

4 June 2012

The Hon Bill Shorten MP
Minister for Financial Services and
Superannuation and Minister for
Employment and Workplace Relations
Commonwealth of Australia

Dear Mr Shorten MP

**Response to discussion paper:
'Strategies for reducing reliance on high cost, short term, small amount lending'**

Community Sector Banking is Australia's specialist banking service for not-for-profits and works with over 5,800 organisations nationally.

Launched in 2002, Community Sector Banking is a joint venture between Bendigo and Adelaide Bank and the Community 21 consortium - whose 20 members are not-for-profit organisations motivated towards social and economic change for disadvantaged members of Australian communities.

Community Sector Banking develops and implements financial solutions to strengthen the not-for-profit sector and support their work. We offer not-for-profit organisations flexible trading and investment accounts, tax saving salary options and finance for working capital, renovation and construction.

Community Sector Banking is presently participating in the Community Development Financial Institutions (CDFI) pilot program which reports encouraging results. Community Sector Banking provides social enterprise business loans, financial literacy training, microcredit for low income earners and microcredit personal savings. Through this program Community Sector Banking provides services to Indigenous communities in Western Australia and Queensland, and disadvantaged individuals and families in NSW, Victoria, Tasmania and South Australia.

Community Sector Banking supports the measures proposed in the discussion paper and congratulates the government on its efforts to reduce the reliance on high cost short term loans.

Community Sector Banking believes that reducing reliance on high cost short terms loans requires a multifaceted response. It acknowledges that there is no silver bullet solution to the issue and feels that multiple responses are required. These should consist of the proposed legislation limiting the interest payable on short term loans and the expansion of existing programs such as NILS and StepUP. However, we feel it is the further development of the CDFI sector in Australia that is the most crucial and has the most potential for a sustainable and long lasting solution to reducing financial exclusion.

With more than 2.6 million Australians classified as fully or severely financially excluded, there is a compelling argument for affordable financial services that meet their needs and assist them to fully participate in the economy and society.

Community Sector Banking has limited its response to the areas of the discussion paper it has direct experience in.

Is building upon existing programs and extending the criteria for accessing these programs, such as NILS and StepUP, an appropriate alternative to small amount, short term loans?

Extending the criteria for NILS and StepUP will most certainly increase the demand for these services, however, it would be questionable if they would be able to meet the demand, unless there was a significant injection of capital to support the capital requirements and the substantial operational requirements. The growing demand on the NILS and StepUP products can be now complemented by the emergence of the CDFI sector in Australia.

Community Sector Banking believes the programs can form a stepping stone approach to financial inclusion through greater financial literacy. This could be coordinated and cultivated through the emerging social finance sector in Australia that comprises the providers of NILS, StepUP and CDFI.

The limitations inherent are not simply about the criteria for accessing programs but of the availability of capital (addressed below).

Should the growth of a CDFI sector in Australia be supported? If yes, what are the base requirements for growth of the sector? Would a UK style financial inclusion growth fund be an appropriate mechanism for developing a pool of capital funds that CDFIs could access?

Community Sector Banking believes that one of the most effective ways of overcoming financial exclusion is to provide a framework that enables those who are excluded to participate in the activities of the economy - the CDFI model achieves that objective. A number of options should be considered in relation to the development of the capital pool required to enable the CDFI to operate:

1. **A levy placed on all mainstream financial institutions similar to the US's Community Reinvestment Act.** Such a measure would create a capital pool that CDFI providers could access and ensure that the cost of capital remains affordable.

Over recent years the combined profits of the major banking institutions has exceeded \$20 billion if a levy of 0.25% were imposed on the banks' profits it would yield a capital pool for CDFIs of \$50 million per annum.

2. **The development of a fund similar to the UK's Financial Inclusion Growth Fund.** Such a fund in Australia could be developed and capital accessed from unclaimed monies in bank accounts and superannuation funds. It is estimated that there are hundreds of millions of dollars in unclaimed funds currently, the interest component alone would generate significant capital pools for the CDFI sector.

3. **Grant CDFI providers Deductible Gift Recipient status:** which would enable them to attract the capital required and offer tax deductibility to donors.

Recommendation: Option three together with option one would deliver the optimum outcome.

Can a financial services hub provide a viable alternative to high cost small amount lenders?

Financial services hubs, offering a variety of services including financial planning, affordable loans, deposit accounts, affordable insurance products, affordable telco products, home loans to low income people, could become a real alternative to high cost low amount lenders. However, the hub would need to offer a range of services to enable it to offer small amount loans at equitable and affordable rates.

Community Sector Banking also feels that any physical presence should be complemented by a comprehensive online presence/framework. The results from the diverse models operating under the CDFI pilot has clearly shown that no one model will fit the range of issues and problems that this is trying to address.

Would a hub approach make services more accessible for individuals who may be reluctant to visit major church providers for assistance?

Community Sector Banking believes that the services currently offered by faith based organisations to people who suffer the impacts of financial exclusion are of the highest standard and seek to protect the dignity of those people who use their services. However, services offered in a range of settings from a diverse group of organisations, as well as more online presence, may be more attractive to some individuals.

Are there other services that could be included in the hub model?

The hub model could be included in the service range of not-for-profits who already offer a broad range of services from social welfare to employment, training or disability. Presenting a variety of activity and increasing engagement with financially excluded Australians will build on the sustainability of the hub and the CDFI model.

Community Sector Banking would be pleased to discuss any matter referred to in these submissions, or any other matter relevant to the proposed reforms. For comment, please contact our Executive Director, Peter Quarmby on 02 4255 8400 or by email peter.quarmby@csbanking.com.au.

Yours faithfully

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