



Pre Budget Submission to the Federal Government (2018-19 Budget)

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Budget Policy Division
The Treasury
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Financial Counselling Australia (FCA) is
the peak body for financial counsellors
in Australia.

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About Financial Counselling

Financial counsellors assist people experiencing financial difficulty. Working in community organisations, they provide advice to help people deal with their immediate financial situation and minimise the risk of future financial problems. Their services are free, confidential and independent.

Financial counsellors need an in depth knowledge of credit law, bankruptcy law, debt collection law and practices, industry hardship processes and government concession frameworks.

Financial counselling agencies are exempt from holding either a Credit Licence or an Australian Financial Services Licence as long as they meet certain criteria, including that the services are free and staff are adequately trained.

Financial Counselling Australia

FCA is the peak body for financial counsellors in Australia. FCA's member groups are the State and Territory financial counselling associations.

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1 BUDGET PRIORITY

Recommendation	Amount
<i>Funding Financial Counselling</i>	
1. Continue funding for existing financial counselling services	\$21 million
2. Invest an additional \$100 million per annum into financial counselling to meet current unmet demand for assistance.	\$100 million
<i>Institute a 'User Pays' Financial Services Levy to fund financial counselling</i>	
3. Following the successful UK model, institute a levy on the financial services industry to fund financial counselling. This could be implemented by expanding the current industry funding model for ASIC.	\$Nil

2 WHY IT MAKES SENSE TO FUND FINANCIAL COUNSELLING

Evaluations of financial counselling show that it works and saves the Government money. Demand for financial counselling however exceeds supply with too many people struggling with financial stress unable to access financial counselling services.

The appendices to this submission have more information about financial counselling:

- Appendix 1 – How Big is the Problem of Financial Difficulty
- Appendix 2 – Financial Counselling is Embedded in the Service Delivery System
- Appendix 3 – How Does a Financial Counsellor Help?

2.1 Financial Counselling Works

In 2012, Swinburne University surveyed 225 clients who had accessed the Salvation Army's MoneyCare service.¹ Survey respondents indicated that as a result of financial counselling:

- 66% said their financial difficulties had been resolved
- 75% said they were better able to prioritise debt
- 74% said the advice had helped them avoid legal action
- 53% had avoided bankruptcy
- 74% were better able to budget
- 73% were able to access creditors' hardship programs

As people are assisted to resolve their issues by managing their debts and avoid insolvency, creditors avoid writing off bad debts and losing clients.

In 2014, research undertaken by the Australian Workplace Innovation and Social Research Centre at Adelaide University, found that every \$1 invested in financial counselling provides a \$5 return. Four in five clients had experienced at least one financial crisis, most commonly related to credit card or store card debts (42%) and/or utility debts (40%).

The researchers noted that the cost-benefit analysis did not include other benefits that are more difficult to quantify, such as improvements in financial literacy, stabilised housing or avoidance of legal action. In other words, the 1:5 cost benefit is an understated and conservative measure of the true economic benefit of financial counselling.²

2.2 Demand for Financial Counselling Exceeds Supply

Demand

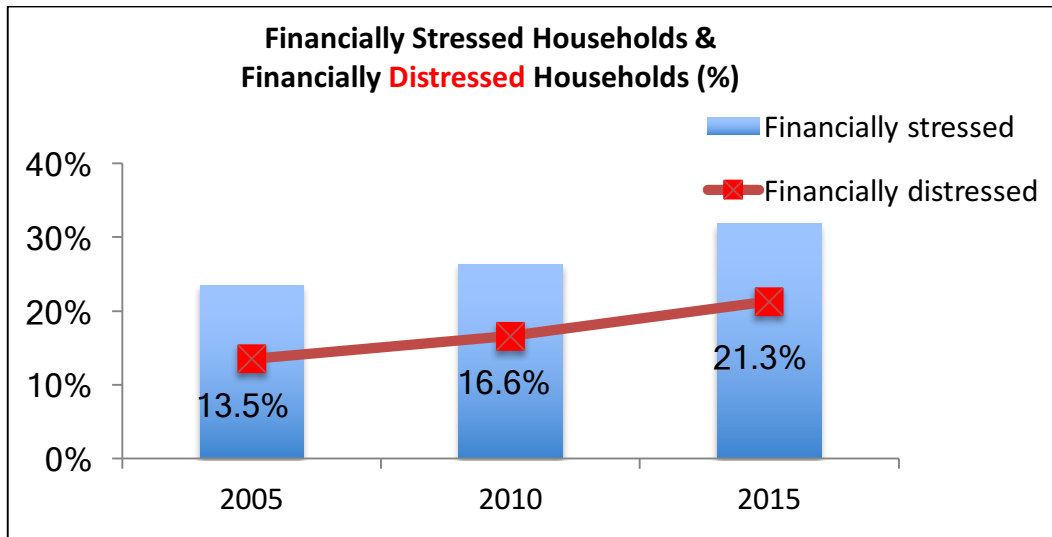
Digital Finance Analytics and the Monash University Centre for Commercial Law and Regulatory Studies estimated that 32% of Australian households were experiencing some form of financial hardship in 2015 - a sharp increase from a decade ago.³ Indicators of financial hardship included issues such as mortgage or other loan default, being refused credit, or being bankrupt/in a debt agreement.

¹ Dr Nicola Brackertz, "I Wish I'd Known Sooner" *The Impact of Financial Counselling on Debt Resolution and Personal Wellbeing*, Swinburne University, 2012

² *Paying it forward: Cost benefit analysis of The Wyatt Trust funded financial counselling services*, Adelaide: Australian Workplace Innovation and Social Research Centre, The University of Adelaide, 2014.

³ *The Stressed Household Finance Landscape Report 2015*, Digital Finance Analytics and the Monash University Centre for Commercial Law and Regulatory Studies, p7, <http://digitalfinanceanalytics.com/reports.html>, accessed Jan 24, 2017

As shown in the graph below, a subset of financially *stressed* households are financially *distressed* households, who in addition to being financially stressed, are unable to find \$2,000 in a crisis, suffer from chronic insufficient income, or have no/limited access to bank facilities. This data shows that 2,000,000 Australian households are in financial *distress*, representing 21.3% of households.

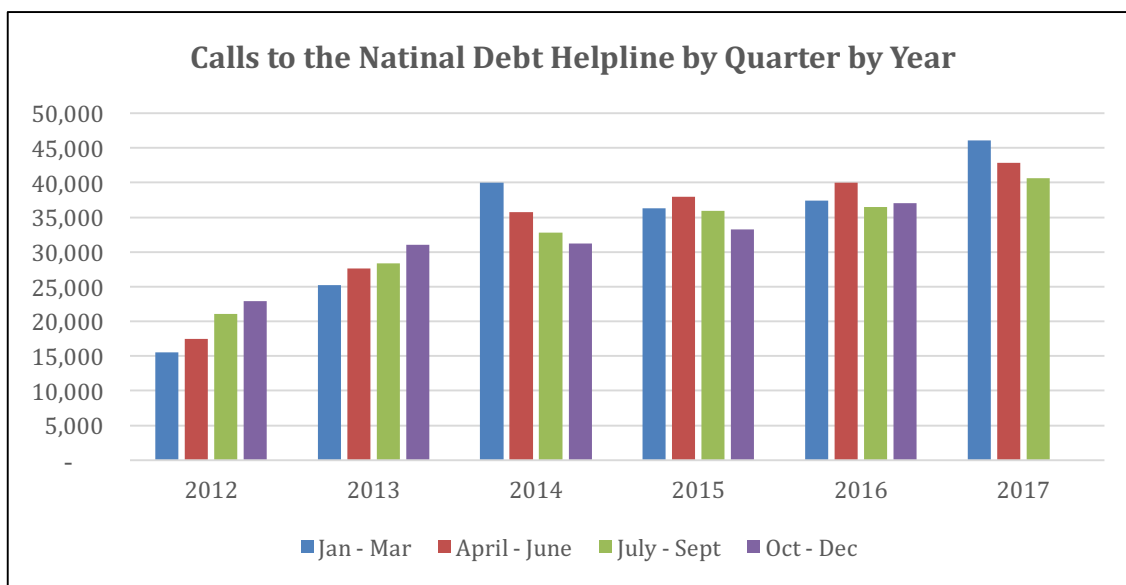


Supply

There are approximately 800 financial counsellors in Australia (approximately 500 FTE). Face-to-face services commonly have long waiting lists of between two and four weeks and often the waiting lists themselves are full.⁴ Around one third of calls to the National Debt Helpline, the free financial counselling helpline (1800 007 007) are from non-unique numbers, suggesting the caller has not got through the first time they tried, or they need more assistance.

We estimate that face-to-face financial counsellors assist approximately 120,000 clients a year. The National Debt Helpline received 160,000 calls in the 2016-17 period, an increase of 11% on the previous year. As shown in the graph below, calls to the Helpline have increased year on year since inception, and the service is nearing capacity.

⁴ Waiting lists vary by agency. Services will triage appointments, for example prioritising clients who are at risk of losing assets or becoming homeless. However there is a limit on how long people are able to wait. For this reason, agencies tend to close their books at a defined cut off point, say two or three weeks.



Unmet Need

There is no one measure of unmet need across the various financial counselling agencies in Australia. Data provided by the WA Financial Counselling Network however, a consortium of agencies delivering financial counselling in the Perth metropolitan region is likely to be replicated elsewhere. For example, for the six months July – December 2016, the network recorded 6,244 requests for help. Of these, 3,094 (50%) were unmet demand, defined as occurring when a financial counsellor was not available to assist.

Conclusion

Without further funding, financial counsellors continue to be unable to assist the vast majority of Australians who would benefit from debt advice. Further funding for more financial counsellors is needed to help the rising number of Australian families in financial distress.

2.3 Benefits/Outcomes for Clients, Industry, Government

There are a number of benefits for clients, industry and government from financial counselling.

Clients

- Improved financial wellbeing, reductions in debt, increased income
- For some people, the ability to maintain employment, family stability, avoid homelessness and even criminality. For some people, financial counselling helps

individuals improve mental and physical health problems or stop them occurring in the first place.

Industry (banks, credit unions, telcos, utilities, debt collectors, insurance)

- Higher repayments than would otherwise be the case and/or reduced collection costs

Where industry provides funding for financial counselling (see section 4 for a model based on a levy)

- Reputational benefits - industry can tangibly demonstrate to government and the community that they are committed to helping customers in hardship.
- Staff employed in these industries have a stronger sense of working for organisations that care and do the right thing
- May complement existing programs for example, financial education initiatives, No Interest Loans, matched savings programs

Government

Financial stress is at the heart of so many other problems for individuals and families. It impacts on mental and physical health, affects housing stability, relationships and children. At least some of these costs are borne by government in increased social security payments, demand for emergency relief and housing and on the health system.

Early access to financial counselling is an early intervention and prevention strategy that will reduce the current costs by borne by government.

2.4 Why For-Profit and Fee-Paying Alternatives are Dangerous

A financial counsellor must always act in the best interests of a client, and no one else. This is why financial counselling is a free service, completely independent of industry.

This contrasts with the growing presence in the marketplace of “for-profit debt management firms” that also target people experiencing financial stress. These for-profit providers charge high set up fees and often high ongoing fees and can leave people worse off. Financial counsellors are increasingly spending casework time trying to fix problems caused by these providers.

Financial counsellors are also reporting that for-profit debt management providers are holding themselves out as providing services like financial counselling. But what

they are actually providing of course is a sales pitch for their own financial products which can further damage individuals and families' financial positions.

The ASIC report, '[Paying to get out of debt or clear your record: The promise of debt management firms](#)'⁵ describes the concerning practices of the four types of 'debt help' firms: credit repairers, debt negotiators, Part IX Debt Agreement brokers and budgeting services.

Credit repairer businesses promise to 'clean' a consumer's credit file—usually for a fee starting at around \$1,000 per default. What they don't explain is that if the credit listing is correct in the first place, it cannot be removed, or that a person can challenge an incorrect listing themselves for free.

Credit repair agencies are increasingly clogging up external dispute resolution schemes like the Financial Ombudsman Service with spurious complaints – the tactic is to try and force a creditor to remove a listing because of the cost of the ongoing dispute to the creditor⁶.

Debt negotiators claim to help people by trying to negotiate with creditors to 'write off' all or part of their debts. They typically employ high-risk strategies, such as advising their clients to simply stop paying the debt to manufacture pressure in the negotiations. The risk of doing this is typically not properly explained to people. Hefty fees are payable, even if the service is not successful.

Part IX Debt Agreement brokers typically do not inform consumers that a debt agreement is an act of bankruptcy or that there may be better options, such as direct negotiations with creditors for hardship arrangements. The standard of their advice is usually poor.⁷

Finally, budgeting services offer an attractive solution to consumers who believe the reason they are unable to afford their debts is due to a personal inability to budget. Typically, this is not the case—there is often not enough money coming in to afford bills. Budgeting firms exacerbate this issue by charging high up front set up fees and then weekly maintenance fees for their services. They operate by having the consumer pay all of their income to the budgeting service, negotiating to pay bills with creditors, and paying consumers the remainder of their money as a 'living

⁵ REP 465 *Paying to get out of debt or clear your record: The promise of debt management firms*, ASIC, 2016, <http://asic.gov.au/regulatory-resources/find-a-document/reports/rep-465-paying-to-get-out-of-debt-or-clear-your-record-the-promise-of-debt-management-firms/> (Accessed: 31st October 2016).

⁶ *Debt Management Firms: Regulatory Reform*, Consumer Action Law Centre, 2016 <http://consumeraction.org.au/wp-content/uploads/2016/03/Debt-Management-Communique.pdf> (Accessed: October 31, 2016).

⁷ *Financial Conduct Authority Thematic Review Quality of Debt Management advice June 2015 TRI 15/8*: found quality of advice by fee charging debt management firms were of poor quality

expense' into their personal bank account⁸. Budgeting services may not pass the money on to creditors in a timely fashion, exposing clients to credit listings or legal action, the arrangements may not be affordable or sustainable, and the clients may not understand the nature of the service they are agreeing to.

All these for-profit services have an opaque fee structure which makes it difficult for customers to determine how much will be charged for a service, and they often rely on high-pressure sales tactics or the 'sunk cost bias' to secure and retain customers.

Vulnerable Australians who find it difficult to exercise judgment in times of crisis must be protected from for-profit financial hardship service providers.

3 WHAT FUNDING IS NEEDED

3.1 Retain Existing Funding

Financial counselling is embedded in the government social support framework. Many federal government websites including the Australian Financial Security Authority and Centrelink refer people in hardship to financial counselling.⁹ Banks, utilities and telecommunications providers also refer their customers to financial counsellors.

Despite being underfunded, financial counselling remains an essential service to Australians struggling with financial hardship.

Clients already face difficulties such as long waiting lists when being referred to financial counselling services—it is essential for current funding to be retained.

⁸ *Debt Management Firms: Regulatory Reform*, Consumer Action Law Centre, 2016 <http://consumeraction.org.au/wp-content/uploads/2016/03/Debt-Management-Communique.pdf> (Accessed: October 31, 2016).

⁹ A short selection of current examples include: MoneyHelp ASIC (<https://www.moneysmart.gov.au/managing-your-money/managing-debts/financial-counselling>), DSS, *Our Responsibilities* (<https://www.dss.gov.au/our-responsibilities/communities-and-vulnerable-people/programs-services/commonwealth-financial-counselling-cfc>), AFSA, *How We Can Help*, (<https://www.afsa.gov.au/insolvency/how-we-can-help/find-financial-counsellor>), accessed January 25, 2017.

3.2 Additional Funding to Meet Existing and Growing Demand for Services

As set out above, there are currently an estimated 2,000,000 households in *financial distress*. Working on a conservative basis of having one financial counsellor for every 1,000 households in financial difficulty, we need a workforce of 2,000 financial counsellors. The cost of a full time financial counsellor is about \$120,000, equating to funding of \$240 million per annum. Of this figure, about 50% would be a fair responsibility for the Federal Government, that is \$120 million.¹⁰ Current funding is \$21 million.

Recommendation: Additional Funding to Meet Demand

Invest an additional \$100 million per annum into financial counselling to meet demand for services.

4 LONGER TERM FUNDING SOLUTIONS

4.1 An Industry-based 'User Pays' System is a Complementary Funding Mechanism

At present, funding for financial counselling is part of the normal budget appropriation processes. An alternative and viable funding mechanism would be through industry funding and a levy on the financial services industry.

The precedent for such an approach is the United Kingdom (UK), where financial counselling and financial literacy initiatives¹¹ are funded through a levy on financial services providers. The levy is collected by the Financial Conduct Authority (the equivalent of ASIC) and also funds the activities of the FCA itself.

A similar arrangement could easily be implemented in Australia by expanding the industry-funding model that is now being used to fund ASIC and which took effect from 1 July 2017.

¹⁰ We note that the pre-budget submission from the Consumer Action Law Centre follows a similar logic to this analysis, but recommends a funding increase of \$62 million. The difference in figures is that their submission is based on different assumptions, mainly the number of financial counsellors needed to make at least some impact on meeting demand (FCA estimate of 2,000 and Consumer Action estimate of 1,000) and the cost of employing a financial counsellor (FCA figure of \$120K per annum and Consumer Action estimate of \$100K per annum).

¹¹ The more common terms in the UK are "debt advice and financial capability" rather than "financial counselling and financial literacy" but they essentially mean the same thing.

Financial services providers, such as banks and insurers, refer their customers to financial counsellors and benefit when they get back on track, but by and large do not fund provide any funding (there are some relatively small amounts of funding to some financial counselling agencies but not at scale).

An industry-funding model would put in place a direct link between the funding source (the financial services industry) and the use of the funding (customers of that industry in financial difficulty). This funding model would also provide a more consistent and reliable funding source for financial counselling.

The banking industry relies extensively on financial counselling. For example, the Australian Bankers' Association recently released the final draft of the new Banking Code of Practice.¹² The Code envisages a significant role for financial counsellors. One example is clause 168 which provides that:

“If you ask us to, we will refer you to financial counselling organisations that may be able to help you. We may also recommend on our own initiative that you seek independent advice from a financial counsellor.”

Recommendation: An Industry ('User Pays') Levy that provides funding to ASIC, financial counselling and other regulatory and financial literacy initiatives.

That the Federal Government introduce an industry levy on financial services providers to provide additional funding for financial counselling. The levy would be collected using the same mechanism that is now funding ASIC.

4.2 A National Partnership Agreement

One of the reasons that funding for financial counselling is so problematic is that there is no agreed approach to funding between the Federal and State Governments. In contrast, National Partnership Agreements are well accepted in other areas of shared Federal Government/State Government responsibility. Examples include the National Disability Insurance Scheme and the funding for legal aid and community legal centres. There is no reason why a similar approach would not work for financial counselling.

¹² Released on 19th December 2017. The draft code is now with ASIC for approval.

The advantage of a NPA would also be the opportunity to think strategically about the future of financial counselling. The NPA for example, could also address issues such as the targeting of services, service delivery models (face-to-face and phone), quality standards and coordination.

Recommendation: A National Partnership Agreement

That the Federal Government lead the development of a National Partnership Agreement between the Federal and State Governments in relation to the funding for financial counselling.

APPENDIX 1 - FINANCIAL DIFFICULTY: HOW BIG IS THE PROBLEM?

Causes of Financial Difficulty

Financial counsellors report that the most common cause of financial difficulty is a change of circumstances in a person's life: unemployment, illness or relationship breakdown. Many clients are also on very low incomes, such as the NewStart allowance and simply find it hard to make ends meet. Small business failure, exploitation or poor advice (such as from a financial planner) may also be factors that lead to financial difficulty for some clients.

Financial hardship can affect just about any one of us. This is reinforced by data from the Australian Bureau of Statistics (ABS) in the General Social Survey.¹³ One of the factors measured in the survey is the prevalence in the population of "personal stressors". In the most recent survey (2014), 63% of the adult population had experienced at least one personal stressor. Personal stressors include serious illness, divorce or separation, mental illness, disability or being unable to get a job.

Who is Doing it Tough? ABS Data

Some people can manage through a financial crisis because of the support of family and friends, or because they have a financial buffer, such as insurance or savings. They may need additional time or assistance to access support or additional resources, but can ultimately overcome any financial problems. There are however large groups of Australians for whom financial difficulty is ongoing. To use a vernacular Australian term – they are "doing it tough".

The ABS Household Expenditure Survey 2016¹⁴ includes measures that are indicators of financial stress. 15% of Australian households were classified as experiencing financial stress. The survey shows that households experiencing the most financial stress are either single person households (28%) or couple families with dependent children (26%).

Households in the lowest income quintile reported high levels of financial stress: 29% would be unable to raise \$2,000 in a week for something important (compared to 13% in the overall population), 19% spend more money than they receive (compared to 13% in the overall population) and 7% went without meals (compared to 3% in the overall population).¹⁵

¹³ ABS, 4159.0 General Social Survey: Summary Results, 2014 (released 29/6/2015).

¹⁴ ABS, 6530.0 Household Expenditure Survey: Summary Results, 2015-16 (released 13/09/2017), Household financial stress indicators, by selected household composition categories, proportion.

¹⁵ Figures have been rounded.

ACOSS Poverty Research

The Australian Council of Social Service (ACOSS) estimates that 3 million people (13.3% of the population) live below the poverty line. Of this number, 731,000 are children under the age of 15.¹⁶ Key statistics are set out below:

- By population group, the highest rates of poverty were experienced by unemployed households at 63.2%;
- By family type, lone parent families experience the highest rates of poverty (33.2%);
- Child poverty in Australia increased by 2 percentage points between 2003-04 and 2013-14;
- 36.1% of people receiving social security payments were living below the poverty line, including 55% of those receiving Newstart Allowance, 51.5% receiving Parenting Payment, 36.2% of those receiving Disability Support Pension, 24.3% receiving Carer Payment, and 13.9% of those on the Age Pension;
- 57.3% of people below the poverty line relied upon social security as their main income and 32.1% relied upon wages as their main income; and
- The vast majority of people below the poverty line were in rental housing in 2014 (59.7%), with most in private rental housing (44.2%). Only 15.5% of people living below the poverty line were home-owners

¹⁶ Australian Council of Social Service, "Poverty in Australia 2016".

APPENDIX 2 - FINANCIAL COUNSELLING IS EMBEDDED IN THE SERVICE DELIVERY SYSTEM

People in financial difficulty can contact a financial counsellor by ringing the National Debt Helpline on 1800 007 007 or contact their nearest face-to-face service for an appointment. There is a “Find a Financial Counsellor” map on the ASIC MoneySmart website as well as the FCA website.

The National Debt Helpline is a relatively new service and was established just a few years ago. The service has enabled financial counselling to reach more people in financial difficulty and at an earlier stage and has dramatically increased access. Phone financial counselling and face-to-face financial counselling together provide an integrated service delivery model.

Financial counselling is a vital part of the service delivery system. FCA’s 2014 report “Click Here: Who is Referring to Financial Counselling Services” found that all of the major banks, a number of government departments, finance industry peak bodies and dispute resolution schemes include information on their websites explaining how people can access financial counselling. The National Debt Helpline was the primary point of access. Examples of organisations with information and contact details for financial counselling on their websites include:

- MoneySmart – ASIC’s financial literacy website, which includes a “Find a Financial Counsellor” search tool;
- www.disasterassist.gov.au, the Government’s portal to help people affected by natural disasters;
- Australian Financial Security Authority – AFSA administers personal insolvencies;
- Australian Bankers Association – www.doingittough.info The ABA is the banking industry peak body. This website is targeted toward consumers;
- Insurance Council of Australia – www.understandinsurance.com.au The ICA is the insurance industry peak body. This website is targeted toward consumers;
- Financial Ombudsman Service, Telecommunications Industry Ombudsman and the various energy and water ombudsman schemes.

The national phone number 1800 007 007 is a mandatory inclusion on a number of prescribed notices under the National Credit Code.¹⁷

Financial counsellors also work proactively with industry to improve responses to consumers who are in financial hardship or who are vulnerable. These industries include banks, utilities, and telcos. Financial counsellors also provide significant input at times to government and regulator advisory bodies, such as the ACCC, ASIC, the AER and State agencies.

¹⁷ For example, warning notices that must be displayed by payday lenders on websites and in shopfronts, credit default notices.

The importance of free and independent financial counselling was recognised by the Parliament in 2013, with an amendment to the *National Consumer Credit Protection Act 2009* providing legislative protection to the term “financial counsellor” and “financial counselling”.¹⁸

¹⁸ Section 160C of the NCCP Act.

APPENDIX 3 - HOW DOES A FINANCIAL COUNSELLOR HELP?

Financial counsellors assist people struggling to pay their debts or who have credit-related issues. They provide information, support and advocacy to help people overcome their financial difficulty. Financial counsellors work in non-profit community organisations and their services are free, confidential and independent.

A financial counsellor helps a client get a clear picture of their financial circumstances. They will assess whether any debts are legally owed, if the amount owing is correct and which debts are priorities. For example, rent and utilities are usually priority debts.¹⁹ Often, they will work with a client to develop or refine a money plan. The ultimate aim is to help a client understand their options, and the pros and cons of each of them. Financial counsellors for example might explain the debt collection process, hardship variations, how to access concessions, the implications of bankruptcy or how the credit reporting system works. They often work closely with consumer credit lawyers, particularly where there are assets at risk. For some clients, the financial counsellors will also advocate on the client's behalf with creditors.

It is also important to understand the "counselling" side of the role. Financial difficulty is incredibly stressful for people and has impacts on the quality of relationships as well as physical and mental health. Clients can often present, either face-to-face, or on the telephone, in considerable emotional distress. It is not uncommon to see clients who are contemplating suicide. The first task for a financial counsellor is often to address these issues.

Financial counsellors have specific knowledge about the credit, bankruptcy and debt collection laws, concession frameworks and industry hardship practices. They are also trained in negotiation and counselling.

Finally, financial counsellors also work within a social justice framework, recognising that marketplace practices often have detrimental impacts on their clients. A good example of this is the systematic targeting of remote Indigenous communities by unscrupulous door-to-door traders. There are a number of examples of financial counselling organisations working with Australia's regulators, such as the Australian Securities and Investments Commission and the Australian Competition and Consumer Commission to alert them to exploitative practices, so that these regulators can take enforcement action.

¹⁹ This may not always be the case. An example might be a client who needs to repay a car loan so they can drive to work and maintain their employment.