

# **Submission in response to the Productivity Commission's Review of Australia's Consumer Policy Framework**

## **Introduction**

The opportunity to respond to the Productivity Commission's Review of Australia's Consumer Policy Framework is welcome. Eastern Access Community Health (EACH) provides a range of services to disadvantaged and vulnerable people. This submission will focus on the work of EACH's financial counselling team.

## **About Eastern Access Community Health (EACH):**

Eastern Access Community Health (EACH) delivers a range of community services that improve the physical, mental and social well-being of individuals, families and communities in Melbourne's eastern suburbs. These services cover seven municipalities including inner urban, outer urban, and semi-rural communities. More information about EACH can be found at [www.each.com.au](http://www.each.com.au)

The Issues Paper invites respondents to consider a number of questions. EACH's submission will focus on the need for more investment in financial counselling. Our clients who are low income, disadvantaged and vulnerable consumers rely on services such as ours to address financial difficulty. The current consumer policy framework does not adequately address their needs.

## **Financial counselling at EACH**

The EACH financial counselling team of 6 workers: 3 full-time and 3 part-time assists consumers who are experiencing financial difficulty. The large majority of these clients are low income and disadvantaged by their inability to fully participate in markets and society.

Across the region serviced by EACH and particularly in the Shire of Yarra Ranges there are significant indigenous communities. As well as their low income, these EACH clients are further disadvantaged and marginalized, increasing their vulnerability.

The EACH financial counselling team's other vulnerable group of clients is those with gambling problems and their families. Working alongside the Gamblers Help problem gambling counsellors EACH's financial counselling team faces additional and different challenges. Financial counsellors are noted in the community services sector for their flexibility across a range of disciplines.

The free, confidential and independent EACH financial counselling service provides:

- An overall assessment of their client's financial situation;
- Information on the implications of unpaid bills, debts and fines;
- Assessment of whether debts are legally owed;
- An exploration of options to address financial problems;

- Support for their client to pursue the option they choose;
- Advocacy with creditors and/or assistance with self-advocacy;
- Information about possible financial assistance; and
- Strategies for money and debt management into the future.

ACNeilson research on the effectiveness of financial counselling had this to say in their 2005 report:

*‘For people who saw a financial counsellor, it was unanimously a positive empowering experience for them, albeit at a negative point in their life. In addition, the majority stated it had changed the way they viewed their finances and changed their financial behaviour.*

ACNeilson Research for the ANZ Bank (2005)

A number of EACH clients participated in this research.

EACH and its financial counsellors are members of the Financial and Consumer Rights Council (FCRC), the peak body in Victoria for the financial counselling sector. EACH strongly supports the submissions to the Review of FCRC and AFCCRA, the national peak body for financial counselling.

### **Funding for financial counselling at EACH**

EACH’s financial counselling service is funded by the Victorian Department of Justice. While this funding is appreciated and put to very good use, EACH financial counsellors are not able to meet the demand for service. Currently a consumer in financial distress has to wait for up to 8 weeks for an appointment. Any community education work with groups or articles in local newspapers triggers further demand.

To manage this in a responsible way our intake system assesses consumer requests for information and assistance daily. Priority is given to urgent matters such as imminent eviction, and threats to assets such as houses and cars. Where problems are less urgent such as disconnection of utilities, and pressure from overdue debts we are able to support consumers to self advocate until we can see them. It is a priority for EACH financial counsellors to see consumers considering bankruptcy to ensure that the implications are fully understood, and alternative options considered.

Despite limited resources and the pressure of casework, EACH financial counsellors are committed to community education and development as preventative strategies; and social action and policy work to address systemic inequity. Our team regularly works with FCRC, AFCCRA, community legal services, consumer advocacy services and the consumer movement to bring about change to the law and industry practice. The contribution of our work with clients on a day-to-day basis is acknowledged by our colleagues as invaluable.

### **Problems faced by disadvantaged and vulnerable consumers**

EACH supports the discussion paper’s consideration of disadvantaged and vulnerable consumers as part of the Review. As outlined above, these consumers are the target group of EACH’s financial counselling service.

There are a range of difficult financial situations faced by the low income, disadvantaged and vulnerable clients who access our financial counselling service. The following financial problems seen daily by EACH financial counsellors include:

- Those excluded from mainstream credit preyed upon by marginal lenders who charge high interest rates - 300 % and more is not unusual. Security being taken over household goods of little value and used to blackmail borrowers to prioritise payment of these debts.
- Direct debits from next week's pay trapping borrowers into a debt spiral from which they see no escape. In this situation borrowers rely on emergency relief agencies to feed their families, pay utilities and stave off eviction.
- Unsolicited offers of credit cards and increases in credit card limits leading to debts which are impossible to repay. The financial counsellors at EACH see increasing numbers of vulnerable consumers with multiple credit cards and large debts. It is not unusual for clients to have six or more credit cards, all over their credit limits. One card is used to pay another until it becomes unsustainable. Recent cases at EACH have seen unsecured borrowings of more than \$200,000. While these consumers must take responsibility, the financial services industry should also take its share of responsibility.
- Home loans to vulnerable consumers by marginal lenders causing financial stress just to maintain this commitment. When life circumstances change in even small ways, the pressure on families increases with serious flow on effects. These lenders are quick to lend and equally quick to foreclose on mortgages.

Lack of regulation in these areas contributes to these problems and the financial distress of individuals and families.

### **Competition as it affects the clients of EACH's financial counsellors**

Competition has delivered benefits to mainstream consumers and the Australian economy. However, we submit that low income, disadvantaged and vulnerable consumers do not fully benefit.

Maximum benefit from competition flows to those consumers who are informed, skilled and confident. For our clients competition has often been confusing rather than adding choice. A reliance on disclosure as a primary consumer policy tool has failed for these most vulnerable consumers, and for many mainstream consumers as well.

More information is not necessarily better. In fact, it may mean that consumers are overwhelmed and don't read anything at all. If they do read it, it's unlikely that they understand much if any of it. How many mainstream consumers can say they read and fully understood their mobile phone contracts, the credit card contract small print, or their mortgage documents of more than 50 pages?

Disclosure has failed as an effective strategy for consumer empowerment. In the same vein, the requirement of legal advice on facilities such as reverse mortgages is also a sham. The case for standard, concise, understandable contracts backed up by unfair contracts legislation is compelling.

The Review asks if the actions of well-informed consumers affect markets to the benefit of all consumers? Minimally at best for our client group. Well-informed consumers are largely absent from the markets in which low income, disadvantaged and vulnerable consumers participate. Appropriate government response is required.

On a more positive note, the development of internal and external dispute resolution has been of significant benefit to financial counsellors and their clients. These processes provide an avenue of dispute resolution and redress for people who are excluded from disempowering and costly legal processes.

### **Intervention cost**

The implications of relationship breakdown, job loss, physical and mental breakdown, depression and suicide are an unrecorded but substantial cost to Australian society. Research shows that financial difficulty is a significant contributor. Apart from the emotional and financial cost to individuals and families, EACH's financial counsellors see the very high cost to government and community including:

- to rehouse families when mortgages are foreclosed or they are evicted from rental housing,
- of lost employment when financial stress affects clients' functioning at work. This is exacerbated when cars are repossessed or maintenance cost can't be met.

Too often we see personal and relationships break down caused by financial stress. Unfortunately, when we see these clients, it is often too late because we haven't been able to meet service demand in a timely way.

### **Conclusion**

The EACH financial counselling service, if better resourced could significantly increase its capacity to address financial difficulty for low income, disadvantaged and vulnerable consumers. This would enable these consumers to more fully participate in Australian society. A consumer policy framework enabling this outcome would see markets impacted positively by Australians who are largely excluded at present.

Competition has delivered financial benefit to mainstream Australian consumers through market responses. However, the cost of market failure for low income, disadvantaged and vulnerable consumers is substantial. This can be decreased by inclusion of consumers such as the clients of the EACH financial counselling service.

With adequate resources, financial counselling services can increase their contribution to the better operation of consumer policy for low income, disadvantaged and vulnerable consumers.

**For further information about the submission, please contact Peter Ruzyla, Chief Executive Officer of EACH, 03 9871 1800**

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***Indigenous people in SYR***

***Waiting time***

***Work with PGCs***

***Research projects***

***Social action and policy work***

