argues for the inclusion of several important issues, predominantly *financial exclusion*, in the Terms of Reference of the Australian Financial System Inquiry. Good Shepherd Microfinance welcomes the recent announcement by the Federal government to conduct an Inquiry of the financial system; especially the intention of the government to make recommendations that will foster an efficient, competitive and flexible financial system, consistent with financial stability, prudence, integrity and fairness.

Terms of Reference Inclusions:

While Good Shepherd Microfinance applauds the focus on the consideration of cost, quality, safety and availability of financial services, it strongly recommends that the Terms of Reference for The Inquiry include *an examination of, and a means of reducing the extent of financial exclusion in Australia.*

Similarly, given that The Inquiry intends to recommend policy options, the Terms of Reference should include *an examination of the role that financial services play in directly enabling economic mobility* for people on low incomes and, in driving economic growth and fair and inclusive communities. Policy options should therefore include the promotion of a competitive, inclusive and stable financial system.

The gap between the financially excluded and financially included is increasing in Australia (Connolly 2013) with 17.7% of adult population unable to access mainstream financial products. Unless this is addressed by The Inquiry, an opportunity to increase economic mobility towards inclusion will be missed. In global markets the Australian financial system is much admired, yet 3.1 million adults - or one in six - are financially excluded and unable to access a bank account, small credit or insurance. At a human level, we know that this exclusion directly creates feelings of isolation, reduced hope and confidence and of not being connected to, or included by, other people and society itself. In short, people are not able to realise the fullness of life.

At an economic level there are profound opportunities for economic mobility - people moving away from financial crisis and hardship towards resilience and self-sufficiency - to make our communities more prosperous, inclusive and to drive economic growth. Good Shepherd Microfinance modelling shows that GDP would increase by 2 per cent even if only a quarter of those financially excluded made one small progression from hardship to stability. Well developed and implemented financial system reform, along with employment and enterprise policy improvements, will enable this.

To this end Good Shepherd Microfinance recommends that the Terms of Reference include *an examination of access to and usage of financial services in Australia* and how an efficient, competitive and flexible inclusive financial system, consistent with financial inclusion, stability, prudence, integrity and fairness, can be enabled.

Another key consideration for The Inquiry is the burgeoning alternative credit market populated with payday lenders and rent-to-buy agents. The Terms of Reference should therefore include *a consideration of domestic competition both within the mainstream and alternative financial services* (such as payday lenders). The rapidly growing alternative sector points to an unmet demand and market failure.

Post-GFC conservatism and inefficient selective client targeting by the banks has led to many people who can actually afford bank credit missing out. Banks use automatic scoring models, based on income as the sole indicator to predict whether a family has sufficient capacity to service a loan. This short sightedness has seen a ten-fold increase in the predatory and exploitative payday loan and rent to buy market in ten years.

Good Shepherd Microfinance notes with importance that The Inquiry intends to report on the consequences of developments in the Australian financial system since the 1997 Financial System Inquiry and the global financial crisis. Good Shepherd Microfinance draws attention to the significance of a financial system that is able to keep people housed adequately, and capable of servicing their mortgage debt even if over extended periods, rather than foreclose. Therefore we *urge an examination of financial inclusion that prevents homelessness*.

Equally Good Shepherd Microfinance would support the following foci be included in The Inquiry:

- *An exploration of the lack of competition in the small amount lending market.* Credit unions and building societies have not shown enough interest, and banks (leaving aside CSR contributions) tend to stop at credit cards.
- *An assessment of the effectiveness of the national consumer credit code in promoting fair and affordable small amount credit.*
- *An examination of the particular banking and finance needs of remote communities,* especially those that are predominantly indigenous, including incentives for market participation.
- *The protection of disadvantaged consumers* - in particular indigenous people, women, Culturally & Linguistically Diverse (CALD) groups, along with those of lower socio-economic status.

Finally, Good Shepherd Microfinance notes that The Inquiry may invite submissions and seek information from any persons or bodies. We would welcome the opportunity to make a submission to the Inquiry. As a leader in a rich and capable national network of community finance organisations that have earned the trust of people on low incomes, Good Shepherd Microfinance sees considerable opportunity for large scale investment in the network of alternative fair, safe and affordable finance and in other innovative initiatives to enable economic mobility and overall economic growth.

Good Shepherd Microfinance's provider network includes 257 community organisations across 650 locations in Australia to offer safe, fair, and affordable loans, savings, energy inclusion and other programs. We have already reached over 125,000 people and will be encouraging our network to have a strong voice to represent those marginalised and vulnerable people on low incomes during this inquiry.

About Good Shepherd Microfinance:

Good Shepherd Microfinance is Australia's largest microfinance organisation. We offer a suite of people-centred, affordable financial programs for people on low incomes at different financial stages of their lives. Our aim, together with those of our community partners, is to enable clients to realise their own economic wellbeing, as they define it themselves, through appropriate financial services. As a result, people feel valued, accepted and included and in control of their own finances and lives. Our programs have reached more than 125,000 people previously excluded from mainstream banking access to loans and savings.

References

Connolly, C. (2013). *Measuring financial exclusion in Australia*, Centre for Social Impact (CSI) - University of New South Wales, for the National Australia Bank.