Can financial counsellors engage with the best of Corporate Social Responsibility initiatives in banking and financial services and still meet the primary responsibilities to their clients[1]?

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Introduction:

AFCCRA has very firm policies regarding its relationships with the corporate sector. Those policies, in my view correctly, confirm that AFCCRA does not provide endorsement of specific products and services. To do so would put at risk the confidence consumers must be able to have that financial counsellors act in the interests of their clients alone. The limitation does not however prevent us from noting and applauding actions that are assisting to make the financial services market a safer and fairer place. Before launching into the subject of this presentation therefore, I would like to more formally acknowledge the contribution that the previous speaker, ANZ Bank CEO John McFarlane, has made and continues to make to the evolution of corporate social responsibility thinking in Australia.

Any large organisation, a bank included, will exhibit changes in priorities. Leaders are meant to influence priorities and strong leaders will take bold steps in the establishment and pursuit of those priorities. John McFarlane has taken and encouraged bold initiatives. For example, when financial literacy was going through a dramatic surge in attention, John's leadership provided opportunities to listen to advocates who work with the least empowered and most excluded consumers. Actions of that type have broadened the discussion of what financial literacy means and those for whom improvement, even basic access is most critical. In launching an alternative credit option for low income consumers some weeks ago, John McFarlane noted:

> *…as a mainstream bank we have been part of the problem – products have become more complex with little corresponding attention to financial literacy and the focus of many financial institutions has been on 'profitable' customers instead of customers with a demonstrated need for safe and appropriate credit.*[2]

As well as looking outwards, the impact of strong corporate social responsibility leadership can have enormous impacts within organisations. In its 2005 Corporate Social

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[1] A speech presented at the Australian Financial Counselling and Credit Reform Association (AFCCRA) National Conference, Melbourne 2006.

[2] McFarlane J, Speech presented at the Progress Loans Launch, Melbourne 31 May 2006, page 1. The text of the speech is available online at www.anz.com/Documents/AU/values/JohnSpeech20060531.pdf

Responsibility Report, the ANZ noted what it described as a *Cultural transformation*.[3] In 2002 staff undertaking a *values assessment* rated *cost reduction* and *profit* as the values most evident in the bank's culture. In 2005, undertaking the same assessment staff rated *customer focus* and *community involvement* as the most evident values.

John McFarlane's straight talking approach to difficult issues has clearly had a significant impact. It is an approach that provides those interested in sustaining and improving corporate social responsibility with real evidence of effectiveness and optimism going forward.

<u>And so to the question…</u>

Consumer advocates who have been around for a few years, will remember the days before banks readily accepted that they had social responsibilities. They were frustrating times and led to long-winded, largely circular arguments about breaking cycles of exclusion from clearly flawed markets. The message from Boardrooms down was clear. It is the responsibility of government(s) to deliver welfare supports and services. The job of business is to make money and to grow and the two sets of responsibilities do not and should not intersect.

The banking industry was not the first in this country to accept it bore greater responsibilities than just making lots of money for its shareholders. But because of the relative dominance of banks in the delivery of financial services in Australia, almost as soon as the recognition was conceded, some very interesting developments started to occur. Those developments continue, with ever increasing sophistication in the understanding of consumer exclusion and disadvantage amongst the banking community. The interest is coupled with a willingness to test lateral responses, aimed at giving some of the most vulnerable members of our community access to services and products that the mainstream take for granted.

Financial counsellors, like other consumer advocates interested in delivering better structural outcomes to low income and disadvantaged consumers, have welcomed the changed approach. It would be foolish not to, given that many of the clients presenting at financial counselling services around the country could genuinely benefit from a variety of inventive services and products entering the market. Positive evolutions include:

- A relatively accessible range of no or low fee transaction accounts,
- Alternative credit products, including no, low and standard interest alternatives (the latter rarely being practically accessible to low income consumers) and
- Incentive based programs that match consumer effort with direct financial assistance.

My answer then to the question posed in the title of this presentation is yes. Financial counsellors can and should engage with the best of corporate social responsibility initiatives in banking and financial services. Any engagement should however be

[3] ANZ Banking Group Limited, *Corporate Social Responsibility Report 2005*, Melbourne December 2005, page 6

thoughtful, applying appropriate critical analysis to the benefits and shortfalls of various approaches. More importantly, taking an active interest in corporate social responsibility initiatives should never sacrifice the primary responsibility that financial counsellors have to their clients.

This morning I would like to explore two issues that sit at the heart of assessing what appropriate engagement should be:

1) The structure, design and delivery of financial counselling in Australia; and
2) Partnerships, cooperation and consultation with industry groups.

Having a good understanding of the first of these issues allows a balanced consideration of the second.

Financial counselling design and delivery in Australia:

This particular issue has become something of a fixture in similar presentations over the last few years. The manner of presentation has however evolved as the financial counselling sector's sense of its role and contribution has firmed. At the Financial Counsellors' Association of Queensland Annual Conference in March this year, the proposition I put was that we no longer have to ask the question *is the model of financial counselling service delivery adopted in Australia the right one?*[4] Clients are at the centre of service design and delivery where they have to be and the resourcing of those services must be structurally separate from the delivery of financial services and products. The foundation is therefore a solid one.

It is not so long ago that pressure was building to develop alternative service approaches, similar to those operating overseas where the *counselling* is directly linked to and resourced by the collection of debts. The sector has in my view been suitably robust in rejecting models of that type. There is considerable evidence that industry, governments, regulators and other parts of the community sector have supported that approach. Even if they had not, it would have still been the only correct course to take.

The big questions confronting financial counsellors today can be summarised down to one word – sustainability. It is relevant on so many levels, including:

- service demand,
- appropriate resourcing, and
- training, professional development and effective sector coordination.

It is worth making some brief observations about each of these sustainability factors.

a) Demand for financial counselling services:

The demand for financial counselling is increasing, the range of consumers seeking assistance is broadening and the problems financial counsellors are being asked to assist with are getting more complex. There is also considerable evidence

[4] Tennant D, *With Opportunity comes Responsibility for the Financial Counselling Sector,* Speech presented to the Financial Counselling Association of Queensland Annual Conference, Brisbane 14 March 2006, pages 2 and 3. The paper can be accessed at www.carefcs.org/publications/policypaperssubmissionsandpresentations/financialcounselling.html

that any adverse changes in economic conditions, for example an interest rate hike, or petrol price increases impact financial counselling intake levels quickly and dramatically.[5] Given the increases in personal debt levels over the last decade, these observations should not be particularly surprising. The common thread is not that clients are choosing financial counselling above other courses of action, but that this appears to be the only course available. Similarly services do not get to make choices about the demand they are asked to respond to.

The financial counselling community is therefore greatly concerned about the possible impacts of the Welfare to Work reforms that commence tomorrow. From my own understanding, it is hard to see how financial counselling as a service delivery focusing on the empowerment and inclusion of its client base is reconciled with the new policy approach.

In the context of the Welfare to Work reforms, an issue that has presented significant challenges to the financial counselling community is Centrelink's Financial Case Management model. For those unfamiliar with the process, benefit recipients who do not meet engagement obligations and have their benefits suspended, may be selected by Centrelink as eligible for referral to financial case managers. The financial case managers will be located in community agencies. They will assess the suspended benefit recipient's financial obligations and can make recommendations for payments to be made for essential items up to the total of the suspended benefit. Payments for the service provision to the suspended benefit recipients are made to the financial case managers on a per referral basis[6].

Centrelink has been inviting community agencies to register to receive financial case management referrals. For financial counsellors weighing whether to be involved has necessitated some difficult discussion. There is no doubt the skill set financial counsellors have would be a good fit for the service delivery required. It is however directly contrary to the concept of informed consumer empowerment that I have already referred to and which sits at the heart of financial counselling.

There is also a fundamental question as to whether financial counsellors could act as financial case managers and still be eligible for relief from licensing under the Financial Services Reform Act. Because that relief is granted by the Australian Securities and Investments Commission[7], AFCCRA asked the Commission for its guidance. The answer, to be confirmed in writing, seems to be:

- whether Financial Case Managers would be providing *advice* to consumers in relation to regulated services or products is unclear…if

[5] Examples of these impacts are described in the Annual Reports of Care Inc Financial Counselling Service, available on the agency's web-site www.carefcs.org. Care has noted that a .25% interest rate rise seems to equate to an approximately 10% increase in demand for its services.
[6] A more detailed explanation of Financial Case Management can be found at www.centrelink.gov.au/internet/internet.nsf/tenders/case_management.htm
[7] ASIC Class Order CO03/1063, Gazetted 16 December 2003, ASIC Gazette 50/03 page 1.

anything any *advising* might be in the form of recommendations to Centrelink, however

- receiving payment directly related to a nominated person and their specific products and services, could very well breach the relief requirements in relation to remuneration. In short, to take advantage of the benefit of the relief, financial counsellors cannot receive payments directly tied to specific products and services. That specific requirement appears to have been drafted in a deliberately broad manner, confirming the importance of financial counselling being fee and conflict free.

Obviously when the written guidance is received from ASIC it will be circulated amongst financial counselling networks. My own take on it is this - if financial counsellors feel obligated to try to assist their clients in whatever manner is available, including as financial case managers, perhaps they should register with Centrelink, but indicate that they cannot accept a referral fee.

Financial Case Management provides just one, very specific example of tension. There is no doubt that the Welfare to Work policy changes will continue to present service providers including financial counsellors with all sorts of ethical dilemmas, aside from the obvious demand increase implications.

b) Adequate and appropriate resourcing for financial counselling services:
Financial counsellors do try to ensure that not every conversation with industry and government stakeholders revolves around the funding of financial counsellors. When you are in the business of discussing needs, wants and financial capacity with your client base, it is however inevitable that the financial sustainability of the sector would come up from time to time.

At the Financial Literacy and Inclusion Forum two days ago[8], a recurring theme was the relatively small size of the financial counselling sector. It is tiny. There are approximately 450 to 500 financial counsellors nationally in a mix of full-time, part-time and volunteer roles[9].

If that number were sufficient to adequately cover demand and respond to emerging issues there would be no problem. Evidence is to the contrary. Not only are there not enough financial counsellors generally, some of the worst examples of insufficient coverage and capacity are to be found in the areas of greatest need. We have welcomed a number of our colleagues from some of the most remote and disadvantaged communities in Australia to this and other meetings held in

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[8] AFCCRA, with the assistance of the Commonwealth Financial Literacy Foundation and the Australian Bankers' Association hosted the *Financial Literacy and Inclusion Forum* in Melbourne on 28 June 2006. A summary of proceedings and copies of presentations will eventually be available on AFCCRA's web-site www.afccra.org

[9] More information about the sector can be found in Sharon Barker's work, *An overview of the financial counselling landscape in Australia*, A presentation to the AFCCRA Conference, Melbourne 17 June 2005. The presentation can be located on AFCCRA's web-site www.afccra.org

Melbourne this week. The odds that they battle in their service activities are dramatic. For example, some of the most excluded and disadvantaged consumers in Australia live in the Northern Territory. As Ernie Dingo reminds us in his spruiking of the NT as a holiday destination, it is big. Yet there are only 6 practising, fee free, community based financial counsellors for the entire Northern Territory[10].

I live and work in Canberra. The ACT has the highest average per capita income levels in the country and the lowest comparative levels of poverty. There is still disadvantage in the ACT – a considerable amount. My colleagues at Care and the other agencies providing financial counselling in Canberra are busy all of the time. But there are 9 financial counsellors in a city jurisdiction that you can drive across in an hour or so.

Comparisons like that offered between the two Territories exist all over Australia and in ways that are equally stark. Commitments to recognising the value and significance of financial counselling as a service option are now comparatively widespread and consistent. Investment in the value of that option is not. In fact, examples of *new resources* related to financial counselling in the last 10 years have been more likely to have come from industry sources. Inevitably and appropriately, industry resourcing has to be separated from direct service delivery. The capacity therefore to meet and respond to more and more complex requests for assistance is shrinking.

c) Training, professional development and sector coordination and cooperation: Any service delivery sector, community or otherwise, bears a responsibility to provide service of an acceptable standard and to review and improve over time. Financial counsellors recognise those responsibilities and the improvements in training and professional development in recent years have been heartening. Generally, developments have been hampered by piecemeal and fluctuating approaches to resourcing.

The same can be said of the sector's capacity to effectively communicate internally between its own members and externally with other stakeholders. This conference is very clearly a bright spot. If however today and the other meetings AFCCRA has hosted this week were your first contact with the financial counselling community, you would be excused for thinking it is vibrant, even *cashed up*. Whilst acknowledging the significant and welcome support we have received to host these events[11], my plea is that we move to a model that is both reliable and sustainable. The efforts of the AFCCRA Council and the various other state and territory financial counselling bodies and networks are simply not

[10] Ibid, Sharon Barker's presentation includes a breakdown of State and Territory service capacity.
[11] In particular AFCCRA acknowledges the support it has received from the ANZ Banking Group Limited, the Commonwealth Department of Families, Community Services and Indigenous Affairs, the Commonwealth Financial Literacy Foundation, the Australian Bankers' Association and the Independent Industry External Dispute Resolution Schemes.

sustainable in their current form. We are used to fighting out of our weight class, but finding the exhaustion limit will produce nothing positive for anyone.

Partnerships, cooperation and consultation with industry groups:

When I first started work at Care Financial Counselling Service in 1995, most of the contact that I and my colleagues had with the banking and financial services industry was combative. That experience seemed standard across the consumer advocacy landscape. Care and the collocated Consumer Law Centre of the ACT still receive daily complaints about poor industry conduct and we still run numerous complaints on behalf of consumers who have been treated badly. We also however see real value in our communications with industry groups individually and collectively at more than single complaint level.

Industry consultations occurred in 1995 and before. What has changed is that the dialogue exists for more than its own sake. Show and tell is fine as far as it goes, but if there is no expectation that interactions with product and service providers or their industry representative bodies will lead to better outcomes, then why bother? There is no single reason why the nature and output of interactions has improved, but there is also no doubt that the increasing prominence of corporate social responsibility frameworks has been vital.

Having recognised then that financial counsellors can successfully and respectfully interact with the banking and financial services sector, it may be time to form a more considered view about the limitations of those interactions. Trying to define and map the limitations in detail could undo much of the positive work in building relationships. Arguably it would be a pointless exercise anyway, because exhaustive lists are notorious for ending up incomplete. Instead, it may be useful to consider a couple of examples of current practical issues, confirming as they do the need to proceed thoughtfully and carefully:

Is it appropriate for industry energy and resourcing to replace roles that governments have traditionally played?

> This is a subject that is uncomfortable to discuss and on which there are a variety of views. That said there are roles like the design and delivery of the framework of basic supports for the vulnerable and disadvantaged that sit better with governments. Industry can contribute in vital and value adding ways to that framework but the *responsibility* for its creation and maintenance does not shift.
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> By way of example, Welfare toWork and the predictions of the possible negative impacts of that policy on marginalised consumers have already been mentioned. The predictions are if anything more grave when considering how the changes might impact remote indigenous consumers. For those consumers there are some very basic practical issues, like the frequency of participation reporting requirements and the relative levels of difficulty in meeting those requirements.

These are problems that would not be experienced by the vast bulk of the Australian population.

The more remote, disadvantaged and excluded the client base, the more potential there is to exacerbate hardship by suspending access to support. Although it is for others with more direct experience to speak about the impacts of Welfare to Work on indigenous communities, the potential for greater harm through higher risks of suspension appears real and compelling.

This morning, the ANZ Bank and the Commonwealth Government have confirmed an agreement to build the financial understanding and capacity of indigenous consumers. That is a great initiative, but how stark the potential for it to be undermined for those whose meager incomes are withdrawn through suspension. You cannot do much effective money management if you have no income. There must be another, better way to encourage the building of personal capacity when dealing with the most remote, the most disadvantaged and the most excluded consumers in the country.

Lateral solutions or approaches can be found where the will exists to locate them. For example, the rights that all Australians rely on under the Electronic Funds Transfer Code are read down in trying to deliver a safe, fair *Book-up* system for indigenous consumers who might otherwise have nowhere to shop for basic necessities[12]. Similarly then a one-size fits all approach to delivering Welfare to Work might be improved, or the worst of its potential to compound disadvantage lessened by some lateral thinking and appropriate tailoring.

Maintaining appropriate structural independence and relationship balance:

Polo shirts and badges are not the only ways that branding can occur. In short, if the clients that utilise the services of financial counsellors do not feel confidence that the financial counsellor acts in their interest alone, the value of the service is undermined. Independent and robust thinking is vital if partnerships are to work effectively and support and respect the different roles partners often play. Michael Yore, CEO of the Melbourne based Good Shepherd Youth and Family Services provided an excellent summary of the issues at the recent National No Interest Loan Forum in Sydney:

> *Genuine partnership is built upon truthfulness – the honest acceptance of each other's roles and the ability to maintain open dialogue about issues and concerns.*[13]

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[12] The Electronic Funds Transfer Code of Conduct currently protects consumers from losses for unauthorised electronic transactions unless they have contributed to those losses by not protecting Personal Identification Numbers (PINs). The whole basis of the *Book-up* system is that PINs are volunteered and held by others to facilitate transactions that might not otherwise be available.

[13] Yore, Michael, *Back to the Future,* (Unpublished) Speaking notes from the National No Interest Loan Scheme Forum, Sydney 11 May 2006, page 3.

Michael Yore's observations are even more compelling when one considers that Good Shepherd has been amongst the leaders in community groups that have established lateral, but balanced community/industry partnerships. Partnerships have delivered some enormous benefits to low income consumers. It will always be important however in designing such arrangements to ensure partners can respectfully disagree. That will mean being able to publicly disagree if it is appropriate to do so.

An example of an issue that still sees consumer groups and many in the credit industry poles apart is the level of debt being carried by ordinary consumers. Financial counsellors accept that at an aggregated level Australians appear to be coping relatively well with high debt levels. The financial pain being experienced in many over-committed low to moderate income households is however real, some of it is entirely preventable and at the very least there is a responsibility to provide real options for responding to hardship.

Conclusion - The genuine benefits of corporate social responsibility:

Financial counsellors can and indeed have learned a great deal from the growth in corporate social responsibility activities. We have even learned some things about the benefits and capacities of our style of service delivery[14]. More importantly some of our clients have benefited directly from the results of lateral programs and responses that industry has developed, promoted or funded. Ideally many more will benefit in the months and years ahead.

The key message for the financial counselling sector is a clear one. As a sector we should not be afraid of engagement with corporate social responsibility – rather we should make sure as service providers to some of the most vulnerable consumers that our engagement is appropriate. Deciding what is appropriate will be guided by the best of the financial counselling service model and philosophy:

- for the clients,
- with the clients.

[14] AC Nielsen, *Understanding Personal Debt and Financial Difficulty in Australia*, Australia and New Zealand Banking Group Limited, Melbourne November 2005 (see in particular page 70).