



Brotherhood
of St Laurence

Working for an Australia free of poverty

*Brotherhood of St
Laurence submission*

Productivity Commission Consumer Policy
Framework

May 2007

1 Background to the Brotherhood of St Laurence's interest in consumer policy

The Brotherhood of St Laurence is a Victorian based community organisation with a vision of an Australia free of poverty. The Brotherhood of St Laurence provides services to a variety of people on low incomes, including children, young people, job seekers, refugees and older people. The Brotherhood also works in partnership with financial institutions to provide appropriate financial services to people on low incomes. Given the Brotherhood's area of expertise, this submission seeks to give a voice to the experiences of low income people as consumers in the market for financial services. It does not comment on other sections of the Framework.

The Brotherhood welcomes the Productivity Commission's commitment to effective consumer policy as all Australians have a right to fair and affordable access to basic services. This access helps low income people to be part of Australia's mainstream society, and for corporate, government and community sectors to all take responsibility for addressing social problems.

2 Response to selected issues for discussion

What are the key rationales for government intervention to empower and protect consumers? What should be the balance between seeking to ensure that consumers' decisions properly reflect their preferences (empowerment) and proscribing particular outcomes (protection)?

There seems to be an underlying assumption that disclosing all relevant information is sufficient to empower consumers to make a decision about the product. However, empowerment is only a useful concept where consumers have the capacity to analyse information to make appropriate decisions. In many instances, language is too technical and too much information is presented for many consumers to understand the transaction. Examples of this include insurance policy documents and consumer credit contracts. The Brotherhood's experience is that many low income consumers find this information overwhelming rather than empowering. This may lead them to place blind trust in the person who is administering the transaction and assume (sometimes incorrectly) that this person will have their best interests at heart [OR will understand their best interests]. This view is consistent with that expressed in the policy paper which suggested that people make no choice at all when too many choices or too much information is presented.

In instances where particular outcomes are clearly adverse for the consumer and society as a whole (smoking cigarettes, for instance), protection may be more appropriate than empowerment. However, there are likely to be many more instances in areas like financial services where the consumers' decision is complex and there is no clear right or wrong answer. In these instances, people should have the right to make their own decisions. However, for consumers to be sufficiently empowered to make an informed decision there needs to be a commitment to communications being clear and succinct.

What are the implications of developments in theory (e.g. behavioural economics) for consumer policy? Do they render some traditional views of the role for government in this area less relevant, or do they simply require more sophistication in the analytical framework and policy toolkit?

There is an important role for the government in consumer policy. This is because there are minimal incentives for profit-maximising companies to invest in understanding the complexities of low income consumers.

Under what conditions are markets most likely to develop responses to the various impediments to the effective participation of consumers?

An underlying assumption in the issues paper is that low income consumers already have appropriate access to goods and services. The issues paper recognises that businesses have strong commercial incentives to ensure consumers are not adversely affected by poor decisions. However, businesses do not necessarily have an incentive to provide equitable access to all, including low-income people whose needs are often complex and who only require small value transactions.

The market does not always develop responses which bring about effective participation of low income consumers, this is partly because markets only work well under certain assumptions (eg. lots of buyers and sellers, full information, no external effects etc)

This may be because there are complexities in reaching the low income group. The process of communication can be difficult since many have low levels of literacy or are non-English speakers. Product distribution is also complex, as many low income consumers are not connected to the mainstream economy and are difficult to reach through traditional means of distribution. Tailoring products which meet the needs of people on low incomes also requires creativity and patience. Servicing people on low incomes requires an investment of time and resources.

The return on this investment is difficult to see for many businesses, particularly if that return is measured only in profits and not an improvement for society as a whole or reputation for the business. Therefore government intervention/regulation is required to improve the workings of the market.

How have recent market trends changed the requirements for Australia's consumer policy framework? For example, has the growth in e-commerce made it more difficult to enforce regulation, thereby reducing its effectiveness? Or has the internet empowered a greater proportion of consumers?

The internet may have empowered a large group of consumers. However, the Brotherhood considers that the increasing dependence on e-commerce also excludes many low income people who do not own a computer and are not computer literate. Equally, consumers with limited financial literacy who do have access to ecommerce may be vulnerable to fraudulent activities and security risks.

What interpretation of the terms vulnerable and disadvantaged should be applied for the purposes of consumer policy?

The terms 'vulnerable' and 'disadvantaged' can be interpreted by considering groups who cannot access mainstream services or experience difficulty in understanding their rights and responsibilities, for reasons including poor health, limited education or English skills, lack of supportive social networks. A useful benchmark is ANZ's study into financial inclusion, which analyses use of mainstream financial services (Chant Link, 2004). It breaks down use of financial products by income (amongst other variables) and highlights groups which seem to have limited access to mainstream financial services. ANZ's survey into financial literacy also investigates groups which have a limited understanding of financial products (ANZ, 2005). These studies both indicate that people on low incomes (amongst other groups) are vulnerable and disadvantaged in that they have limited levels of financial literacy and limited access to appropriate financial services.

Are the needs of vulnerable and disadvantaged consumers best met through generic approaches that provide scope for discretion in application, or through more targeted mechanisms?

Low income people should be included in Australia's mainstream economy and society. Whilst regulation and appropriate consumer policies should be available to all groups, different means of communication may be needed to reach some groups, such as people on low incomes. Overall, there should be a generic approach with scope for discretion in applying consumer policy to vulnerable and disadvantaged consumers.

The issues paper raises the concern about vulnerable consumers falling victim to scams. However, it is also important that low income people are able to participate in the market and access mainstream services. Whilst falling victim to a scam is costly, there are many other examples which show that there are also costs for consumers being unable to access appropriate products. The ANZ study into Financial Exclusion in Australia shows that low income people were substantially less likely than other income groups to have access to credit, investment or insurance products (Chant Link, 2004). Part of this low level of access is due to the lack of products appropriate for the needs of low income people. For instance, a house fire for an uninsured consumer and the resulting loss of all their personal belongings is also costly and creates vulnerability.

What are the examples of policies that are very effective in targeting vulnerable and disadvantaged consumers?

Some policies which appear effective in targeting vulnerable and disadvantaged consumers include hardship provisions of utility companies. Many of these policies ensure low income people can retain connection to essential services, negotiate affordable payment plans and use Centrepay (direct deductions from Centrelink income). The right to have a basic bank account has been effective and ANZ's study of financial exclusion showed the vast majority of Australians have a transactional account (Chant Link, 2004).

What principles and considerations should guide the use of self-regulatory, co-regulatory and non-regulatory options in the consumer policy framework? What are the best examples of effective self-regulation, co-regulation and non-regulatory approaches and why have they worked well in these cases? Is enough use currently made of such measures? If not, where are the main opportunities for further uptake?

The corporate social responsibility movement could be seen as an example of self-regulation. For many companies, this has risen out of regulatory threats or public relations benefits. The advantage of voluntary efforts, such as many corporate social responsibility programs, is that the absence of a heavy-handed approach may bring about the freedom and enthusiasm to create a valuable service. However, disadvantages of voluntary Consumer Social Responsibility include the inconsistent reporting mechanisms used by companies and the strong public relations focus of many Consumer Social Responsibility programs.

Would there be benefits from government support for a consumer advocacy body and would they outweigh the funding and other costs involved? Should such a body's role be limited to advocacy, or should it also be responsible for bringing forward consumer complaints? Do consumer advocacy bodies adequately represent the interests of all consumers? If not, what other means could be used to elicit the views of consumers?

There may be benefits from government support for a consumer advocacy body, as there needs to be a balanced debate that not only considers the interests of the well-resourced business sector. However, a limitation is that consumer advocacy bodies are often unable to represent the interests of all consumers. This is because they generally deal with consumers that are sufficiently assertive and informed to make a complaint. Many of these cases are extreme examples of consumer problems, and therefore the more moderate cases are not represented, nor are the interests of those consumers simply go without due to inability to access appropriate services. All consumers could be represented by proactive research, rather than waiting for complaints. This would be similar to the approach of businesses in conducting market research amongst a sample of customers for levels of satisfaction. This research would be able to show trends in consumer opinion in a proactive way and not just the dramatic cases where there has clearly been misconduct and the consumer is in a crisis situation.

Is there a need for greater research into consumer and market behaviour to inform policy development? If so, who should be responsible for carrying out and resourcing such work?

As discussed above, there is a need for research, but it needs to be independent from both the business sector and the consumer movement, as both groups have interests and biases.

3 References

ANZ 2005, *Adult financial literacy, personal debt and financial difficulty in Australia*, viewed 7 May 2007 <<http://www.anz.com/aus/aboutanz/Community/Programs/FinSurvey2005.asp>>

Chant Link and Associates 2004, *A report on financial exclusion in Australia*, viewed 17 May 2006, <<http://www.anz.com/aus/aboutanz/community/programs/pdf/FinancialExclusion-FinalReport.pdf>>.

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