

By email: fsi@treasury.gov.au

5<sup>th</sup> December, 2013

Head of Secretariat  
Financial System Inquiry  
The Treasury  
Langton Crescent  
Canberra ACT 2601

Dear Sir/Madam

### **Comments about the Terms of Reference for the Financial Systems Inquiry**

Financial counsellors provide advice and support to people experiencing financial difficulty. They work in community organisations and their services are free, independent and confidential.

Each year financial counsellors assist more than 200,000 consumers with credit and debt problems, many of whom are on low incomes or vulnerable, for example because of illness. We have a unique insight into how well the financial services system is serving this group as well as consumers more broadly.

We welcome the broad ranging nature of the Inquiry. The recommendations from both the Campbell and Wallis inquiries were critically important and we look forward to the current inquiry having a similar and positive impact.

#### *Objectives of the Inquiry*

The overall objectives of the inquiry are critical - they will set the tone for both the way in which the inquiry is conducted and the way in which recommendations are framed. We submit that the objectives should also include a specific reference to the need for a financial system that delivers benefits for consumers, the largest single group in the economy.

The objectives as they stand are silent about consumer benefits or welfare. Without such a reference there is a danger that the inquiry's recommendations will be too narrow, potentially (and perhaps inadvertently), focusing on the industry itself rather than addressing the broad public interest. For example, consistent with the current objectives, one could envisage an economy that was growing and with a financial system that was "efficient, competitive and flexible", but where significant numbers of Australians could not access mainstream financial products. While there is a reference to a test of "fairness" in the objectives this is not nearly strong enough to ensure the consumer interest is adequately addressed.

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One possible way to amend the Terms of Reference would be as per the italicised words below:

Recommendations will be made that foster an efficient, competitive and flexible financial system, consistent with financial stability, prudence, integrity, ~~and~~ *fairness and consumer welfare*. (or alternatively *“the public interest”*).

#### *Access*

Access to the financial system is absolutely critical for all Australians, but this is not mentioned at all in the terms of reference. For example, it is virtually impossible to operate in Australian society without access to a bank account. Another example, from a few years ago, was the high cost of ATM fees in remote Indigenous communities. While ATMs were available, they were all privately owned meaning that Indigenous consumers could not avoid the fees and some were spending up to 20% of their incomes on ATM fees each fortnight.<sup>1</sup>

The issue of access could be included in Section 1.3.

#### *Product Safety*

We are pleased to see a reference to “safety” in the terms of reference at Section 1.3. We are all familiar with the concept of product safety when it comes to consumer goods, for example in relation to say cars or products for children. Applying the same thinking to the financial system makes a lot of sense. Consumers need access to safe financial products, rather than products which are inherently dangerous.

#### *Insurance*

We understand that insurance is within the scope of the inquiry, but it would be useful to make this more explicit in the terms of reference. Access, affordability and the design of insurance products are all vital issues for consumers. For example, financial counsellors are at the front line in responding to natural disasters and we see at first hand the problems caused when clients have no or inadequate insurance. We also concerned about some problematic insurance products including consumer credit insurance and funeral insurance.

Thank you for the opportunity to comment on the terms of reference.

Yours faithfully



Fiona Guthrie  
Executive Director

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<sup>1</sup> The banking industry, to their credit, has since stepped in to rectify this situation, and now provides fee-free access in 67 remote Indigenous communities. See also FCA’s report: ATMs in Indigenous Communities, November 2010.